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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the AMD Second Quarter 2020 Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Ruth Cotter, Senior Vice President-Marketing, Human Resources, and Investor Relations for AMD. Ms. Cotter, please go ahead.

Ruth Cotter

Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's second quarter 2020 financial results conference call. By now, you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

Before we begin today, please note that AMD is scheduled to participate in several Wall Street events during the third quarter.

On Tuesday, the 1st of September, Mark Papermaster, Chief Technology Officer and Executive Vice President-Technology and Engineering, will participate in the Jefferies Virtual Semiconductor, IT Hardware & Communications Infrastructure Summit. On Tuesday, September 15, Forrest Norrod, Senior Vice President and General Manager-Data Center and Embedded Business Solutions Group, will participate virtually in the Deutsche Bank Technology Conference.

In addition, our third quarter 2020 quiet time is expected to begin at the close of business on Friday, the 11th of September.

Today's discussion contains forward-looking statements based on the current beliefs, assumptions and expectations, speak only as of the current date and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Please refer to the cautionary statement in our press release for more information on the risks related to any forward-looking statements that we may make. We will refer primarily to non-GAAP financial metrics during this call. The non-GAAP financial measures referenced, or reconciled to their most directly comparable GAAP financial measure in today's press release and slides posted on our website, amd.com.

Now, with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth, and good afternoon to all those listening in today. For the last five years, we have built the technical, operational, and financial foundation required to drive our long-term growth strategy. We consistently executed on our product road maps, established deep partnerships with an expanded set of customers, ramped multiple products in leading-edge manufacturing technologies, and significantly strengthened our balance sheet.

Our strong second quarter results and increased full year revenue guidance demonstrate how we are successfully scaling our business through our consistent execution.

Looking at the second quarter, revenue grew 26% year-over-year to $1.93 billion, driven by strong demand for our leadership server and client processors. We accelerated our server and mobile processor businesses significantly in the quarter, resulting in Ryzen and EPYC processor revenue more than doubling year-over-year. Importantly, we met our double-digit server processor market share goal as data center products accounted for more than 20% of our second quarter revenue.

Turning to our Computing and Graphics segment, second quarter revenue increased 45% year-over-year to $1.37 billion as growth in Ryzen processor sales more than offset lower graphic sales.

We delivered our highest client processor revenue in more than 12 years. Increased working and schooling from home due to COVID-19 resulted in a strong PC market in the quarter. Although, we believe our growth was largely driven by our 11th straight quarter of market share gains. Desktop processor sales decreased sequentially as anticipated, while revenue and ASP increased year-over-year as demand for our higher end Ryzen processors drove a richer mix.

In mobile, we had record quarterly notebook processor unit shipments and revenue.

Sales of our latest Ryzen 4000 Series processors grew significantly in the quarter, resulting in mobile revenue growing by a strong double-digit percentage sequentially, and more than doubling from a year ago as both unit shipments and ASP increased significantly.

Multiple third-party reviewers have consistently highlighted that our latest notebook processors deliver superior performance and longer battery life compared to the competition. As a result of this strong performance, I'm pleased to report that Ryzen 4000 processor revenue has ramped faster than any mobile processor in our history.

There are now 54 Ryzen 4000 powered notebooks in the market. We expect to continue accelerating our mobile processor business in the second half of the year as HP and Lenovo ramp their first commercial notebooks powered by Ryzen PRO 4000 Series processors. And the second wave of more than 30 ultra-thin, premium and gaming consumer notebooks launched from multiple OEMs.

In Graphics, second quarter revenue declined year-over-year as strong double-digit increase in mobile GPU sales was more than offset by lower desktop channel sales.

While desktop GPU shipments were lower year-over-year, channel sellout accelerated in the quarter.

Mobile GPU revenue growth was driven by a adoption of RDNA GPUs, highlighted by the launches of new Apple professional and Dell gaming notebooks, featuring our Radeon 5000M Series mobile GPUs.

Data center GPU revenue decreased year-over-year. We expect revenue to increase in the second half of the year as additional cloud-based visual computing wins ramp, and we launched our new CDNA data center GPU architecture optimized for next generation exascale and machine learning workloads.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue of $565 million decreased 4% year-over-year due to lower Semi-Custom sales. Sequentially, revenue increased 62% driven by record quarterly server processor sales and increased Semi-Custom product revenue. In Semi-Custom, we passed an important milestone in the second quarter, as we began initial production and shipments of our next generation game console SoCs. We expect strong second half Semi-Custom growth as we ramp production to support the holiday launches of the new PlayStation 5, and Xbox Series X consoles.

Turning to Server, our focus since launching our EPYC processors has been on building a solid foundation to drive long-term growth. Our strategy is grounded in driving broad, high-volume adoption with widespread support from industry-leading cloud and hardware providers. We passed a significant milestone in the quarter as we achieved our double-digit Server processor unit share goal, based on broad adoption across cloud, enterprise and HPC customers.

In cloud, multiple hyperscale customers ramp second-generation EPYC processors into high volume production in the quarter to power both their internal infrastructure and publicly available instances.

Microsoft announced they have added EPYC processors to power their Office Online applications used by more than 200 million monthly users. Tencent ramped up multiple millions of EPYC processor powered virtual machines to support enhanced collaboration services.

Google announced that EPYC processors were being used exclusively to power their unique confidential computing VMs that encrypt data while it is being processed. And AWS launched global availability of new compute optimized EPYC-based EC2 instances.

In enterprise, we have significantly expanded our TAM as the number of AMD platforms has increased by more than 40% so far this year. Recent additions include Dell and HPE introducing multiple hyperconverged infrastructure solutions, Lenovo launching dual socket servers for financial retail and manufacturing, and NVIDIA selecting AMD EPYC processors to power its latest DGX AI platforms.

We also secured new HPC wins based on the leadership performance and scalability of second-gen EPYC processors. Public highlights include new wins with leading research institutions including Indiana University, Purdue, and CERN, as well as Amazon, IBM, Microsoft and Oracle all announcing cloud-based HPC offerings powered by EPYC processors.

We are pleased with the momentum in our server business and expect to continue gaining share as additional second gen EPYC platforms and cloud deployments ramped to volume in the second half of the year. We remain on track to begin shipping our next-generation Milan server processor featuring Zen 3 late this year.

In closing, I want to thank our employees and partners for the strong execution during this unprecedented time as we continue to focus on delivering on our commitments. While there continues to be some macroeconomic uncertainty and pockets of demand softness, our product portfolio is very strong and our markets are resilient.

We are on track to deliver strong growth in the second half of the year driven by our current product portfolio and initial shipments of our next-generation Zen 3 CPUs, and RDNA 2 GPUs that are on track to launch in late 2020.

I am very proud of the progress we have made over the last few years placing AMD on a long-term growth trajectory. I'm even more excited about the opportunities in front of us as we enter our next phase of growth driven by accelerating our business in multiple markets.

We remain focused on consistently gaining share across the $79 billion market for our high performance products. We are investing significantly and have added resources to further extend our leadership IP and go-to-market capabilities as we pursue our ambitious goal to make AMD a best-in-class growth franchise.

Now, I'd like to turn the call over to the Devinder to provide some additional color on our second quarter financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon everyone. We executed the second quarter very well. Amidst the COVID-19 backdrop, we delivered strong financial results, introduce industry-leading products and gain CPU market share. The second quarter results and increased full year revenue guidance highlight our ability to consistently deliver on our commitments as we continue to drive long-term financial growth.

Second quarter revenue was $1.93 billion, up 26% from a year ago, and 8% from the prior quarter. Year-over-year growth was driven by strong Ryzen and EPYC processor sales.

Gross margin was 44%, up 330 basis points from a year ago, driven by client and server processor sales. Operating expenses were $617 million compared to $512 million a year ago, primarily due to ongoing investments in the business.

Operating income more than doubled year-over-year to $233 million, up $122 million from a year ago, driven primarily by revenue growth. Operating margin increased to 12% as compared to 7% a year ago. Net income was $216 million, up $124 million from a year ago. And diluted earnings per share were $0.18 per share, compared to $0.08 per share a year ago.

Now, turning to the business segment results. Computing and Graphics segment revenue was $1.37 billion, up 45% year-over-year, driven by significant growth in Ryzen processor sales. Computing and Graphics segment operating income was $200 million or 15% of revenue, compared to $22 million or 2% of revenue a year ago.

Enterprise, Embedded and Semi-Custom segment revenue was $565 million, down 4% year-over-year due to lower semi-custom sales, which were largely offset by higher EPYC processor sales. EESC segment operating income was $33 million or 6% of revenue, compared to an operating income of $89 million a year ago.

Turning to the balance sheet. Cash and cash equivalents total $1.8 billion, including $200 million from our revolving line of credit, which was fully repaid in the third quarter. Inventory was $1.3 billion, up 25% from the prior quarter in anticipation of the revenue ramp in the second half of 2020 and new product launches. Free cash flow was $152 million in the second quarter. I am very pleased with our cash performance in the quarter, which resulted in the first half of the year being free cash flow positive.

Let me now turn to the outlook for the third quarter of 2020. Today's outlook is based on current expectations and contemplates the current COVID-19 environment, global economic backdrop, and customer demand signals. We expect revenue to be approximately $2.55 billion plus or minus $100 million, an increase of approximately 42% year-over-year and approximately 32% sequentially.

The year-over-year and sequential increases are expected to be driven by higher Ryzen and EPYC processor sales and next generation semi-custom products. In addition, for Q3 2020, we expect non-GAAP gross margin to be approximately 44%, non-GAAP operating expenses to be approximately $660 million, non-GAAP interest expense, taxes and other to be approximately $25 million, and the diluted share count in the third quarter is expected to be approximately 1.23 billion shares.

For the full year 2020, we now expect higher annual revenue growth of approximately 32% driven by the strength of our PC, gaming and data center products. We continue to expect gross margin of approximately 45% for the full year up 2 points from the prior year.

In closing, while there continues to be global economic uncertainty due to COVID-19, we have significant opportunities ahead of us with strong product demand across multiple markets. We are in a good position to accelerate our financial momentum, expand gross margins and generate significant cash.

With that, I'll turn it back to Ruth for the question-and-answer session. Ruth?

Ruth Cotter

Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. And operator, please poll the audience for the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis

Analyst, Jefferies LLC

Q

Hi. Thanks for taking my questions. A question for Lisa. You've said in the past that your customers, they don't buy CPUs but they buy roadmaps. And I was hoping that you can tell us about your roadmap, particularly in servers going forward, how it compares to your competition. And as part of that, does your view of the competitive environment changed after your biggest competitor last week noted a push in its 7-nanometer process? Thank you.

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Hi, Mark. Yeah. Thanks for the question. So, look, we've been very focused over the [ph] last (17:59) couple of years on our roadmap and our strategy. And for sure, when we talk to our customers it's about ensuring that they understand we have a consistent roadmap that is pushing the leading edge of performance and ensuring that we deliver the performance improvements that we promised.

As you know, with these roadmaps, many of these decisions are made years in advance. And so we look at process technology as well as design and architecture and leading edge packaging. So, we feel good about our roadmap. We updated our roadmaps at our Financial Analyst Day in March and we continue to be very focused on executing to our roadmaps.

Mark Lipacis
Analyst, Jefferies LLC

Q

And when you talk about your focus both on your transistor or the process and the architectural lead to – can you give us a sense to what extent the share gains that you're taking right now are driven by one or the other or both in which – would you expect to maintain a lead in both as you launch Milan and – farther on down in 2021 and 2022?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, look, I would say that the roadmap is dependent on all of those factors. So, you have to get the process technology and manufacturing right, we feel good about our roadmap there and our partnership with TSMC, and you also have to make the right design and architectural decisions, and we feel good about our CPU roadmap. So, right now, we are on Zen 2 with Rome, we saw a very nice acceleration of our data center business due to some of the key customers that have launched, we are on track – or we expect to start shifting Milan here late this year. And then, we're also working in development on Zen 4 which is slated for 5-nanometer.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question today is coming from Vivek Arya from Bank of America. Your line is now live.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Thanks for taking my question and congratulations on the strong growth despite all the headwinds. Lisa, for my first one, when I think back to the last time, AMD was really big in the server market was in that 2004 to 2006 timeframe when market share went from 7% to 26% in kind of that 3-year or so period.

How would you contrast the current environment right from whether it's from a competitive perspective or just a customer willingness to adopt your platform? What will it take for your market share to kind of approach those peaks? What are the puts and takes and how different or similar is their experience now?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Sure, Vivek. Thanks for the question. Well, the server market, we've said is very strategic for us. We think there's a high demand for sort of pushing the leading edge of performance. When I look at our roadmap right now, I feel very good about our roadmap, I think we have executed well to our roadmap. I think we are differentiated in terms of the performance that we're offering in the server market.

We've always said that the data center market is a bit of a journey. And so, this is about putting together multiple generations of strong execution. So, we're pleased with where we are with Rome and the progress that we've made this year. I would say we're still in the early innings of what we believe we can do in the server market. I think, Rome is a very, very competitive product. I think as we go into Milan, we see that, that's also a very competitive product. And our goal is to really satisfy a broad swath of the server workloads, and we think we have the capabilities of doing that.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Perfect. For my follow-up Lisa, so you raised full year growth outlook to 32% or so I believe from 25%. Can you give us some more color on what's driving that upside? How much of that is coming from PCs? How much from server? How much from semi-custom? And I noticed that you kept the gross margin outlook kind of steady, and I'm wondering how do we think about gross margins going forward? How sensitive is that to your success in the server market? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, we did update full year guidance. When we look at sort of what's changed over the last 90 days, when we were here talking to you in April, we were actually expecting that there might be some COVID-19 related weakness in the second half due to macroeconomic factors or other things like that.

What we see now is better visibility into the second half of the year. And so, we had originally assumed that the PC market would be down in the second half. And we now expect that PCs – that we will grow in PC processors for the second half compared to the first half. We also see data center growing from the second half to the first half. And then we have our game console ramp, that is a strong ramp here in the second half. So, I think, it's a number of factors. We do believe that the market is a little bit better than we thought 90 days ago, but we also believe that our product traction is strong, and we're seeing that come through with our customer demand. So, those are the reasons for the guidance.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Anything on gross margins?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Oh, I'm sorry. Yes, on gross margins, I think that depends a lot on mix, that depends on – certainly, your question was about server. Server is certainly accretive to margin. And I think in the PC business, the second half of the year tends to be a bit more consumer-focused and notebook-focused. And so that's some of the mix relation there. And then we've said that the consoles are decretive to margin. We expect that consoles will be very strong in the third quarter. And although the fourth quarter will be lower for consoles, it's still going to be a very strong second half of the year. So those are the puts and takes there, but we feel that the mix is about right for the annual guide at 45%.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Got it. Thank you.

Operator: Thank you. Our next question today is coming from Matt Ramsay from Cowen and Company. Your line is now live.

Matthew D. Ramsay
Analyst, Cowen and Company

Q

Yes, thank you. Good afternoon, everybody. Lisa, I wanted to ask about the PC market, and you just gave some comments about maybe some stronger trends than you might have anticipated 90 days ago in the back half. But pretty remarkable for a notebook business to more double then and for the second quarter to be your record client sales. I wonder if you might talk about the momentum, particularly in the notebook market of the Ryzen 4000. And then how are you feeling the pull of the enterprise notebook market and what's the traction like there so far into the back half? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Matt. So, the PC market was strong for us, and the PC business was strong for us in the second quarter and as we look into the second half. What we saw was that desktops were down as expected, but the COVID-19-type phenomenon has increased overall the PC market. And we see a strong shift from desktop to notebooks. At the same time, I think our notebook portfolio, particularly the Ryzen 4000, has done extremely well. We've seen strong adoption. We have over 50 platforms in market. We watch the sell-through and the consumption of those and I would say it has been very strong, even exceeded our expectations for the early ramp. And our view is that the second half will continue to be good for notebooks and PCs overall. And that's part of this idea that PCs are now essential.

And so, we see strength in consumer. We see strength in gaming notebooks, which we had previously been underrepresented. We have a nice commercial ramp, and we do see good pipeline around commercial PCs as well as the education market is quite strong as well. So, you put that together and I think the PC business has performed well for us.

Matthew D. Ramsay
Analyst, Cowen and Company

Q

Got it. Thanks. As a follow-up, maybe a piece of the business that's been asked about a little less frequently over the last few quarters is your gaming GPU business. And I'm interested if you could just put into context what the expectations are for improvements and new opportunities for Big Navi as you launch later this year and maybe size those opportunities from a data center perspective versus what you might expect in the gaming channel. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, I think the Graphics, as we mentioned in the prepared remarks, was down year-over-year. We saw a nice ramp of mobile as we launched some of the Navi-based mobile products, but the desktop channel was lower. This was somewhat as expected from the standpoint of the second quarter is usually a lower quarter for the desktop channel. What we did see is that sell-through was pretty good. So, I think gaming overall is good. We are in the process of a product transition. We are on track to launch RDNA 2 or as you call it Big Navi late this year. We're excited about the RDNA 2 architecture. I think it's a full refresh for us from the top of the stack through the rest of the stack. And so I think that will be more of a contributor here as we go into later this year and into next year.

Matthew D. Ramsay
Analyst, Cowen and Company

Q

Thanks, Lisa.

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Matt.

Operator: Thank you. Our next question today is coming from Harlan Sur from JPMorgan. Your line is now live.

Harlan Sur

Analyst, JPMorgan Securities LLC

Q

Good afternoon and good job on the quarterly execution. Could you see the team hit the double-digits percentage market share target and a broadening out of the end market penetration with EPYC? Lisa, just given your customer and design win pipeline and rollout of Milan in the back half of this year, how are you thinking – or how should we be thinking about further EPYC share gains over the next 12 to 18 months?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Harlan. So, look, we are optimistic about our product positioning in the server market. Much of what we've been doing up through now, frankly, is making sure that our customers were ready to take advantage of Rome and EPYC. And so, we saw some nice traction here in the first half of the year, particularly in the second quarter around some top cloud accounts that have started to ramp in good volume.

As we look forward to the second half of the year, there are more platforms coming with Rome. We have a number of OEM platforms that are in the process of being launched, and we have additional cloud platforms as well. So, I think Rome is going to continue to be a strong driver of our growth into the second half of this year as well as next year.

We're excited about Milan. Milan is looking good in the labs. We're working with our customers on Milan, and we expect to start shipping that later this year. So I think the way to think about our server business is, again, it's a journey and we're pleased with where we are today, but there's a significant opportunity for us if we continue to execute well over the next, I would say, more than 12 to 18 months. But really we see this as a multiyear opportunity.

Harlan Sur

Analyst, JPMorgan Securities LLC

Q

Yes, absolutely. And then as a follow-up, we do an annual CIO survey here at JPMorgan. For the past three years, we've been asking global CIOs are they thinking about or planning to use EPYC-based platforms for on-prem. And in the most recent survey that we did in June, we actually saw a 60% year-over-year increase in the number of CIOs that are thinking about using EPYC for on-prem. Our interpretation is that interest level and mindshare is growing quite rapidly. I guess my question to you, Lisa, is the AMD – what is the AMD team seeing from an actual adoption perspective and what's your sense of your enterprise mix sort of two to three years from now?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Actually, Harlan, I saw that data and I thought it was good data. What I would say is that we are making progress in the enterprise business. And that comes from a number of different factors but first is the availability of platforms. We have a very diverse set of platforms from our OEM partners that are now in market. We've also done quite a bit on the ecosystem and ensuring that we have the partnerships with the ISVs, and then just basically feet on the street where we're talking directly to some of these enterprise customers.

So, I feel good about the progress that we've made. Again, I would refer to the fact that mindshare is a leading indicator, but there is a lot for us to do to convert that into market share and revenue growth, but we feel like we're on a good path and we're going to continue to focus on both cloud and enterprise growth. And I'll also mention HPC is another key vector for us where we're very focused on showing a strong value proposition for those sort of toughest, most scientific workloads.

Harlan Sur
Analyst, JPMorgan Securities LLC

Q

Yes, absolutely. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Harlan.

Operator: Thank you. Our next question today is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. [ph] To stay away (32:06) from the previous question, can you talk a little bit about your enterprise prospects on the PC client side? Can you give us a sense for how much at this point your business is skewed to consumer and how much progress are you making there in terms of penetrating enterprise business?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Joe. No question, our business is more consumer-weighted today. I will say we're growing nicely in commercial PCs. I think the strength of the Ryzen 4000 product has been good for us. I think there's a lot of positivity around the performance, the battery life, the capabilities there. We continue to expand our go-to-market efforts there. We're partnering very well with our top OEM partners. So I would say that we're still underrepresented in commercial, but no question that commercial notebook is a big focus for us and we're going to continue to invest and hopefully make progress in that subsegment.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then as a follow-up, there's been a bunch of press about console builds getting revised up meaningfully by several million units coming from Nikkei and yet your upside for the year seems fairly balanced across the segments. Can you give us just color on what's happening in that console segment? Is there that much upside and could your numbers prove conservative as we move through the back half?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, I will say that our upside is balanced across the segments. There's no question that there's a strong ramp in the second half of the year for consoles. We're continuing to increase supply to meet that demand. But overall, I view it as – again, consoles are a multiyear cycle, and the first year – I mean, there's a lot of pent-up demand for consoles, but we should think about this as really a multiyear cycle and this is just the beginning of the ramp.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question today is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. I wanted to follow-up on that capacity point. What does your capacity and supply situation look like? And is any of the full year raise related to capacity freeing up at your foundry partners? And maybe put another way, are you supply rather than demand limited at this point? What does that capacity situation look like?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, sure, Stacy. So look, we have a strong supply chain. There's no question. It's been a very dynamic year if you just think about all the puts and takes over the last four or five months. I've said before and I'll say again, 7-nanometer is tight, and we continue to partner closely with our – with TSMC to ensure that we can satisfy our customer demand.

When you ask about the full year raise, the full year raise is because demand has gone up from our initial expectations, and some of that is due to the market, and some of that is due to the strength of our product traction. We are increasing capacity to meet those needs but it is tight. And I would say that as we continue to increase capacity, we see opportunity there. So from that standpoint, demand is strong.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you. So my follow-up, your competitor is talking about a data center – potential for datacenter digestion into the second half. And I understand you're coming from a different place with the new product ramps and everything, so I understand why you are growing into the second half [indiscernible] (36:06). But what are you seeing just broadly with your customers? Are you seeing signs of the market within hyperscale entering the digestion phase, even if it's not impacting you for well-understood reasons?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Stacy, I think it's a bit hard to generalize. And from our visibility, what I would say is we have some customers that we see demand increasing in the second half versus the first half. We have some customers who are a little bit lower. The main thing for us, and I think you said it, it's about the ramping of our platforms. And so I'm not sure I would point to a particular digestion phenomena. I would say it's very customer-dependent and depending on how much they built out in the first half and some customers will be up and some customers will be a little bit down. But overall, we see an opportunity to grow in the second half.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Is that the same across like hyperscale and enterprise or is it mostly hyperscale that's driving it?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So my comment was a hyperscale comment, since that's what you're asking about. When I look at enterprise, what I would say about enterprise is it's also different things happening. I would say in terms of enterprise and HPC, we continue to see buildout. And as I said, we have new platforms ramping that I mentioned in the prepared remarks. There is a bit of softness in SMB or some of the transactional business. And again, we were not very exposed to that portion of the market, so I don't see it as it's going down, it's just perhaps not increasing as fast as we wanted it to. But overall, it really depends on customer-specific stuff. And we don't see sort of this large-scale people slowing down, I would say that way. I think there's a need for infrastructure and we see people continuing to invest in infrastructure.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. That's very helpful. Thank you so much.

Operator: Thank you. Our next question today is coming from Aaron Rakers from Wells Fargo. Your line is now live. Aaron, perhaps your phone is on mute, please pick up your handset.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yes. Thank you. Can you hear me?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. We can hear you, Aaron.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks, Lisa. Congratulations on the quarter. I wanted to ask about the data center GPU business. I know you talked about the path for the CDNA product going forward. I'm just curious, as you look to your cloud opportunities, how do you gauge or how are you thinking about the ability to kind of participate in some of the AI opportunities in the data center GPU business? And do you have any update on kind of ROCm and how that has opened up opportunities or what we should expect from a software platform perspective?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Sure, Aaron. So look, I think the data center GPU business is a – is sort of a midterm growth vector for us. This year, I mentioned in the second quarter that revenue was lower year-on-year but the second half we expect it to go up modestly. I think the view is we have good design wins in cloud gaming, we have good design wins across sort of cloud, VDI-type instances. Very strong in supercomputing and HPC around Frontier and El Capitan as sort of our anchor supercomputing wins.

As it relates to machine learning and AI, we continue to invest in ROCm. We continue to work sort of our strategy around machine learning is partner deeply with a couple of large [ph] clock (39:46) vendors who can invest in the software with us, and we see that as a multiyear opportunity. But it will – it's not a big revenue contributor here in 2020. But we see a growth opportunity as we go into 2021 and beyond.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. And then as a quick follow-up, we talked a lot about kind of just ramping EPYC in the road map. I'm just curious of how you've invested in the support organization to support this expansion? How has that progressed? Has that been at all a limiting factor to some of your ability in the server CPU market?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. I think in server CPUs, it just takes time. There's a customer qualification process that takes time. But we have – we've been very pleased with sort of the efforts on both the part of our customers as well as sort of our own support teams.

We're continuing to invest. So if you look at our OpEx, we're continuing to invest. One of the key areas is building out, not just that support infrastructure, but just overall sales and go-to-market for the Enterprise business. So, I feel good about where we are.

Our strategy was always to go through some of the top cloud customers first, and I'm really pleased to see some of those get to high-volume production, and we'll continue to build out that infrastructure in both cloud as well as enterprise.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Our next question today is coming from Timothy Arcuri from UBS. Your line is now live.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Hi. Thanks. I guess, Lisa, I wanted to ask maybe in the past month or six weeks or even two months since it's become probably more apparent to the customers that your competitors having some manufacturing issues, can you speak a little bit to the tenor of the customer conversations? Has it changed at all? Have you felt them incrementally more willing to adopt your products? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. I don't think I would say – I mean, four to six weeks is kind of a short time. I think I would back up a little bit and say, over the past couple of quarters, what have we seen? And I think over the past couple of quarters, what we have seen is they've seen our performance capability, and we feel very good about where our products are positioned.

I think what we've also said is, look, you can count on us for a consistent road map, and we're going to show you each of those data points. I think the Milan point is an important point for us, and that's why we're very focused on ensuring that that ships here later this year.

I think the Zen 4 general point, we've already started engaging customers. Customers are very eager to understand what the long-term road map is. And so what I would say is it's not sort of a short-term thing. It's more the notion of we feel that customers are very open across cloud, OEM, enterprise. It's on us to execute. We think about that every day. But in terms of where the road map is, what are we trying to accomplish, where the customers are, there's a pull from customers to engage us across a number of workloads, we feel well-positioned.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Got it. And then I guess also in data center, I think you've highlighted before that a potential bottleneck might be to build out your software capabilities, and can you – are there any metrics you can give us in terms of your ability to attract talent? Has that improved recently sort of in terms of the number of software engineers you've hired? Anything like that to help? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So I think if you're talking about software, it's more of a GPU – a data center-GPU statement versus a CPU statement. I think we feel actually that our CPU tools, infrastructure and all that stuff is actually pretty well built out. There is some work that we do with some of the applications and the ISVs to optimize and tune our software, but I think that's going very well.

As it relates to the data center GPU, yes, I think there is more mind share. I think the supercomputing wins in the data center GPU side have really helped raise the profile of our GPU capabilities and our software capabilities. So I think we are in a good position there. And from our standpoint, again, this is about building out sort of multiple vertical applications and doing that very well. So we continue to invest in the data center. It is a very strategic part of our business. But we're making good progress.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot, Lisa.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. Our next question is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hi, guys. Thanks for taking my question. I wanted to focus on a little bit of a different topic, kind of comparing x86 and ARM. So I'm sure you guys saw the announcement that Apple is displacing Intel with its own ARM-based chip. And historically, the reason why you couldn't really use an ARM-based chips because there was no real developers around it. So I guess is there any risk – or how do you guys think about ARM-based servers becoming a potential competitive threat in the future? How would that impact the x86 market and Intel as well? So do you have any like comments on that in terms of Apple's potential entrance in developing an ARM-based ecosystem?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. I think what I would say is, there are going to be some people who develop their own chips. Apple has announced it in the Mac space, and there are some who are building their own in the data center space. I still believe this is not about ARM versus x86. I think it's more about what performance do you offer, what capabilities do you offer, where the overall ecosystem is. And in that sense, I think we still feel quite confident that both the PC market as well as the server processor market are predominantly x86.

I think there's a very good set of offerings out there that are available. And it's on us – frankly, on us to make sure that the performance that you get, the power that you get, the performance per dollar, the capabilities are very, very competitive so that we're offering sort of the best-in-class processors in the market.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Got it. And then just one small one, follow-up. Just on the data center accounting 20% of revenue. Is still the data center graphics piece still a small part of the business? Or was that better this quarter? I'm just trying to get a qualitative understanding of what happened there?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Mitch. So we did say that overall data center revenue was over 20% of revenue this quarter, and it was predominantly CPUs. So the GPU portion of that is still relatively small.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

So just to be clear, GPUs were not – were basically flat sequentially or were they up?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

They were actually down sequentially.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Okay. Helpful. Thank you.

Ruth Cotter
Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we'll take two more questions, please.

Operator: Certainly. Our next question today is coming from Ross Seymore from Deutsche Bank. Your line is now live.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks for letting me ask a question. And congrats on the strong results. Lisa, I actually had one short-term question and one long-term question for you. On the short-term side of things, you have some significant moving parts with new product launches et cetera in both the third and fourth quarter. So I was hoping on the 32% sequential guide, if you can give a little color by the two end markets, the C&G and the EESC side?

And then a similar sort of thing when you go into the fourth quarter, you said semi-custom will be down sequentially, which is kind of typical seasonality. But the ability for you guys to still grow sequentially, what's really driving that? And then I'll follow-up with the long-term question.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So let's see. Let me try to do that. So I think – so when you talk about the Q3 guide, so 32% sequentially, there is a large component of that, which is game consoles. So the game console revenue was relatively modest in the second quarter, and it's going to become larger here in the third quarter. But we do see PCs growing sequentially, as well as server CPUs growing sequentially.

And then as we go into the fourth quarter, I mentioned earlier that we expect that semi-custom will be down a bit, probably not as much as it's historically down, frankly, because it's the first year of the launch, but it should be down a bit. And then we do have product launches that we stated around sort of the Zen 3 product families as well as the RDNA 2 product families that would drive some of the sequential growth in the fourth quarter. Does that – did I answer that?

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. That's exactly what I wanted. Thank you. And then maybe this one will be a little clearer on the long-term side of things. An earlier question was asked about OpEx and expanding your capabilities et cetera and you gave a thoughtful answer to that. But generally speaking, it seems like your opportunities to take share in aggregate just improved due to your competitors' missteps.

So when you look at that opportunity, how do you think about organic investments? Would OpEx staying at, say, 29% of revenues like you're talking about for this year be a good way to capitalize on that opportunity as opposed to going down to the 26% or 27% you mentioned at your Analyst Meeting? Or within that, would you keep that a little bit tighter in line with your Analyst Meeting and maybe even consider going inorganic and tapping into the M&A market now that you have some cash and a very attractive currency to use as well?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, yes, let me answer it this way. So, look, we are very excited about our organic growth opportunities. I think we want to stay sort of at that sort of very significant growth in that over 20% CAGR for the next couple, three or four years. I think the way we've managed the business is the prudent way to manage the business. And so, OpEx will grow. OpEx will grow, and you've seen it in the dollar numbers, but it's going to grow a little bit slower than revenue. And we think that's the right thing to do just to make sure that we do see some leverage. That being the case, because the business is growing so much, I mean, we are investing quite heavily in OpEx across the business in both R&D and go-to-market. So what was the second part of your question, Ross?

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Was just the inorganic way, would that be an avenue to broaden your offering to some of your customers?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, look, I think we have been focused on the organic growth path because there is so much opportunity there. We'll look – we'll always keep an eye open for are there opportunities to enhance the portfolio or do some skills acquisition, if that makes sense. But I think we're very focused on executing the organic growth path.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Perfect. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Ross.

Operator: Thank you. Our final question today is coming from John Pitzer from Credit Suisse. Your line is now live.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys. Thanks for squeezing me in and congratulations on the strong quarter. Lisa, it's really great to see embedded in the implied fourth quarter guide, a gross margin that needs to go up about 200 basis points sequentially to meet your full year guidance. And especially with gaming consoles being down less than seasonal, I'm wondering if you can just help me unpack that a little bit?

When you think about the gaming console cycle, is there gross margin improvement available to you as that cycle ramps and matures? And I guess more importantly, when you look at both the PC market and the server fleet, where are you relative to optimal product mix vis-à-vis kind of longer-term gross margin aspirations?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Sure. So obviously, there's a lot to happen between now and the fourth quarter. But I think from the guide, what you get is we see the server and PC growth generally positive. If you think about what we have planned from now through the rest of the year, we do have some significant new products that will start shipping that will be positive from a gross margin standpoint.

On a console basis, it is true that the console margins typically improve over the first sort of four to six quarters because you would expect that as we ramp into higher volume, that there are improvements in manufacturing costs and so on and so forth. So those are the factors that are in there.

A lot will depend on mix, and the mix of the business being what is the mix of consumer versus commercial on the PC side. And then on the data center side, the mix between cloud and enterprise, and so we have to see how some of those things play out as we go out through the end of the year. But overall, I think the trend is such that you should see sequential growth in the gross margins as we go into the fourth quarter for some of the reasons that I mentioned.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

That's helpful. And then, Lisa, as a follow-on, you've always talked about this being a marathon more than a sprint, and you guys have had a pretty methodical strategy to which you've executed to. But I just – given the revelations of Intel's missteps last week, what might you do differently from here to try to take advantage of it?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, John, I think the most important thing for us is to execute to our commitments to customers, and that – by the way, that's been the same focus for us over the last few years, and it will continue to be the same focus for the next few years.

I think consistency and road map, consistency and performance expectations, being capable of ramping across – basically, what we're asking is for people to trust us with their most important applications. And so our focus is very much execute on the road map that we've committed to, and that's key for us.

And no question, there's a lot of things to do in engineering to get that – to make that happen. But I think we're very clear on what we want to deliver. And we're excited, frankly, about the road map we have in front of us.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect. Thank you.

Operator: Thank you. We've reached...

Ruth Cotter
Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

Thank you, everybody, for joining the call today. We appreciate it, and we look forward to seeing many of you virtually throughout the quarter. Operator, if you can close the call, please.

Operator: Certainly. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2020 Earnings Call for 28-July-2020 5:00 PM ET
Wednesday, July 15, 2020 02:40:04 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2020 Earnings Call for 28-July-2020 5:00 PM ET.
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Advanced Micro Devices, Inc. (AMD)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the AMD First Quarter Financial Results Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce Ruth Cotter, Senior Vice President Worldwide Market, Human Resources and Investor Relations. Ruth, please go ahead.

Ruth Cotter

Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's first quarter 2020 financial results conference call. By now, you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, amd.com. Participants on today's call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

Before we begin today, please note that our annual shareholder meeting will be held on Thursday, the 7th of May as a virtual event accessible from amd.com. We will also be attending several virtual Wall Street events during the second quarter, including the Bernstein Strategic Decisions Conference on Thursday, May 28. And our second quarter 2020 quiet time is expected to begin at the close of business on Friday, the 12th of June.

Today's discussions contain forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and, as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations. We will refer primarily to non-GAAP financial metrics during this call except for revenue and segment operational results which are on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measures in today's press release posted on amd.com.

Please refer to the cautionary statement in our release for more information on risks related to any forward-looking statements that we may make. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's annual report on Form 10-K for the year ended December 28, 2019.

Now with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth, and good afternoon to all those listening in today. Before covering our quarterly results, I wanted to provide some comments addressing our response to COVID-19. First, I want to recognize the toll the pandemic has taken on the world. The breadth and speed at which COVID-19 has changed the world since our last earnings call has been staggering. I want to thank the countless healthcare professionals and essential workers serving on the frontlines every day.

At AMD, our first priority has been to protect the health and safety of our employees. We have transitioned the vast majority of our more than 12,000 employees worldwide to working from home, while ensuring we maintain focus on reliably supplying our customers with the products and services their businesses depend on. We are also supporting the communities we call home, through financial and personal protective equipment donations, and providing our technology to accelerate medical research. More than ever, the pandemic has placed technology at the forefront of how we work, learn, shop and connect. And we are proud to be providing many of the components powering these essential technologies.

Against that backdrop, we performed well in the first quarter. Revenue increased 40% year-over-year to $1.79 billion, as demand for 7-nanometer Ryzen, Radeon and EPYC processors drove record first quarter revenue and our highest gross margin in eight years. I'm pleased with our execution in the quarter, as we quickly adapted our global operations to navigate pockets of supply chain disruption and addressed geographic and market demand shifts caused by COVID-19.

Turning to our Computing and Graphics segment, first quarter segment revenue increased 73% year-over-year to $1.44 billion, driven by increased Ryzen and Radeon processor adoption. We saw some softness based on the COVID-19 situation in China that impacted PC-related sales in the first quarter. While both component and system demand were relatively strong at online vendors, offline channel sales were weaker than expected, as many retail locations across China were closed for much of the quarter. PC demand in the rest of the world was strong, offsetting the softness in China.

Client processor revenue grew significantly year-over-year as strong Ryzen processor demand resulted in significant double-digit percentage increases in unit shipments and ASPs. As a result, we believed we gained client unit market share for the tenth straight quarter. In Desktop, overall demand for our latest Ryzen 3000 and prior-generation Ryzen 2000 processor families was strong, both of which continue to top retailer bestseller lists and have more than 50% share of premium processor sales at many top global e-tailors.

In Mobile, unit shipments increased by a strong double-digit percentage year-over-year. We set a record for quarterly notebook processor revenue, driven by sustained demand for our previous generation offerings and the ramp of the first Ryzen Mobile 4000 design wins.

Initial consumer notebooks featuring our new Ryzen 4000 processors launched to strong demand, based on reviews that demonstrated their performance and battery-life leadership for ultrathin and gaming notebooks. We also gained momentum in the commercial market, winning multiple large-scale deployments as Lenovo announced new ThinkPads and HP launched commercial-class ProBooks, powered by our latest Ryzen 4000 mobile processors. We are on-track to accelerate our mobile growth this year, as Acer, Asus, Dell, HP, Lenovo and other OEMs are expected to launch more than 135 new Ryzen powered consumer and commercial notebooks over the coming quarters.

In Graphics, first quarter unit shipments and revenue both grew by a double-digit percentage year-over-year, driven largely by sales of our Radeon RX 5000 series desktop and notebook GPUs. Desktop channel sales increased based on solid demand for both 7-nanometer RDNA graphics cards and previous generation Radeon RX 500 series GPUs.

In Mobile, demand for notebooks powered by our Radeon 5000M mobile GPUs, including the latest Apple MacBook Pro and other gaming notebooks, drove a richer mix, as customers transitioned their platforms to our new RDNA mobile offerings.

Development of our RDNA 2 GPUs continues to progress well. We are on-track to launch our next-generation gaming GPUs later this year, with a 50% performance-per-watt increase compared to our current offerings.

In the datacenter, Microsoft Azure introduced new virtual machines optimized for visualization workloads powered by our Radeon Instinct MI25 GPUs. Microsoft is using our differentiated virtualization technology to partition a GPU for the first time in the same way they partition multi-core CPUs, allowing customers to tailor the GPU capability to meet the needs of their specific workload.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue of $348 million decreased 21% year-over-year as lower Semi-Custom revenue more than offset a significant increase in server revenue. As expected, Semi-Custom product revenue was negligible in the quarter, as Sony and Microsoft both reduced inventory in advance of next-generation console launches. We expect Semi-Custom revenue to increase in the second quarter and be heavily weighted towards the second half of the year as we ramp production to support the holiday launches of the new PlayStation 5 and Xbox Series X consoles.

In Server, unit shipments grew by a double-digit percentage sequentially and more than tripled year-over-year, as we continued gaining momentum across Cloud, Enterprise and HPC customers.

We saw particular strength with cloud providers introducing new instances and accelerating current deployments. Microsoft Azure, Google and IBM all announced new offerings powered by second-generation EPYC processors, highlighted by Google launching multiple general-purpose VMs and Microsoft rolling out an all-AMD virtual desktop offering that also includes Radeon Instinct GPUs.

Several cloud providers accelerated their infrastructure deployments to address rising demand from the growing number of users working and schooling from home. For instance, one of our large cloud customers was able to deploy 10,000 second-gen EPYC servers in less than 10 days to support the surge in demand for their collaboration services.

In the Enterprise, we expanded our second-gen EPYC processor portfolio with new high-frequency processors that expand our performance leadership to advance modeling, database and hyperconverged workloads. With these new offerings, our second-gen EPYC processor family now includes both the highest performance-per-core and performance-per-socket processors in the industry.

We continue winning in HPC, highlighted by Lawrence Livermore National Laboratories announcing they selected next-generation AMD EPYC CPUs and Radeon Instinct GPUs to power their El Capitan Supercomputer, which is expected to deliver more than 2 exaflops of computing performance, when it is deployed in early 2023. We are incredibly proud that two of the three publicly announced US exascale supercomputing systems will exclusively use AMD CPUs and GPUs, clearly positioning AMD as the exascale computing leader based on our high-performance computing and graphics technologies and software capabilities.

In closing, our long-term strategy and growth drivers remain unchanged. Although there are some near-term uncertainties in the demand environment, we are well-positioned to navigate through this situation. We have a solid financial foundation and our product portfolio is very well-positioned across the PC, gaming and datacenter markets. While demand indicators across commercial, education and datacenter infrastructure markets are strong, we expect some softness in consumer demand in the second half of the year depending on how overall macroeconomic conditions evolve. We remain on-track to launch our next-generation Zen 3 CPUs and RDNA 2 GPUs in late 2020 and believe we can deliver another year of strong revenue growth and margin expansion based on the strength of our product portfolio and the diversity of markets we serve.

Now, I'd like to turn the call over to Devinder to provide some additional color on our first quarter financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone. We performed well in the first quarter as we navigated a challenging environment as a result of the ongoing impact of COVID-19.

First quarter revenue was $1.79 billion, up 40% from a year ago, and down 16% from the prior quarter.

Year-over-year growth was driven by strong sales of Ryzen and EPYC processors and Radeon products, partially offset by lower Semi-Custom sales. Gross margin was 46%, up 490 basis points from a year ago, driven by Ryzen and EPYC processor sales. Operating expenses were $584 million compared to $545 million (sic) [$498 million] a year ago, primarily due to increased investments in R&D and go-to-market activities. Operating income was $236 million, up $152 million from a year ago, driven by revenue growth and a greater percentage of Ryzen and EPYC processor sales, while operating margin increased to 13% as compared to 7% a year ago.

Net income was $222 million, up from $62 million a year ago, and diluted earnings per share was $0.18 per share compared to $0.06 per share a year ago.

Now turning to the business segment results. Computing and Graphics segment revenue was $1.44 billion, up 73% year-over-year, driven by Ryzen processor and Radeon product channel sales growth. Computing and Graphics segment operating income was $262 million, or 18% of revenue compared to $16 million a year ago driven by significantly higher revenue.

Enterprise, Embedded and Semi-Custom segment revenue was $348 million, down 21% from $441 million in the prior year, due to the expected decline in Semi-Custom sales, partially offset by strong datacenter growth.

EESC segment had a loss of $26 million compared to operating income of $68 million a year ago, which included the benefit of a $60 million licensing gain.

Turning to the balance sheet; cash, cash equivalents and marketable securities totaled $1.4 billion. In addition in early April, we took the precautionary step to drawdown $200 million from our $500 million revolving line of credit. Inventory was $1.1 billion, up 8% from the prior quarter.

On a trailing 12-month basis, adjusted EBITDA was $1.2 billion resulting in gross leverage of 0.5 times. Free cash flow was negative $120 million in the first quarter, an improvement of $155 million from the prior year. Cash flow from operations was negative $65 million, an improvement of $148 million from a year ago.

Let me turn to the outlook for the second quarter of 2020. Today's outlook is based on current expectations and contemplates the current COVID-19 environment and customer demand signals. We expect revenue to be approximately $1.85 billion, plus or minus $100 million, an increase of approximately 21% year-over-year and an increase of approximately 4% sequentially. The year-over-year increase is expected to be driven by strong growth in Ryzen and EPYC processor sales. The sequential increase is driven primarily by EPYC processor and Semi-Custom sales.

In addition for Q2 2020 we expect non-GAAP gross margin to be approximately 44% due to higher Semi-Custom revenue. Non-GAAP operating expenses to be approximately $600 million; non-GAAP interest expense, taxes and other to be approximately $20 million; and the diluted share count in the second quarter is expected to be approximately 1.23 billion shares.

For the full year 2020, despite expectations of weaker COVID-19 related consumer demand in the second half of the year, we expect annual revenue growth of approximately 25%, plus or minus 5 percentage points.

In addition, we expect non-GAAP gross margin to be approximately 45%, unchanged from prior guidance, and non-GAAP operating expenses to be approximately 29% of revenue.

In closing, while the market environment has become more challenging given the impact of COVID-19, our first quarter results demonstrate the strength of our business model. Notwithstanding some near-term demand uncertainties, our long-term strategy is unchanged and we are well-positioned with our competitive products and the strength of our balance sheet to navigate today's environment.

As I finish, I would also like to take this opportunity to thank all of our employees for their dedication, flexibility, and focus in these extraordinary times.

With that, I'll turn it back to Ruth for the question-and-answer session. Ruth?

Ruth Cotter

Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. And operator, if you could poll the audience for questions please.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting your question-and-answer session. [Operator Instructions] Our first question today is coming from Matt Ramsay from Cowen. Your line is now live.

Matthew D. Ramsay

Analyst, Cowen and Company LLC

Q

Thank you. Good afternoon, everybody, and hope everyone at AMD is doing well considering the interesting times we live in. Lisa, I wanted to start with a couple of questions on the server business, I guess, one of which is how do you – the EESC results in the quarter that you just printed were a bit below, at least where I had modeled them. So maybe you could talk a bit about how you feel the EPYC business is tracking toward that sort of 10% target you guys had set for the second quarter. And I notice in Devinder's comments on the June quarter guidance, most – some of the upside is going to be driven – I guess, upside sequentially is going to be driven by EPYC. So how are you tracking against that? And then the last little piece is, I keep getting more and more questions still about the timing of Milan. And I know, you guys reiterated that would be this year at the Analyst Day. And is that still the case, just let us know? Thanks.

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Matt. Thank you, and appreciate the question. So look, we are very pleased with the progress in our server business. I think, if you look at sort of the progress we've made there were a number of key things that we wanted to see happen. What we saw in the quarter that we just finished in the first quarter we actually saw a very nice acceleration of the cloud business as we went through the quarter. I think, as we go into the second quarter, there's an additional significant ramp of the server business. And so we expect to continue to gain share as we go through these next couple of quarters. I think, what we're seeing from the current COVID-19 environment – obviously, there's a lot of puts and takes – but as it relates to datacenter, it's positive for the datacenter markets. Certainly we've seen some of our largest customers ask us to accelerate some of our deployments, and we look forward to continuing to ramp our server business.

I think, you asked about Milan, and yes, we are expecting to be launching that at the end of this year.

Matthew D. Ramsay
Analyst, Cowen and Company LLC

Q

Got it. Thank you. Just wanted to switch quickly into the PC business. One of the things that stood out to me from your commentary in the prepared script was the contrast between strength in the PC business globally versus the weakness in China. I imagine that weakness in China was both on the PC side and on the AIB Graphics business. If there's any way that you could help quantify that? And we've heard some commentary about the economy restarting in China. Have you seen some of those trends start to improve into the second quarter? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So the PC business has actually held up pretty well, so if we look at the PC business in the first quarter, we saw the rest of the world PC business actually get some benefit from some of the acceleration in demand sort of towards the end of the quarter. We did see some weakness in China as China was shut down in the months of February and early March. We saw that primarily in the channel business, so in offline channels. Now, we have seen that pick up as we've gone through the month of April. And what we're seeing in general in the PC business is the first quarter and the second quarter is actually relatively strong with accelerated notebook demand, and desktops sequentially lower just based on sort of the preference around notebook versus desktop in this framework. So, those are the key dynamics for the PC business.

Matthew D. Ramsay
Analyst, Cowen and Company LLC

Q

Thank you very much.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Matt.

Operator: Thank you. Ladies and gentlemen, as a reminder, please ask one question and one follow-up to return to the queue. Our next question is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. You guys are one of the few companies kind of giving a full-year guidance and I just wondered if you could talk us through how you're thinking about the second half. Obviously, you guys have OEM visibility into a bunch of new sockets and new designs, but your customers don't seem to have visibility. So what – just a little bit more color maybe on how you are thinking about forecasting beyond the visibility you have in Q2?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, sure, Joe. So look, we understand that there's a lot of questions about visibility as we go into the second half of the year. The way we look at our business is we have sort of a lot of positives in terms of just market drivers that we do have good visibility to. I think, our progress in the datacenter market is a positive. We see that with the number of platforms ramping and the number of customers that we have coming on board. So we see that as a positive for us as we go through this year. Console gaming is a positive for us. There's lots of anticipation around the consoles. It's one of the largest launches, I think, of the year. And from that standpoint, there's no change in our view as it relates to COVID-19 just given what we see today.

Now, as you look at the range, we have increased the range of our guide, and sort of the biggest sort of question mark in my mind is kind of the shape of the PC market this year. As I mentioned earlier, the first half actually looks a little bit stronger than expected particularly on the notebook side. We are potentially expecting some weakness in the second half due to consumer spending. You sort of have the two – the two forces are there. I mean, one is, there is a pull with the strong work-from-home trends, but then there's also the view that from a macro standpoint we'll be weaker in the second half of the year. So that's the primary variance in our model is what happens to the PC market. I will say, though, that underneath the market trends, we're very pleased with our portfolio. I mean, the notebook portfolio that we have in PCs is the strongest we've ever had, and we believe we have a good opportunity to gain share throughout the year even as the market may be a little bit weaker than originally expected. So that's the reason for the guidance to try to give the puts and takes, and, of course, we'll see how the year plays out.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. Thank you. And then in terms of datacenter GPU, I know, you talked a lot at the Analyst Day about the newer products and penetration of new workloads in the second half. Can you talk about the workloads that you've been addressing so far, cloud gaming and whatnot? And how is that business progressing before we get to the CDNA launch?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So the datacenter GPU business is an important strategic business. In terms of size, it's still relatively small compared to the datacenter CPU business. We are making progress – good overall progress in a number of workloads. Cloud gaming is one that has been a good one for us, and we continue to see opportunity in that as we go through this year with the current product set. We also just launched the VDI instance with Microsoft Azure, which we feel will be a good workload for us. And then we have a number of the HPC wins that we've talked about that are going to be based on the CDNA architecture, which is an important strategic area for us, as well as continued focus on improving our machine learning and overall machine learning frameworks and capabilities. So, those are the key workloads that we're going after, and I do think it's an important business for us as we go forward.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Thanks. The next question is coming from Vivek Arya from Bank of America Securities. Your line is now live.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Thank you for taking my question. Lisa, for my first one, I just wanted to go back to your EPYC server business. So very strong units in Q1, but it appears that the mix was very kind of cloud-heavy, so perhaps ASPs were lower than we are used to seeing. I was wondering if you could just give us some sense of how we should think about server ASPs going forward. And importantly if you think of server sales for you for this year versus what you thought 90 days ago, how is that looking like? Because I think your competitors said that they expected some kind of digestion of cloud capacity in the back half. So I was just hoping to get some more color around ASP and just what you thought of your overall server business for this year.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Vivek. Yes, so that is correct. There was a mix shift towards cloud in the first quarter, and that did have an impact with ASPs lower. That being the case, the ASPs are very healthy, so I think from the standpoint of how our business evolves, it's within the plus or minus of the business model. In terms of where we believe demand will be versus 90 days ago, it's pretty similar. And the way I would say it is we see cloud being strong. What we see is not just putting on more capacity but really the ramping of new platforms, and so we view that as a positive. We have strong Enterprise adoption as well. When we look at our pipeline in Enterprise, it's continued to grow and continued to grow in the first quarter and continued to grow in sort of the first month here of the second quarter.

We do expect perhaps that the transactional business or the SMB type of business may be more impacted by COVID-19, but that was never a large piece of our business to begin with. So we feel good about the server business, and it continues to be a very strategic focus for us. I think the relationships with our partners and our customers are getting closer as we go through sort of the process of ramping volumes. And so we continue to view it as a strong growth driver for us on a year-over-year basis.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Very helpful. And then maybe a follow-up for Devinder on gross margins. So first half, kind of tracking towards your 45-ish percent target for the year, but Q2 is 44%. And I recall I think either Lisa or Devinder you said that second half will be more Semi-Custom weighted. But that suggests some more pressure on gross margin. So I was just hoping you could walk us through how we should think about gross margins in the back half given all the puts and takes of mix that you are expecting. Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. Yeah, thanks, Vivek. I think the key puts and takes is, as you said, continued ramp of the Semi-Custom, which has margins as you observed lower than corporate average, but they are offset by the strength in the datacenter revenue. So Semi-Custom ramp in the back half and that does impact the gross margin being lower than the corporate average. But datacenter strength, as Lisa just referenced that we are pleased with the ramp in the datacenter business. In datacenter business the margins are significantly higher than corporate average, and [ph] that helps to (30:14) offset to help us deliver as we guided for 2020 the 45% gross margin for 2020.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, and maybe...

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Vivek, I can just add to that.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Sure.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So in addition to the datacenter mix that Devinder mentioned, we also expect to see the console gross margins improve as we go through the year. And that's the reason for the full year guide at 45%. So usually what happens is in the very first – second quarter is our very first quarter of ramp for the consoles, and so the margin starts a little bit lower and continues to ramp as we go through the year.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks very much.

Operator: Thank you. Our next question today is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my questions. First question on the client side, I guess, AMD has historically had a good presence on the consumer side, but it sounds like you're making great progress on the commercial side with the HP and ThinkPad design wins. Can you give us a sense roughly like what is the split between consumer and commercial on the notebook side? And, like, how does that play going forward? Does commercial just continue to grow faster than the consumer side? And is there an impact on the gross margin between – if commercial does grow faster? That's the first question. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, Mark, so our PC business does tend to be much more consumer weighted. I mean, we've made progress in commercial. Commercial has grown nicely, but it's still consumer weighted. We expect to continue to gain commercial share as we go through this year as that happens. I think, there's two things in the PC margins that affect PC gross margins. Heavier weight of commercial is certainly positive for the overall gross margins. I think the other pieces we should expect that education will be strong and that tends to be lower in the mix, and so there are lots of mix dynamics. But overall, I think, our confidence level in notebooks being a strong growth driver for us as we go through this year is good, and we continue to work on the commercial versus consumer mix.

Mark Lipacis
Analyst, Jefferies LLC

Q

Great, that's helpful. And then on the server side, if you look at cloud instances versus cloud internal versus enterprise versus HPC, can you give us a sense of the split today, if not by percentage, then like a rank order and what you would expect to drive going forward? Our own fieldwork had indicated that your instances were growing nicely on EPYC 2. I wonder to what extent is that being deployed internally on the cloud guys also. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Mark. So when you look at our cloud instances, I would say that our cloud – some of the cloud acceleration I referred to was acceleration of internal workloads at some of our top cloud customers. So I think that's an area actually where we get more visibility. Cloud instances in terms of numbers for external usage has grown. We announced the GCP platform, we announced the IBM platform, as well as additional Microsoft platforms. You will see more cloud instances roll out over the next quarter or so, but much of the growth that we've seen has been around internal deployment of the cloud companies. And then as it relates to Enterprise, it is more heavily weighted towards HPC. We've done very, very well in HPC. We're pretty excited about our new high-frequency SKUs that were just launched here in April. They're actually very well-suited for large enterprise applications and financial sector as well as some of the technology sectors, and so that's a key focus for us in terms of growing those other pieces of the Enterprise business.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question today is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. First, to harp a little bit again on the server business. I guess I don't quite understand why a big shift toward cloud mix would drive ASP down sequentially. I mean, your mix has been mostly cloud all along, so why all of a sudden is that driving ASPs down? And I know you said units were up double digits. I guess in that context what did revenues do sequentially? And maybe what were datacenter revenues, CPU plus GPU on as a percentage of total in the quarter? Like, if you could give any color on any of that, that would be really helpful.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So we did have a positive cloud mix, but I would say that the Q4 to Q1 mix had significant improvement in cloud or significant growth in cloud. So that was the ASP sort of shift that we talked about. As it relates to datacenter overall, we were in the high teens this quarter. And you had one other question, Stacy?

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

I said, what did revenues do sequentially, units were up like double-digit?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, yeah. So, revenues were also up sequentially.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Not as much as units, but revenues were up sequentially. Yeah.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you. For my follow-up, again I want to talk a little bit about the share target. So I know you'd said 10% share give or take by the middle of this year. If I just – if I even just take your entire EESC revenue and I take Intel's datacenter revenue this quarter, you'd be about 5% on revenue share. And I know you're guiding for growth next quarter, but I mean just given the magnitude it doesn't feel like that's going to double in the quarter. So just how are you feeling about that 10% guide for the middle of this year? Is that getting pushed out? Are we defining it wrong? Like how should we be thinking about that?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so the way we define the share target – and it very much is sort of the view of we expect about 20 million units a year in terms of single-socket and dual-socket servers. That's about 5 million units a quarter, so 10% share is about 0.5 million units. From where we look today, we look to be on track to that. Q2 is actually our -

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

By Q2?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, Yes. Q2 is actually our strongest backlog quarter that we've seen. So, I think that's our current visibility today.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Is that 20 million an appropriate number though, given you're now playing in com? Whereas maybe when you gave that target before you weren't playing in com? Isn't the total target at – the total market is more like 30 million or even more, right?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, again, I think not to go back on how we define the target. I think, I've given you how we define the target, and I think that's an appropriate way to define the target. I think, our coms exposure is very, very early, and I would say is not a significant part of the revenue at this point.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you, guys.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thanks. The next question is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you so much for taking the question. Lisa, I wanted to go back to your full-year guide. I appreciate there's a wide range of outcomes here, and you did put up an updated number. But if we take the midpoint of your updated guidance and we compare and contrast that with your old guidance, you are lowering the midpoint of your revenue outlook by about $250 million maybe a little bit more. In response to Joe's question, I think, you focused very much on the notebook business. Is that sort of the primary part of your business where you're lowering numbers? Or is it a little bit more broad-based across GPU and perhaps the game console business as well?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so I would say from the full-year standpoint the biggest variable is the PC business in its entirety. So that's notebook and desktop. And like I said it's a variable. If I – you can model various scenarios as to what it can be, and I think from our standpoint when we started the year we had the expectation of a pretty normal PC environment. I think, we would all say that the environment is different than when we started, and given the size of that market, we have given ourselves a wide range. As it relates to what we thought before, it's primarily PCs and when you look at the other markets – game consoles, datacenter – we're about what we expected and the signals continue to be positive in those areas.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Great, and then a quick follow up...

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And by the way, I should – I'm sorry if I can just finish off. On PCs, I would say, though, that I think we're all waiting to see some of the data as we go through the second half of the year. So I want to say that like I said there's those two competing forces. One is there's a strong pull for work-from-home trends and the other is just what is the impact on macro going to be for discretionary consumer spend. And so I think that's the place where we lack full visibility, and we continue to talk to our customers and I think, we're all trying to make sure that we are well-prepared for any of the scenarios as they come about.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Appreciate that. And then as a quick follow-up, Lisa, I wanted to ask about the competitive landscape. Your nearest competitor continues to grow wafer capacity as you know. And they talked quite a bit about accelerating the ramp for 10 last week on their call. Are you seeing any changes in how they compete in the marketplace either from a pricing perspective or from a marketing dollar perspective relative to how you saw the market 90 days ago? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

You know, the PC market is always a competitive market, and from that standpoint I don't think the environment has changed substantially from either a capacity standpoint or a marketing dollar standpoint. From our view, it's all about ensuring that the platforms that we launch actually ramp into production smoothly, and so we've been working on that and we feel very good about that. I think we mentioned that we have a significant number of platforms, over 135 mobile platforms that are coming to market here in 2020. And they're very, very competitive. They're some of our best platforms from just an overall performance and capability standpoint, so we're bullish on our ability to turn that into revenue growth.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thanks. Our next question today is coming from Ross Seymore from Deutsche Bank. Your line is now live.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks for letting me ask a question. Lisa, not to kind of go back to the same well as everybody else, but I wanted to hit on the EPYC side of things. I guess the good news is you guys are growing very rapidly and taking share and you reiterated that 10% market share goal for the June quarter. But overall, it seems like the number has not really upsided anybody's expectations over the last few quarters despite the market accelerating from a demand perspective, your primary competitor upsiding their datacenter group or even their cloud segment within that for three to four quarters in a row. So I just wanted to get your feeling on is there something that is capping the growth there? Is it the ASPs going down because of who the customers are? I'm just wondering why if the market is as strong as it has seemed to be for the last three or four quarters, you're doing really well, but not actually upsiding our expectations.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Ross, the way I look at it -and I mean, this was very, very similar to the ramp that we saw in the PC business. The ramp in server is something like steady as she goes, and each quarter we add platforms. Each quarter more platforms are qualified. Each quarter they ramp. It's a little bit different from a pure market phenomena. And again I mean I understand that there are market phenomena and then there are growth expectations based on platform launches, as well as software being qualified and so on and so forth. So as it relates to our expectations, it's actually going quite well. As it relates to the acceleration of cloud, I think, we're pleased with it. We're not ready to upside numbers at this point. I think we want – we already had very aggressive growth assumptions in what we went through. I think, you'll see us a little bit less market specific and a little bit more AMD specific as it relates to our customers and their qualification plans. So I think, we are confident that our datacenter business is doing well, and we need to continue to demonstrate that over a number of quarters.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for that answer. Just for my follow-up one to switch gears over to the Computing and Graphics side. Could you just give a little bit of color on what you expect for that in the second quarter? And then as you look into the second half I know you mentioned that's the area of greatest uncertainty for many logical reasons. But any sort of difference between the Computing and the Graphics side, both in your second quarter expectations and then the puts and takes in the back half of the year?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so we are expecting that the Computing and Graphics business will be down sequentially. So it's offsetting some of the growth on the EPYC and Semi-Custom side. Within the Computing and Graphics business, we see notebooks up strongly as a result of the launch of our new Ryzen 4000 platforms and some of the other trends that we talked about. We see Desktop down sequentially and we see Graphics down sequentially. Q2 is normally a sequentially down quarter for the channel business for us, so that's not unusual and those are the dynamics in the second quarter. And as we go through the second half of the year, as I mentioned, we'll have to see how consumer spending holds up against the other demand environments.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse. Your line is now live.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, good afternoon, guys. Thanks for letting me ask the question. Lisa, just my first question. I wondered if you could just help me kind of better understand in this current environment of shelter-in-place, how does that impact sort of new customer, new workload engagement? And I guess to better kind of underscore that, just given that you're expecting pretty good share gains in the back half of the year given your second half guidance notwithstanding the gaming cycle, are most of those wins already in your back pocket and so you've got high visibility, or how do I think about that dynamic?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so I think there are many that are already in progress, and that would be our typical view of how long it takes to ramp a customer from beginning of engagement to actual ramp. Can it be anywhere from six to nine months if that's a good number? As it relates to what we see with the, as you call it, shelter-in-place, look, we see pretty strong activity; I mean, the activity level continues to be high on both the cloud as well as the enterprise side. The only place where perhaps we see a little bit of a slowdown is, as I said, on some of the transactional business, which we had planned to grow as we go through this year. And that might grow more slowly just as people aren't focused on new infrastructure right now. But in terms of cloud and large enterprise, there continues to be good activity on both current already won design platforms, as well as new pipeline engagements.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

That's helpful, Lisa. And then as my follow-up, as you guys are painfully aware one of the metrics that we probably focus probably too much on is just gross margin and gross margin progression. And given the gaming sort of ramp coming it sort of convolutes the issue. So I was kind of hoping maybe you would quantify both in your Q2 guide and your full-year guide what impact the gaming console business is having on gross margins, i.e., what would gross margins be trending to right now ex-gaming for both June and the full year?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. I think if you look at it...

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I'm thinking, John. Go ahead.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. Go ahead.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Go ahead, Devinder.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

So if you look at Q2, if you're asking the specific Q1 to Q2, Q2 we came in at the 46%, Q2 is down. And fundamentally, primarily, it's due to the ramp in the game console revenue. As Lisa said earlier, we mentioned that the margins in the initial ramp of Semi-Custom revenue are typically lower. And they do improve over time for Semi-Custom. But also from a company standpoint when you look at the corporate average gross margin, it's lower and therefore it is having an impact in terms of sequentially the margin is going down from Q1 to Q2.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

But I guess, Devinder, my question is, is the non-gaming gross margins continuing to move higher sequentially every quarter this year, i.e., is it more than a 100 basis point impact from gaming in the June quarter?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think...

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Go ahead. Go ahead, Lisa.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sorry. Devinder and I are not in the same room, so the answer is yes, John. The impact of the sequential decline of 2 points is Semi-Custom. If you take Semi-Custom out, the rest of the portfolio would be – what you would see in the rest of the portfolio is you would see server up and you would see desktop offset some of that. But the sequential decline is all Semi-Custom.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect. Thanks, guys.

Operator: Thank you. Our next question is coming from Timothy Arcuri from UBS. Your line is now live.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Hi. I had two. I guess the first question, Devinder, I think you said that datacenter was high teens of revenue. So that would put it sort of in the low to mid threes for March. Can you break out how much was CPU versus GPU? And, I guess, on the GPU side, that can be pretty lumpy. So anything to call out that's assumed for June?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. It's weighted towards the CPUs. If you take the datacenter CPUs and GPUs together, the revenue in Q1 is high teens of revenue in Q1, but primarily weighted towards the CPUs because that's the area of growth from a server CPU business standpoint.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Okay. And then I guess bigger-picture question. So Lisa, I think there's some new regulations in China that go into effect on June 1 around additional cybersecurity review for critical information's infrastructure. And I would think that maybe you could fall under that. So any thought on how that could impact demand for you? And maybe if you could sort of tell us how much of your revenue on a consumption basis you think right now is in China. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so we're looking at that new regulation. So I don't have any specifics at this point in time. We're continuing to look at that new regulation. As it relates overall, I would say the majority of our business in China is consumer or, let's call it consumer-related cloud.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot, Lisa.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Ruth Cotter
Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we'll take two more questions, please.

Operator: Certainly. Our next question is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hey, guys. Thanks for taking my question. I've got one and a follow-up. But the first one just kind of on the bookings you guys are seeing. So I'm less worried about kind of the near-term revenue numbers you guys put up for server, but if you're sitting here today and you compare that to a quarter ago, what do the bookings look like or backlog? Has that changed at all? Is that improving? Is it getting better? Or is it pretty much in-line with what you guys expect in terms of the overall backlog?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, I think, it's – I think I said earlier but, Mitch, it is certainly better. So we have better visibility a month into the quarter versus 90 days ago.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Okay. And then the second one I had is just more broad. It's on China actually. So one thing we're picking up is that a lot of the Chinese companies are supposedly buying a lot of semiconductor chips ahead just in case they get banned from the U.S. and China relationship deterioration. So since you guys are not really involved in that, you're more exposed at the hyperscale, do you guys have any comments? Or what do you guys think is actually happening there, if people are actually trying to build up – I guess, build up an inventory level for semiconductor chips they think may get banned, or do you think that's kind of just noise and it's not really occurring right now in that geography?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Mitch. It's a little bit hard for me to generalize. I would say from what we see – and we track both selling and consumption pretty closely – it looks like it's normal patterns, but we don't have exposure to some of the markets you're talking about.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Got it. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. Our next question is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks for squeezing me in. Maybe Lisa, just looking at the fiscal guide. I'm kind of curious if you look at first half versus second half, it seems like you still would require growth in Computing and Graphics. I wanted to just make sure that was right. And then I'm just kind of curious how you think of the server. Obviously you're a share gainer. I think, cloud and enterprise get intermingled together particularly with this work-from-home. So I'm just kind of curious as you look at that business first half to second half, do you – I think, Intel was talking about some weakness in enterprise and government. It's not a big exposure for you, but just kind of curious how you're thinking about. Is there any headwind as that work-from-home spend pulls off the server as well?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so as it relates to first half, second half, I mean, as we said there's the $8.4 billion, plus or minus 5% is a wider-than-normal range for us. I think, you can see outcomes within that range that would have Computing and Graphics up as well as you can see outcomes with it more flattish. So that being the case, though, I think the trends that I talked about are likely the right trends, which is the consumer spending perhaps a little softer, enterprise and commercial a positive for us, notebook share gain a positive for us. And we want to see how sort of the desktop channel behaves as we go into the second half of the year. And then your second question?

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Just kind of as you look at the server business first half, second half you had seen some – you saw some strength in cloud in March and June. I'm kind of curious, are you thinking about is there any work-from-home benefits within that that would then turn into headwind in the second half?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, look I think from what we see, we see mostly platforms ramping. And so that's how we're thinking about the datacenter business. Of course, we're in this COVID-19 environment, and so we'll have to actually play out the next couple of quarter. But within the ranges that we see, we see an opportunity to continue growing in the second half of the year given the visibility that we have with customers, the platforms that are ramping. And I still feel very much like we're in the early stages of our second-gen EPYC ramp, and I know it's been a couple quarters but that's just the way servers ramp. So we're in the early stages of the ramp, lots of customer activity, significant pull from the customers to get up and running as soon as possible. And as you said, we don't have as much exposure to some of the other end markets, which may have more volatility in the second half of the year.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks.

Operator: Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over for any further closing comments.

Ruth Cotter
Senior Vice President-Worldwide Marketing, Human Resources and Investor Relations, Advanced Micro Devices, Inc.

Thank you. And Kevin, that concludes today's call. We appreciate everybody participating, and stay safe, stay well and we look forward to engaging with you throughout the quarter. Thank you.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2020 Earnings Call for 28-April-2020 5:30 PM ET
Wednesday, April 15, 2020 11:00:07 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2020 Earnings Call for 28-April-2020 5:30 PM ET.
US Live Call Phone Number: (877) 407-5778 US Live Call Pass Code: 13698209

Intl Live Call Phone Number: (201) 689-8572 Intl Live Call Pass Code: 13698209

Press Release URL: https://ir.amd.com/news-releases/news-release-details/amd-reports-first-quarter-2020-financial-results
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28-Jan-2020

Advanced Micro Devices, Inc. (AMD)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the AMD fourth quarter and fiscal year 2019 conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Graves, Corporate Vice President, Investor Relations for AMD. Please go ahead, Laura.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's fourth quarter and year-end 2019 financial results conference call. By now you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer, and Treasurer. This is a live call and will be replayed via webcast on our website.

I would like to highlight some important dates for you. On the afternoon of Thursday, March 5, we will hold our financial Analyst Day at our headquarters in Santa Clara, California, and our first quarter 2020 quiet time is expected to begin at the close of business on Friday, March 13.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and as such, involve risks and uncertainties that could cause actual results to differ materially from our expectations. We will refer primarily to non-GAAP financial measures during this call, except for revenue and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced herein are reconciled to their most directly comparable GAAP financial measure in today's press release posted on our website.

Please refer to the cautionary statement in our press release for more information on risks related any forward-looking statements that we may make. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's quarterly report on Form 10-Q for the quarter ended September 28, 2019.

With that, I will hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. 2019 marked another major milestone in our multiyear journey. We delivered record annual revenue of $6.73 billion and significantly increased both gross margin and net income as we successfully introduced and ramped the strongest product portfolio in our 50-year history. We grew client and server processor annual revenue by $1.5 billion in 2019, driven largely by the strong demand for our 7-nanometer Ryzen and EYPC processors, powered by our Zen 2 processor core.

Looking at the fourth quarter, we ended the year very strong with quarterly revenue increasing 50% year-over-year to a record $2.13 billion while also significantly increasing net income.

Turning to our Computing and Graphics segment, fourth quarter revenue increased 69% year-over-year to $1.66 billion. Ryzen processor adoption accelerated sharply in 2019, helping to drive significant double-digit percentage increases in client processor annual unit shipments, ASPs, and revenue.

We ended 2019 with our highest quarterly client processor unit shipments in more than six years based on strong demand for Ryzen desktop and mobile processors. In desktop, we had a very strong holiday season as our second- and third-generation Ryzen processors consistently held top sale spots at the largest global e-tailers and retailers.

We launched our Ryzen 9 3950X processor and the 24- and 32-core versions of our third-generation Ryzen Threadripper processors in November. Our 16-core Ryzen 9 3950X processor is the world's fastest mainstream desktop processor, while our latest Threadripper CPUs offer unmatched performance for the high-end desktop market. In January, we expanded our leadership position in the HEDT market with the launch of our flagship 64-core Ryzen Threadripper processor, which is the world's highest performance desktop processor.

In mobile, we had our eighth straight quarter of strong double-digit percentage year-over-year revenue growth as we expanded the number of AMD-powered laptops available for major OEMs.

We began shipping our Ryzen 4000 Mobile Processors powered by our Zen 2 core at the end of the fourth quarter. These new processors double the performance per watt of our prior generation and deliver leadership single-threaded, multi-threaded, and graphics performance for thin and light notebooks while enabling the industry's first ultrathin laptops with eight cores.

Initial systems featuring the Ryzen 4000 processors are expected to launch later this quarter, and more than 100 AMD-based consumer and commercial laptops are planned for 2020 from Acer, Asus, Dell, HP, Lenovo, and other major OEMs.

In graphics, fourth quarter unit shipments grew by a strong double-digit percentage year-over-year, driven by sales of our Radeon RX 5000 Series GPUs featuring our new RDNA architecture. We further expanded our portfolio of RDNA GPUs with the introductions of the Radeon RX 5500 XT and Radeon RX 5600 XT desktop graphics cards, highlighted by strong third-party reviews that clearly establish Radeon RX 5600 XT as the most powerful gaming GPU available for under $300.

We launched our Radeon Pro 5000M mobile GPUs in the quarter as well, and we are seeing solid design win momentum based on their strong performance and power efficiency. The first laptops powered by the new GPUs are available now, including the recently updated Apple MacBook Pro, and we expect many more notebooks featuring our Radeon Pro 5000M GPUs to launch throughout 2020.

Data center GPU revenue increased sequentially, driven by cloud, VDI, and game streaming deployments. We announced a major update to our open source GPU computing software stack in the fourth quarter, featuring performance optimizations, expanded development tools, and support for the most popular machine learning frameworks. We continue making strategic software investments to make it easier for developers to tap into the full capabilities of our Radeon Instinct accelerators for HPC and AI applications. For the year, data center GPU revenue grew by a strong double-digit percentage as we continue to make progress growing our presence in this important part of the market.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue of $465 million increased 7% year-over-year as EPYC processor revenue growth offset declines in Semi-Custom revenue. Semi-Custom sales continue to soften in the quarter in advance of the next-generation console launches from Sony and Microsoft planned this year. For 2020, we expect first quarter Semi-Custom revenue to be negligible in the ramp of next-generation Semi-Custom products to start in the second quarter with revenue to be heavily weighted towards the second half of the year.

In server, revenue grew by a strong double-digit percentage as unit shipments and ASPs increased sequentially, driven by demand for our second-gen EPYC processors. Our second-gen EPYC processors are ramping significantly faster than the first generation as we see particular strength for our higher core count models where our performance and TCO advantages are the most significant.

Cloud adoption with the largest providers continues to accelerate, driven by the expanding use of EPYC processors to power their critical internal workloads, as well as a significant increase in the number of AMD-powered instances publicly available.

Shipments to cloud providers increased sequentially by a significant double-digit percentage to support expanding buildouts at Amazon, Google, Microsoft, Oracle, and Tencent. Microsoft announced the availability of four new virtual machines, and AWS announced two new EC2 instances powered by second-gen EPYC processors.

In the Enterprise, Dell began shipping their full portfolio of servers powered by our latest EPYC processors. We have doubled the number of EPYC processor platforms in market to more than 100 offerings in the quarter. These new platforms are driving increased Enterprise customer engagements, broadening our sales pipeline considerably.

In HPC, we secured multiple large wins in the quarter based on our unmatched performance and scalability, highlighted by French, German, and UK national supercomputing center deployments, as well as the San Diego Supercomputing Center (sic) [San Diego Supercomputer Center].

We are pleased with the significant traction and momentum in our server business and remain on track to achieve our goal of double-digit percentage unit share by midyear based on the growing demand for our second-gen EPYC processors.

I am very proud of our 2019 accomplishments, as the successful ramps of our latest Ryzen, Radeon, and EPYC processors resulted in record annual revenue and substantial increases in gross margin and net income.

I want to take a moment to recognize the more than 11,000 AMDers around the world, whose focus and determination enabled us to achieve these results. We enter 2020 well-positioned to continue gaining share across the PC, gaming, and server markets based on having an unmatched portfolio of leadership products, spanning from desktops to laptops, data centers, and game consoles.

With more than 20 7-nanometer designs in production or development, we are very excited about our next wave of products that can accelerate our growth in 2020 and beyond. We are still in the early stages of our journey and remain focused on meeting our commitments as we establish AMD as the high-performance computing and graphics leader.

Now I'd like to turn the call over to Devinder to provide some additional color on our fourth quarter and full-year financial performance.

Devinder Kumar

Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone.

2019 was an outstanding year for AMD. Our competitive product portfolio and market share gains drove the highest annual and highest quarterly revenue in AMD's history. We achieved our highest annual gross margin percentage and annual free cash flow since 2011, and we improved non-GAAP earnings per share by 39% year over year. In short, we are very pleased with our financial performance.

Fourth quarter revenue was $2.13 billion, up 50% from a year ago and up 18% from the prior quarter, driven by strong sales of Ryzen and EPYC processors and Radeon GPUs, partially offset by softer Semi-Custom sales. Gross margin was 45%, up 360 basis points from a year ago, driven primarily by sales of our leadership 7-nanometer products.

Operating expenses were $545 million, with increased investments in go-to-market activities and R&D, compared to $474 million a year ago. Operating income was $405 million, up $296 million from a year ago, driven by revenue growth and higher gross margin. Operating margin was 19% as compared to 8% a year ago. Net income was $383 million, up $296 million from a year ago, and diluted earnings per share was $0.32 per share compared to $0.08 per share a year ago.

Now turning to the business segment results, Computing and Graphics segment revenue was $1.66 billion, up 69% year over year, driven by Ryzen processor and Radeon gaming GPU sales growth. Computing and Graphics segment operating income was $360 million, or 22% of revenue, compared to $115 million a year ago, driven by higher revenue.

Enterprise, Embedded, and Semi-Custom segment revenue was $465 million, up 7% from $433 million the prior year. The continued growth of EPYC processor sales was partially offset by softer Semi-Custom revenue. EPYC processor revenue grew by a strong double-digit percentage sequentially, driven by robust shipments of our second-generation EPYC processors. EESC segment operating income was $45 million, or 10% of revenue, driven by EPYC processor sales, compared to an operating loss of $6 million a year ago.

During the quarter, we reduced gross debt by $524 million, which resulted in a GAAP loss of $128 million. These debt reductions result in an annualized interest expense savings of approximately $16 million. Free cash flow was positive $400 million in the fourth quarter and cash flow from operations was $442 million. Inventory was $1 billion, down 6% from the prior order. Fourth quarter adjusted EBITDA was $469 million compared to $152 million a year ago, driven by higher quarterly earnings.

Now let me cover the full-year results. 2019 revenue was $6.73 billion, up 4% year on year, driven by strong growth in Computing and Graphics segment and sales of second-generation EPYC processors, partially offset by a decline in Semi-Custom sales. Excluding Semi-Custom, revenue was up more than 20% year over year. Gross margin of 43% was up 420 basis points from the prior year, driven by our current generation of Ryzen and EPYC products.

Operating expenses were 31% of revenue, as we increased go-to-market activities and investments in R&D. 2019 operating income was up 33% from a year ago to $840 million, or 12% of revenue. Net income was $756 million, up 47% from the prior year.

Turning to the balance sheet, I'm extremely pleased with our progress on the strengthening balance sheet. Cash, cash equivalents, and marketable securities total $1.5 billion at year-end while gross debt was $563 million. This represents our highest net cash position since the third quarter of 2006. Full year free cash flow was $276 million. We reduced principal debt by almost $1 billion in 2019 and ended the year with less than $600 million of gross debt. On a trailing 12-month basis, adjusted EBITDA was $1.1 billion, resulting in gross leverage of 0.5 times, down from 1.9 times at the end of 2018.

Now turning to the outlook for the first quarter of 2020. We expect revenue to be approximately $1.8 billion plus or minus $50 million, an increase of approximately 42% year-over-year and a decrease of approximately 15% sequentially. The year-over-year increase is expected to be driven by strong growth in Ryzen, EPYC, and Radeon product sales. The sequential decrease is driven primarily by negligible Semi-Custom revenue, which continues to soften in advance of the ramp of next-generation products in addition to seasonality. In addition, for Q1 2020, we expect non-GAAP gross margin to be approximately 46%, non-GAAP operating expenses to be approximately $580 million, non-GAAP interest expense, taxes, and other to be approximately $18 million, and the first quarter diluted share count is expected to be approximately 1.22 billion shares.

For the full year 2020, we expect revenue growth of approximately 28% to 30%, driven by strength across all businesses. We expect non-GAAP gross margin to be approximately 45%, non-GAAP operating expenses to be approximately 28% of revenue, and a non-GAAP tax rate of approximately 3% of pre-tax income.

In closing, we had an excellent fourth quarter and an excellent 2019. Our full year financial results highlight the strength of our business model. I look forward to what we have in store for 2020 as we expect to further expand and ramp our leadership portfolio of high performance products to drive revenue growth, gross margin expansion, market share gains, and financial momentum.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you very much, Devinder. Operator, we're ready to begin polling for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question today is coming from Vivek Arya from Bank of America Securities. Your line is now live.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question, and congratulations on the strong growth and execution. Lisa, for my first one, you mentioned the goal to get to kind of this double-digit market share in servers by the middle of the year. I'm just wondering how the visibility is around in achieving this target. What's driving it? Is it just more instances at existing cloud customers? And as part of that, do you also have a share target for exiting this year?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Vivek, thank you for the questions. So, look, we are very pleased with how Rome is ramping. We've been in market now four to five months, and the visibility that we have is with the cloud guys. We have visibility to the public-facing instances, as well as what they're doing in terms of internal workloads. And what we see is just the breadth of the overall workloads that they're using Rome with is expanding.

And then on the Enterprise side, with the full portfolio of our partners, HPE, Dell, Lenovo, and the ODM partners, we see just a significant increase in the overall Enterprise pipeline that we have for Rome. So we're very focused on continuing to grow share in the data center market, and we feel good about our midyear market share targets.

In terms of other market share targets, Vivek, I think we'll talk a little bit more at our Financial Analyst Day about some of the longer-term targets. But, certainly for 2020, we're very focused on growing our overall data center share.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks. And for my follow-up, Lisa, how should we interpret the impact of capacity shortages at your main competitor? Have you seen any benefit from that? If not, why not? And then kind of part B is Intel did say that they plan to expand capacity later this year and will focus it more on the BC appliance side and try to reclaim market share. What effect will that have on the pricing in the market? And does your full-year outlook kind of bake any potential impact of that competition? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So when we look at the PC market, we finished 2019 very strong in the overall PC market both in mobile and desktop. I think that's primarily on the strength of the product portfolio and the expanding customer platforms that we have. There are some discussions about, let's call it pockets of shortages. But as I said before, I don't believe. We've been on this steady increase in market share now for the last eight quarters and we believe we gain share in Q4 as well. So I think what we see is just the portfolio getting a lot stronger.

As we go into 2020, I think we are again enthusiastic about our products. In addition to the Zen 2-based desktop products, we've added Zen 2 now in the notebook portfolio, and we'll have that for the full year of 2020. So I think our outlook expects growth in all businesses, including the PC business. And we remain very focused on expanding our market presence in both consumer, as well as commercial PCs.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you, Lisa.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks.

Operator: Thank you. Our next question is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Congrats on the strong results, and thanks for taking the question. Lisa, this may overlap a little bit with Vivek's question, but I was hoping to better understand some of the key assumptions behind your full year guidance for both your PC business, as well as the server business. Can you talk to some of the TAM assumptions that you're making and the market share assumptions for the full year? And then I've got a quick follow-up. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. Sure. So let me talk first about the market and then talk a little bit about how we're seeing the full year. So if you look at the PC market, I think the discussion so far has been let's call 2020 flat to maybe down slightly. There has been some concern raised about the second half of 2020 perhaps be weaker than normal seasonality just due to some of the enterprise refresh cycles that are strong in the first half. We're viewing it as flat, flattish, maybe down very slightly.

That being the case, back to the comments I made with Vivek, I think we feel very good about our product portfolio and especially when we look at sort of our notebook share and our relative opportunity to gain market share. The strength of our Ryzen 4000 Series products is significantly stronger than previous generations and the platforms are also significantly broader, so we feel good about that.

In the data center market, again, I would say that the growth of computing continues. From our standpoint, we see it as a good market environment for data center in both cloud, as well as enterprise. When we look at our full year revenue guide of approximately 28% to 30% for the year, the highest growth from a percentage standpoint will obviously be server just given the expectations in that market. But we expect all of our businesses to grow nicely in 2020, and that's just again based on where we are in the product cycle and the visibility that we have with customer design wins, as well as just overall competitiveness.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Great. And then I had a quick follow-up on gross margins, one probably for Devinder. You guys are guiding Q1 gross margins to 46% and then 45% for the full year. I appreciate your Semi-Custom business. Is that a low point in Q1, and the ramp in Q2 and more so in the second half is probably dilutive to corporate margins? But if you can kind of walk through some the puts and takes from a gross margin perspective for the year, that would be helpful.

And then related to that, if you can compare and contrast the gross margin profile of your Semi-Custom business going into the next cycle versus the past cycle, product cycle, that would be helpful. Thank you.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Yeah, let me start and then Lisa can chime in. Overall, from a margin standpoint, you got it right. We are guiding to the 46% in the Q1 quarter. And then the Semi-Custom business, as we've said typically, is lower than corporate average. So as that product ramps in the second half, obviously it will have an impact on gross margin. The guide for the year is at 45%, so we feel good about that having ended 2019 at the 43% level.

And from a puts and takes standpoint, it's really product mix. Lisa talked about the businesses ramping and growing in 2020 with the 28% to 30% growth in revenue. Data center, as we've said before, is above corporate average. The client gross margin is around corporate average. And some Graphics and then the Semi-Custom business has below corporate average gross margins, and that mix of revenue as it ramps throughout the year will obviously have an impact on a quarterly basis. From an annual standpoint, we feel pretty good with the guide at 45%, in particular with the 7-nanometer products ramping as we get to the year. And that obviously benefits the gross margin.

Semi-Custom business, Lisa, do you want to chime in on the difference between generation to generation?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think as you said, Devinder, the Semi-Custom margins tend to be below corporate average on a gross margin basis, although on an operating margin basis, given the contribution from our customers for the R&D is actually quite good.

As it relates generation to generation, the way to think about it is in the first year of a console ramp, you would expect the margins to be on the lower side. And that's true no matter what just because you're just starting the product ramp, and you should expect that the margins will get better as that ramp continues over time.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you for the color.

Operator: Thank you. Our next question is coming from Matt Ramsay from Cowen. Your line is now live.

Matthew D. Ramsay
Analyst, Cowen and Company LLC

Q

Thank you very much. Good afternoon. Lisa, I wanted to just start with a question about, I guess, comparing and contrasting a little bit, maybe a little weaker than some of us had modeled, and I guess due to the console stuff for Q1 in the guidance versus a really strong – so 28% to 30% growth for the year, maybe you could just sort of lay out the year a little bit at a high level and just how you guys are sort of thinking about it coming together from the point of Q1. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So look, Matt, we're pretty excited about 2020. It's a strong year for us, certainly with the expectations of being around 28% to 30% revenue growth. We do expect all of our businesses to grow.

I think relative to the Q1 guide, if you look at Q1 as an absolute number, it is up over 40% year on year, even with Semi-Custom revenues very low in Q1. And so that should give you an idea of the strength of the rest of the business.

From a sequential basis, Q4 to Q1, it's what we said on the call. There is some bit of normal seasonality just as we are consumer-focused in our PC portfolio. So you expect that that would go down from Q4 to Q1. And then we do have the factor that the Semi-Custom profile, when we're doing a product transition, has the revenue very low in Q1. It starts ramp in Q2, but it's very heavily weighted in the second half of the year. So you should think about Semi-Custom for this year – again, it's a ramp year so it's a little bit different – that over 80% of the revenue for Semi-Custom will be in the second half of the year compared to the first half of the year. So overall, we think a very strong year. A little bit of re-profiling of revenue, particularly as it relates to Semi-Custom, and we look forward executing it.

Matthew D. Ramsay
Analyst, Cowen and Company LLC

Q

No, thanks for that. As a follow-up, I guess for both of you but maybe for Devinder, just a couple little pieces for me. It looks like on the operating expense side, you're going to be up in the neighborhood of mid-20s for the full year in the annual guidance that you outlined. Maybe you could talk a little bit about the focus of that. Is it branding and marketing in the PC and server spaces as you grow, or is it in other areas in R&D?

And then secondly, I think you guys had disclosed the data center revenue mix, so GPU plus server in prior quarters. And if you have that number handy, that would be really helpful. Thank you.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Yeah, let me take the second one first. Data center, it's as we said in the past mid-teens of revenue. In this quarter, it is around the same, mid-teens of the total revenue, and I'll point out that it is record revenue in the quarter, so that's pretty good. And we feel pretty good about that having mid-teens revenue in the data center, combined server and data center GPU, on revenue of $2.1 billion.

As far as OpEx is concerned, our guide for the year is about 28% of the revenue guide that we provided. And you are right, fundamentally the investment are R&D and go-to-market. And obviously, the business is growing, so obviously there are investments needed to go ahead and grow the business from an absolute standpoint, but we feel we can manage it to about 28% of revenue overall for the year.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Matt, the only thing I'll add to that is for the data center revenue, particularly in Q4, it was very heavily weighted towards server CPU just given some lumpiness of the data center GPU revenue.

Matthew D. Ramsay
Analyst, Cowen and Company LLC

Q

Thank you both. Congrats.

Operator: Thank you. Our next question is come from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC

Q

Great, thanks for taking my question. I had one for Devinder and one for Lisa. For Devinder, I think it's impressive the cash that you generated. 10 years ago, you were at $4 billion in net debt and now you're net cash positive. I didn't think back then we'd expect you to be here. But how should we think about capital structure going forward? And for the $440 million in cash flow from operations, I had a challenge reconciling it. Can you share the biggest two or three sources of cash?

And then for Lisa, the last time AMD had a product cycle in servers, I think you were gaining – once you hit 5% share, you started to gain share at a 2% or 3% or 4%, 400-basis-point clip per quarter.

What is the right kind cadence or pace of share gains in servers this cycle? And maybe could just talk about structurally what gates your ability to – or the pace of your ability to gain share? Is it capacity from your suppliers? Is it your own engineering support infrastructure, or is it your customers' testing and importing workloads? If you could give us a framework to think about that, I think that would be helpful. Thank you.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Yeah, let me get started. Mark, you do have a long memory and so do I. I do remember the days when we had the challenge on the balance sheet. And one thing we feel good as we end 2019 is the strength of the balance sheet and in particular the net cash position we haven't been in many, many years, as we pointed out in the prepared remarks.

From a capital structure standpoint, another priority is investing in the business. The revenue is growing significantly in 2020 as what we're projecting at 28% to 30% over 2019. And also we want to invest in the roadmap, the go-to-market, and everything that's needed when the revenue ramps as significantly as it is going from year-over-year. So that's really the application part.

From a viewpoint of where the $440 million comes from, higher revenue, especially when you look at the revenue in Q3 and Q4 of 2019 compared to the first half the year. We did go ahead and buy the inventory to go ahead and support the higher revenue. And as you know, when you sell to them, you, in particular, when it ramps up as it did on better margins, it generates the cash, and that's why you have the $440 million-plus operating cash flow from an old, old standpoint. Lisa, over to you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, Mark, as relates adjust to just server rate and pace, I think the most important thing for us is when we look at from time of announcement or time of shipment to how customers actually deploy and trying to shorten that cycle. So when I look at the difference between, let's call it Rome and Naples, we've seen that time to deploy actually significantly shorten with Rome. And so in terms of rate and pace of server share gain, it is primarily for cloud customers – it is having them deploy not just sort of a set of instances but ensuring that they get fully built out across all regions in the world and also adding additional workloads. So it's just time is what I would say.

And then as it relates to enterprise customers, I think the platform coverage that we have with Rome is significantly broader than it was with Naples. And so I'm quite encouraged actually by the strength of the pipeline that we see, the number of customers that are engaged, and then just how they're deploying. So I think we're going at a good pace, and we'll continue to accelerate that as we go through 2020.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my question. I had a first, a question on gross margin, especially into Q1. You said consoles are negligible. Gross margins are 46%. So that suggests that that 46% is basically indicative of the business as it stands without consoles. So does that represent kind of the peak of the business on the current mix? I'm a little surprised it's not higher, given all the new products in aggregate we're supposed to have gross margins in excess of 50%, and most of the mix today should be new products. So I guess how do we think about the Q1 gross margins in the context of that? And what are the drivers that take it higher from here? Is it basically just server mix, or is there something else that can help with that? Thank you.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Let me get started and Lisa can add. But, Stacy, as we talked about product transitions, the 46% guide in Q1, we recently entered into the next-generation notebook products. And as product transitions go, you still have legacy product that you sell before you get converted over to the new technology and the new-generation products. The desktop products were ahead of that from that standpoint, and that did benefit our margin in the 2019 timeframe.

And you are right, the console being negligible, revenue in Q1 of 2020 it does benefit, and then the margin is 46%. And from an overall standpoint for the year, it is 45%, and that's because the Semi-Custom business, which is lower than corporate average, does come back. And as Lisa said earlier, we're expecting 80% of that in the back half of the year. But by that time also, the new-generation products and the other businesses, including data center and client re-ramping all on 7-nanometers, and that should have the gross margin to offset some of the impact that we have on the Semi-Custom business.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you. Oh, go ahead.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

That's okay, Stacy. I was just going to add to what Devinder said. So we don't expect the client notebook mix to fully cut over to the new 7-nanometer products until later in the year. And in terms of opportunities to improve margin, it is definitely product mix. So higher mix of server, as well as higher mix of let's call it Ryzen 7s and Ryzen 5s versus some of the legacy products.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you. For my follow-up, if I sort of squint at the second half, it seems to me you're probably guiding it implicitly, call it $800 million to $1 billion over the second half of 2019. How much of that do you think is consoles versus non-consoles? Because it's not hard to get a console number especially in the beginning of a ramp that's not that far off that number, which doesn't leave all that much room to ramp the rest of the business. So, is this just conservatism, or like what else are you expecting here? How much of that second half do you think is consoles versus non-consoles?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, I think as I perhaps answered to one of the earlier questions, when I look at the full year at 28% to 30% sort of revenue growth, expect server to be significantly above that, and then the rest of the businesses are all going to grow nicely. And so you would expect significant double-digit growth in the client business, as well as in the Semi-Custom business. And overall we see the aggregate of it to be a very strong year. So it is not all console-weighted, if that's what you're asking.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Wouldn't you get that just from the nature of the ramp that we saw in 2019 when you're doing the compare already? I guess I'm trying to – that's why I'm trying to sort of normalize second half to second half. Do you think you get to strong double digits in second half versus second half growth across all the businesses?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I would say in aggregate you will see – so let me help you with this way. So what we said in 2019 is 2019 overall we grew 4% on an annual basis. But excluding Semi-Custom, we grew over 20% through all the rest of the businesses. If I do that same type of calculation, excluding Semi-Custom for 2020, we would still say the rest of the businesses would grow greater than 20%.

Stacy A. Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Thank you very much.

Operator: Thank you. Our next question is coming from David Wong from Instinet. Your line is now live.

David M. Wong
Analyst, Instinet LLC

Q

Thanks very much. Devinder, you said the sequential decrease in the March 2020 quarter is driven primarily by the drop in game console chips. Does that mean that you expect your microprocessor and graphics revenues will be flattish sequentially? Or if not, roughly, what does your guidance assume in terms of percentage sequential drop for, say, PC processors and GPUs? Do you get server processor sales rising sequentially?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

I don't think I have said specifically that Q4 to Q1 is all due to Semi-Custom. That obviously helps the margin, but there is a product mix underneath that that helps especially with the notebook product that we talked about that are moving to 7-nanometers. And then I think your second question about sequential from Q1 outwards, is that right, David?

David M. Wong
Analyst, Instinet LLC

Q

No. No. I was talking about revenues from December into Q1, the sequential drop. Can you give us some idea of – I mean, there's a big chunk that's game consoles, right? But I mean...

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Yes. So, one...

David M. Wong
Analyst, Instinet LLC

Q

What about the non-game console parts of it?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

It's seasonality, seasonality in the business. We have the consumer weight from a revenue standpoint in our CG segment, and we go from Q4 to Q1, you do have the seasonality coming into play, and typical seasonality is what's driving the other portion of the decline in revenue from Q4 to Q1.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, David, I think what you're asking is we would expect that the Computing and Graphics segment would be down sequentially due to seasonality, and we would expect that the server CPUs should be up because we're continuing to ramp those processors sequentially.

David M. Wong
Analyst, Instinet LLC

Q

Okay. Great. And, Lisa, can you give us some ideas of what new GPUs you're expecting launch rest of 2020 for PCs and for data center?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. So in 2019 we launched our new architecture in GPUs, it's the RDNA architecture, and that was the Navi-based products. You should expect that those will be refreshed in 2020 and we'll have next-generation RDNA architecture that will be part of our 2020 lineup, so we're pretty excited about that, and we'll talk more about that at our Financial Analyst Day. And on the data center GPU side, you should also expect that we'll have some new products in the second half of this year.

David M. Wong
Analyst, Instinet LLC

Q

Great. Thanks so much.

Operator: Thank you. Our next question is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Devinder, you talked about consumer graphics as being below corporate gross margin. I guess I was thinking that – I know you've historically had a high cost structure because of high-bandwidth memory, but as the portfolio increasingly doesn't use high-bandwidth memory, is there the prospect to improve that for a consumer GPU to be closer to where your competitors' gross margins are.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

I don't think I specifically said that. I said some of our graphics products are below corporate average from a gross margin standpoint in addition to the Semi-Custom being below average.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And I think, Joe, maybe just to answer your question in terms of what we expect in consumer graphics. I think, look, we're investing in consumer graphics. We think gaming is a very important segment, whether we're talking about consoles or discrete graphics. And the work that we're doing around the RDNA architecture in the future generations of RDNA architecture, we believe, will continue to improve our offerings for both consumer graphics, as well as data center graphics.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. Thank you. And then with the new console builds, you mentioned that that starts in Q2 but is mostly in the back half of the year. I guess as you think about that opportunity from a unit standpoint, is it the right way to look at it, sort of a similar number of units to what we had in the first year of the current console cycle? Or is there just the compatibility that you bring when you have an x86 CPU still and just probably a more similarity between the consoles. Could that point us to sort of a better console unit market in 2020 than we saw six years ago? Like how are you thinking about it, just the size opportunity?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So we do think there's some pent-up demand for the next generation of consoles. Without forecasting what our customers are planning, I would say they're both – we're planning for a strong first year, and we'll have to see how things develop as we go through the ramp. But the overall sentiment is that there has been, let's call it, a lull in console sales in the second half of 2019 going into 2020 sort of for some of this anticipation of the next generation.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great, thank you.

Operator: Thank you. Our next question today is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks for taking my question. Maybe just following up on Joe, I want to make sure I heard you right. I thought you said that Semi-Custom as well would grow double digits. I just want to confirm that. And then just following on, I don't know what the units are going to be, but is there a content or ASP story to layer on top of that equation as well?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, so I did say that Semi-Custom should grow double-digit as well, and again, it's a strong year for us. And then as it relates to content, again, it's fair to say that there is additional content in this generation versus previous generation.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Got you. And then maybe just on the gross margin equation, is there a way to talk about the mix of 7-nanometer that's a big tailwind? It still seems early days at least across a couple of your products. Is there a way to kind of think about the whole company and what the mix of 7-nanometer is?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So we just completed the fourth quarter, and it was a very strong quarter for us, record revenue for the company. And I would say about half of that revenue was 7-nanometer-based and the other half not yet. And so there is still a significant ramp as we go into 2020. But we're pleased with how quickly we ramped in 2019.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Your line is now live.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yes, good afternoon, guys. Congratulations on the solid results. I just want to go back to the gross margin bridge from Q1 to the full year. I just want to make sure I understand. The drop from Q1 to the full year, is that 100% being driven just by gaming coming back more aggressively in the back half of the year, or have you baked in anything for either pricing, competition from the number one guy out there, or some share shifts? How do I think about that? Is it all about gaming?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I think if you – maybe, Devinder, you...

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.
A

No, go ahead.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

All right. So I think if you look at it, the predominant factor, if you're talking about Q1 guide at 46% versus full year at 45%, is just as we ramp those consoles, there's some impact of that.

As it relates to the pricing environment and what we're expecting, we're expecting a competitive pricing environment. And that's the way we've built our model. So we've always expected that the competition will be very aggressive on both the CPU as well as the GPU side, and that is part of the inherent model for the company.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

That's helpful, Lisa. And then you guys have a ton of goodness on your immediate plate on the server side, on the data center side just with the workloads you're going after, but I'm kind of curious. You answered an earlier question saying expect more GPUs for the data center. And I don't want you to preannounce product, but how should I think about your positioning for AI as a workload and acceleration? And just given some of the heavy lifting that NVIDIA had to do around CUDA, how do I think about the investment there? Is this an area that you think you have some unique IP you can bring to, or how do I think about that over the next couple of years?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

So I think that's actually a good way of talking about the opportunity, John. I think the CPU opportunity is very immediate and in front of us as we look at the opportunities with Rome and the expanding opportunities.

I think the data center GPU market continues to be an important growth vector for us, and now I call that over the several-year horizon. So when you look at the opportunities that we have when we combine our CPU and GPU IP together, they're very, very strong. For example, this is the reason that we won the Oak Ridge National Lab supercomputer with Frontier, which were actually both a CPU and a GPU win, and some of the optimization that we've done with that overall system.

We think that there are additional opportunities like that, as well as machine learning and AI opportunities. Our focus there has been to work with large cloud providers to optimize the machine learning frameworks, and we had some key milestones that we completed in the fourth quarter that will continue to be a focus for us in 2020 and beyond.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

Is it fair to say some of the GPU data center announcements this year go beyond just the cloud gaming market?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, I think you should expect that we will have additional sort of customer announcements outside of cloud gaming.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks, guys.

Operator: Thank you. Our next question is coming from Timothy Arcuri from UBS. Your line is now live.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot. I guess I had another question just – that relates to gross margin. You said the year's revenue in Semi-Custom would be in the back half, but how does that break out between September and December? I guess I ask that because I'm just trying to see what the gross margin will be exiting this year if you strip out Semi-Custom. Could it be 50% exiting the year? Thanks.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

I think it's hard to break it down that way. We are in the initial stages of planning for the ramp, and you're asking about Q3-Q4. We are projecting about 80% of the Semi-Custom revenue growing double digits year over year in Q3 and Q4. And typically when we have these new game launches, our peak quarter from a revenue standpoint in Semi-Custom will be Q3. But Q4, when you talk about the ramp of the product especially in the first year of the ramp, it's hard to project how much it will be and then what the impact will be exiting 2020 from a gross margin, excluding Semi-Custom. Maybe as we get closer to that and talk in about three to six months, we can probably give you a better idea of that.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

I got it. Okay, thank you. And then can you just talk about what your share targets are for the year in PC? I think you're 17% and 18% in notebook and you're maybe 14% in desktop. Can you just talk about how much share you think that you can gain this year, given all the moving parts with the shortages and whatnot? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So I'm not sure I'm going to forecast the share target for 2020. I will say though if you take a look back at the last eight quarters, we've been on a fairly steady share gain in PCs, somewhere between, depending on the quarter, let's call it 50 basis points to 100 basis points per quarter, and that changes between desktop and notebook.

I think we grew somewhere on the order of 4 points a share. So we believe that we still have additional opportunities, and particularly our focus is going to be both notebook, as well as commercial. And those are good opportunities for us and play well to our new Ryzen 4000 Mobile Processors.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Okay. Lisa, thank you so much.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Tim.

Operator: Thank you. Our next question is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hey, guys. Most of my questions have been answered and it kind of lines up with the model we got here, but I just want to make sure I got a couple quick questions in. So, basically for Q4, it looks like Semi-Custom was probably down 50% sequentially or somewhere around that range. Am I at least in the ballpark?

And then secondly, from a server perspective, I'm not expecting you to give numbers on this, but maybe qualitatively how much of your revenue is going to be cloud versus enterprise? I think that's one of the bigger debates, and I don't expect specifics, but anything you could do to help us understand what should be the mix between cloud and enterprise for calendar 2020.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, sure, Mitch. So, look, I think you're right, when you look at the Semi-Custom business in the fourth quarter, it was a bit softer than originally anticipated. So we had originally said last quarter that we thought the second half of the year would be down high 30s, and we were actually down more than that for the second half of the year and for Q4. And as it relates to mix of cloud versus enterprise for 2020, I mean, it will move around from quarter to quarter. But I think the best guess at this point is let's just call it roughly even between the two.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Perfect, thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Operator, time for one more question, please.

Operator: Certainly. Our final question today is coming from Srini Pajjuri from SMBC. Your line is now live.

Srini Pajjuri
Analyst, SMBC Nikko Securities America, Inc.

Q

Thank you for squeezing me in. Lisa, maybe on the supply side, you're guiding for pretty strong growth here. I'm just curious, have you already logged in the supply for 7-nanometer? And as we go into second half of the year, especially as you ramp the game consoles, I believe that those die sizes tend to be very large. I'm just curious, if you were to get upside, how are you feeling about your supply situation? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So TSMC has supported us very well through the first couple quarters of our 7-nanometer ramp here in 2019. I think as we go into 2020, there will certainly be a significant growth for us in 7-nanometer. Our current visibility supports the revenue guide that we gave you. It is fair to say that wafer supply is tight and so it's really important for us to be planning well with our customers, and that's what we're working on.

Srini Pajjuri
Analyst, SMBC Nikko Securities America, Inc.

Q

Thank you. Good luck.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you very much, everyone, for joining us today. We do look forward to having you join us on Thursday, the 5th of March, for our Financial Analyst Day, which will also be broadcast from our website. Thank you very much. Have a great day, and we'll talk with you again soon.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Analyst Day for 5-March-2020 4:00 PM ET
Thursday, January 16, 2020 02:02:13 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Analyst Day for 5-March-2020 4:00 PM ET.

Live WebCast URL: https://ir.amd.com/events/event-details/financial-analyst-day-2020
Replay WebCast URL: https://ir.amd.com/events/event-details/financial-analyst-day-2020
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Event Type: Analyst/Shareholder Meeting
Industries: Semiconductors
Primary Identifiers: AMD-US
Regions: US
Related Identifiers: AMD-US

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2019 Earnings Call for 28-January-2020 5:30 PM ET
Wednesday, January 15, 2020 10:44:12 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2019 Earnings Call for 28-January-2020 5:30 PM ET.
US Live Call Phone Number: (844) 763-8275 US Live Call Pass Code: 13698209

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices Third Quarter 2019 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Laura Graves. Please go ahead.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's third quarter 2019 financial results conference call. By now, you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these items, they can be found on the Investor Relations page of AMD's website, amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer, and Treasurer.

This is a live call and will be replayed via webcast on our website.

I would like to highlight some important dates for you. On Wednesday, November 6, Mark Papermaster, Executive Vice President and Chief Technology Officer, will present at the Bernstein Technology Summit in New York City. On Monday, December 9, Ruth Cotter, Senior Vice President of Worldwide Marketing, Human Resources, and Investor Relations, will present at the UBS Global Technology Conference, also in New York City. On Thursday, December 12, Forrest Norrod, Senior Vice President and General Manager of the Datacenter and Embedded Solutions Group (sic) [Embedded Solutions Business Group], will present at the Barclays Technology Conference in San Francisco. And our fourth quarter 2019 quiet time is expected to begin at the close of business on Friday, December 13.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

We will refer primarily to non-GAAP financial metrics during this call, except for revenue and segment operational results which are on a GAAP basis. The non-GAAP financial measures referenced today are reconciled to their most directly comparable GAAP financial measure in today's press release, which is posted on our website.

Please refer to the cautionary statement in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's quarterly report on Form 10-Q for the quarter ended June 30, 2019.

Now, with that, I'll hand the call over to Lisa. Lisa?

Lisa T. Su

Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. I am pleased with our strong third quarter execution and results. We delivered our highest quarterly revenue since 2005, our highest quarterly gross margin since 2012, and increased net income significantly, all driven by our first full quarter of 7-nanometer Ryzen, Radeon, and EPYC processor sales. Third quarter revenue of $1.8 billion increased 9% year over year and 18% sequentially, and we expanded gross margin by 3 percentage points year over year.

Turning to our Computing and Graphics segment, revenue increased 36% year over year and sequentially. Demand for our Ryzen desktop and notebook processors drove a significant increase in unit shipments and ASP, resulting in our highest client processor quarterly revenue since 2011. We saw particularly strong demand for our top-end Ryzen processors and believe we gained client processor unit share for the eighth straight quarter.

In desktops, we are seeing strong demand for our Ryzen 3000 and previous generation Ryzen 2000 processors. Both product families are consistently among the top sellers at leading e-tailers and retailers globally.

In commercial, HP and Lenovo announced new desktop PCs powered by our Ryzen PRO 3000 Series processors in the third quarter. We are continuing to expand our presence in the commercial market as more financial, retail, education, and healthcare customers purchase AMD-based PCs and Chromebooks to power their businesses.

We are on track to expand our desktop product offerings in November with the launches of the industry's first 16-core mainstream desktop processor as well as our 3rd Generation Ryzen Threadripper processor family. These products will offer unmatched combinations of core counts, performance, and energy efficiency for the most demanding high-end desktop and content creation applications.

In mobile, we had another quarter of strong double-digit percentage notebook processor revenue growth driven by a richer product mix and increased unit shipments. The number of AMD-powered laptops for major OEMs has increased by 50% this year, including multiple premium notebooks like the first-ever AMD-powered Microsoft Surface Laptop. We collaborated closely with Microsoft over several years to develop the AMD-exclusive 15-inch consumer Surface Laptop 3, which includes a custom Ryzen Microsoft Surface Edition processor and multiple operating system and software optimizations that will benefit all AMD-powdered Windows systems.

We are very pleased with our momentum in the client business this year and expect client processor revenue to grow sequentially in the fourth quarter as we head into the seasonally strong holiday season.

In Graphics, revenue increased year over year driven largely by higher channel GPU sales. Shipments of our Radeon 5000 GPU family featuring our RDNA architecture increased sequentially, and we are seeing solid demand for the new products based on their competitive performance and features. For mainstream gamers, we began shipping the Radeon RX 5500 GPU in the third quarter. Acer, HP, Lenovo, and MSI announced plans to offer the new GPU in their upcoming PCs, and multiple AIB partners plan to launch RX 5500 cards during the fourth quarter.

Datacenter GPU sales were down sequentially and roughly flat year over year. We added multiple cloud and HPC wins in the quarter, highlighted by Microsoft's announcement of a new remote desktop offering for graphics-intensive workloads powered by EPYC CPUs and Radeon Instinct GPUs. We are making good progress growing this margin-accretive part of our business as we continue expanding our footprint with marquee customers in targeted datacenter workloads.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue decreased 27% from a year ago as significantly higher server processor revenue was offset by lower Semi-Custom sales. We expect Semi-Custom demand to further soften in the fourth quarter now that both Microsoft and Sony have announced new AMD-powered consoles for holiday 2020.

In server, we had our highest quarterly CPU revenue since 2006 as strong 2nd Generation EPYC processor demand drove a greater than 50% sequential increase in unit shipments and revenue. 2nd Gen EPYC processors are the highest performance server CPUs in the industry and have set more than 100 world records. Our newest EPYC processors feature up to 64 cores and deliver a 25% to 50% TCO advantage versus competitive offerings.

As a result of our clear performance leadership and differentiated feature set, we are building momentum with cloud, enterprise, and HPC customers.

In cloud, Amazon AWS, IBM Cloud, Microsoft Azure, OVHcloud, Twitter, and Tencent all announced plans to deploy EPYC processors in their datacenters. At our launch event, Google became the latest mega datacenter provider to adopt EPYC processors as they announced 2nd Generation EPYC processors have been deployed across their internal infrastructure production datacenter environment and will also be used to power the Google Cloud platform.

In Enterprise, Dell, HPE, and Lenovo more than doubled their AMD-powered server portfolio as they launched new platforms featuring 2nd Gen EPYC processors, helping us add dozens of new telecom, healthcare, financial services, manufacturing, and energy customers in the quarter.

We also secured multiple new HPC wins in the quarter, including three separate U.S. Department of Defense supercomputers in what is expected to be the fastest scientific computer in the UK.

We expect server revenue to grow sequentially by a strong double-digit percentage in the fourth quarter as we continue ramping our 2nd Generation EPYC processors. We remain on track to achieve our near-term goal of double-digit server CPU share by mid next year.

In summary, we are right where we want to be on our long-term strategic plan. We have the strongest product portfolio in our history. We executed our product launches and production ramps very well in the third quarter as our new products drove higher revenue, margin expansion, and increased profitability. We're on track to exit 2019 with another quarter of significant growth driven by the ramp of our 7-nanometer products and believe we are well positioned to build on our momentum in 2020 and beyond as we deliver an even stronger set of leadership products that can drive sustained growth and increased share of the $75 billion market for high-performance computing and graphics technologies.

Now, I'd like to turn the call over to Devinder to provide some additional color on our third quarter financial performance.

Devinder Kumar

Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone. We are pleased with our strong third quarter financial results with revenue of $1.8 billion, up 18% quarter over quarter, and our highest quarterly revenue since the fourth quarter of

2005. The third quarter showcases our financial momentum and the strength of our business model with operating income and net income growing significantly year over year.

Quarterly revenue was up 9% from a year ago as strong sales of Ryzen and EPYC processors and Radeon gaming GPUs more than offset lower Semi-Custom sales. Gross margin of 43% was up 320 basis points from a year ago, our 10th consecutive quarter of year-over-year expansion.

Operating expenses grew 13% year over year to $539 million, primarily driven by increased R&D investments and support for our new product introductions. Operating income was $240 million, up $54 million or 29% from a year ago due to increased revenue from new higher-margin products. Operating margin was 13%, up 210 basis points from a year ago.

Net income was $219 million, up $69 million or 46% from a year ago, and diluted earnings per share was $0.18 per share compared to $0.13 a share a year ago.

Now, turning to the business segment results, Computing and Graphics segment revenue was $1.28 billion, up 36% year over year driven by strong client processor and gaming GPU sales. Computing and Graphics segment operating income was $179 million compared to $100 million a year ago driven by higher Ryzen processor sales.

Enterprise, Embedded and Semi-Custom segment revenue was $525 million, down from $715 million the prior year. As anticipated, Semi-Custom revenue was lower in the third quarter as the market awaits next-generation AMD-powered game consoles from Sony and Microsoft.

EPYC datacenter CPU revenue grew by over 50% sequentially driven by shipments of our second generation product in the quarter. EESC segment operating income was $61 million compared to $86 million a year ago due to lower revenue and higher operating expenses.

Turning to the balance sheet, I am very pleased with the continuing improvement of our balance sheet. Cash, cash equivalents, and marketable securities totaled $1.2 billion at the end of the quarter, higher than the gross debt of $1.1 billion, resulting in AMD being net cash positive.

During the quarter, we retired $206 million of debt, which resulted in a loss of $40 million recorded on our GAAP income statement. The reduction in debt included $126 million of convertible senior notes in exchange for 16 million shares. Year-to-date, we have reduced gross debt by $441 million.

Free cash flow was positive $179 million in the third quarter, and cash flow from operations was $234 million. Inventory was $1 billion, up slightly from the prior quarter in anticipation of higher revenue in the fourth quarter.

Adjusted EBITDA was $300 million compared to $227 million a year ago driven by higher quarterly earnings. On a trailing 12-month basis, adjusted EBITDA was $745 million, and gross leverage at the end of the quarter was 1.5 times.

Now, turning to the outlook for the fourth quarter of 2019, we expect revenue to be approximately $2.1 billion plus or minus $50 million, an increase of approximately 48% year over year and 17% sequentially. The sequential and year-over-year increases are expected to be driven by growth in Ryzen, EPYC, and Radeon processor sales offset by a further softening of Semi-Custom processor revenue.

In addition, for Q4 2019, we expect non-GAAP gross margin to be approximately 44%, non-GAAP operating expenses to be approximately $535 million, non-GAAP interest expense, taxes, and other to be approximately $22 million, and fourth quarter diluted share count is expected to be approximately 1.21 billion shares.

In closing, we had an excellent third quarter and remain focused on ramping our leadership portfolio of high-performance products to deliver strong revenue growth and gross margin expansion in the fourth quarter.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready to go ahead and poll for our first question, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis

Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. First one for Lisa. You had mentioned a total cost of ownership in your prepared comments, and I guess I could imagine that the total cost of ownership over a lifetime of a 7-nanometer server chip might be greater than the price of a server chip when compared to a 14-nanometer server chip. And so, I'm wondering if you could maybe just clarify the comments you made on total cost of ownership and quantify, if that is the case, how you see it.

And what percentage of your datacenter customers actually look at total cost of ownership in evaluating the products? Does everybody do that, or do some just look at the price? And I'm wondering, like, what do you think that has – impact that might have on the competitive pricing environment? That's the first question. Thank you.

Lisa T. Su

Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure, and thanks for the question, Mark. So, I mean, maybe let me give some context on sort of the datacenter business for us, and then I'll answer your question. Look, I think, from what we see, there is a very strong value proposition for Rome. When you look at just what we're able to do from just the amount of performance, the power consumption, and then how that plays into total cost of ownership, we see it across all workloads. So, whether you're talking about a virtualized environment, or you're talking about high-performance computing, or you're talking about the enterprise sort of workloads, we see a strong performance as well as strong total cost of ownership.

To your exact question, I think server purchases – our server purchasers are very, I would say, sophisticated. And so, in most cases, total cost of ownership is definitely in the conversation. And it's not just about performance but performance at a given power level, and also in terms of given density. And that has played out in a number of our customer engagements.

And so, the overall point of – we think that Rome is very well positioned. Price in and of itself is one factor, but I would say it's not the primary factor. I think the performance power, total cost of ownership are all important buying factors, and we've seen very, very strong engagement from customers across the board, across all workloads for these drivers.

Mark Lipacis
Analyst, Jefferies LLC
Q

Thank you. And a follow-up, if I may. When you think about your share gain – your potential to gain share as you look into 2020, can you talk about what you view as the biggest potential gating factors in that? And, like, how you're managing those potential factors? And I'm hoping you can talk to your view on availability of 7-nanometer wafers and engineering support for your customers who are trying to put together solutions. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. Sure, Mark. So, a couple different questions there. Let me try to get through it. I will say since our launch of Rome in August, we've had a very strong start. We had a full quarter of revenue here in the third quarter, and we saw that in sort of the ramp of units and revenue.

What we are seeing is that the qualifications are going faster with the second generation of EPYC than with the first generation. So, customers are familiar with our platforms. In some cases, customers are doing drop-in platforms, and so they can take virtually the same or a very similar platform that they had for first gen and drop in the second gen. They're familiar with our architecture, and so I think from a market share standpoint, we feel good about the transition from Naples to Rome.

I think the platform readiness across our OEMs, the number of platforms that we have across the major OEMs, is also very strong, and we're pleased with the set that have both new and existing platforms there. And so, from the standpoint of where we are going in the fourth quarter and into 2020, I think we feel very, very good about where we are with the datacenter customers.

As it relates to customer support and all that stuff, like I said, customers are much, much more familiar with the architecture in the second generation compared to the first generation. And that is good for the ramp of Rome.

As it relates to – I think you asked about the 7-nanometer ramp and the availability there, we had a very large ramp here in the third quarter with 7-nanometer. We essentially ramped three full product families, Ryzen, EPYC, as well as our Radeon gaming product families in the third quarter. And it went very well. We're very pleased with it. It's the fastest ramp that we have done certainly in recent memory. And going into the fourth quarter and into 2020, I think we feel very good about the availability of Rome, as well as the rest of our products.

Mark Lipacis
Analyst, Jefferies LLC
Q

Thank you. Very helpful.

Operator: Thank you. Our next question today is coming from David Wong from Instinet. Your line is now live.

David M. Wong
Analyst, Instinet LLC
Q

Thanks very much. Can you give us some idea of what your revenues were from 7-nanometer products in the September quarter? What you reckon they'll be in the December quarter?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

I think what I can say, David – and I'll start. Maybe Devinder has some additional comments. The ramp for 7-nanometer has gone very quickly here in the third quarter. When we look at overall new product revenue, certainly in the third quarter, we had a significant piece of that be 7-nanometer. That will increase again as we go into the fourth quarter as well. And so, the way to think about it is, for our major product lines, we're transitioning very fast from 14 to 7-nanometer.

David M. Wong
Analyst, Instinet LLC
Q

Okay. Great. And within your Computing and Graphics segment, that 36% sequential growth, could you give us some idea of how, what client CPU sales grew sequentially? And separately, what the PC GPU sales sequential growth was?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So, if you look at the CG segment from a sequential standpoint, we saw the client CPUs increase the most, and those were certainly the driver being both desktop and mobile. Desktop was higher than mobile, but both grew very nicely.

If you look at GPUs overall, they actually declined a bit sequentially, and that decline was primarily driven by datacenter GPUs, which declined just due to some of the buying cycles in the cloud.

Overall, gaming did well, and we continue to expect that as we go into the fourth quarter, you'll see that the datacenter GPUs will increase as well as I mentioned in the prepared remarks that the client and graphics would also increase.

David M. Wong
Analyst, Instinet LLC
Q

Great. Thanks very much.

Operator: Thank you. Our next question is coming from Matt Ramsay from Cowen. Your line is now live.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC
Q

Thank you very much. Good afternoon. Before I jump into questions, just congrats to Devinder on being cash positive. Lisa, a couple questions on Rome. We've been tracking some of the strength at Google, Microsoft, and Amazon, but I wonder if you might comment a little bit about the server business in China given some disruptions there just to overall CapEx. And also, the OEM business that you're now ramping with Dell, HP, and Lenovo, and how you expect those things to trend over the next couple of quarters. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So, Matt, as we look – so, let me answer the first question as it relates to the cloud customers. I think we are very pleased with the cloud adoption. We are engaged across all major Tier 1 and many of the Tier 2 service providers, and I think we're making good progress there.

As it relates specifically to China, we are well engaged there in both cloud and Enterprise. Obviously, there is a little bit of disruption due to some of the China customers that are on the Entities (sic) [Entity] List, and we follow that closely.

But as it relates overall, I think we believe that there is a strong pull for Rome both across cloud as well as Enterprise. On the Enterprise side, what I will say is that the HPC market has been really good for us, and so we have won quite a few of the bids. And they tend to be early adopters of the technology, and so that's one indication of the strong value proposition. As we go into more general Enterprise, the launch of HPE, Dell, and Lenovo, as well as Supermicro and the other ODM platforms, is broader than the first generation of EPYC, and we're seeing that in the pipeline that we see.

So, a lot of activity going on right now, and we feel really good about how that's going to develop over the next couple quarters in terms of Enterprise wins.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Thanks very much for that. Just as a follow-up from me on the client business. Obviously a lot of progress that's been made with the results that you've just put up. And I kind of go back to some comments made by your primary competitor on their call, I think talking about tightness in their own 14-nanometer supply, and also they've maybe not addressed some of the lower tiers of the market, yet your ASPs are up quite strongly. I wonder how much some of the supply tightness from your competitor might have led to these gains versus sort of the merits of your own product. And if there is anything that you can talk about, Lisa, that would be really helpful. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. Sure, Matt. So, look, the client business has really had a very strong year. I mean, if you look at how it's played out over the last couple of quarters, I'll say that in our desktop portfolio, the 3rd Gen Ryzen has done very, very well. It's extremely well positioned. And where we're seeing the highest demand is at the highest tier sort of in the Ryzen 9 and the Ryzen 7. And so that's why you see the ASP strength in the business. Mobile is also ramping very nicely.

And, what we're seeing, again in mobile is the mix of Ryzen is now a predominant mix of the business, and we're seeing actually very nice momentum in commercial, as well as our traditional consumer markets. So, we also see a good sequential growth in ASPs there.

There is some noise in the system as it relates to some supply constraints and all that stuff, I would view that as mostly – again, it's pockets at the low end. I don't think it's a significant driver of our business. Our business is driven primarily by our new platforms, the fact that we are in a number of premium platforms on both the notebook side, as well as just the strength that we're having in the DIY channel is there, and that's contributing to the positive mix, as well as the unit growth in the client business.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Thanks very much.

Operator: Our next question is coming from Vivek Arya from Bank of America. Your line is now live.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question, and congratulations on the strong growth and execution. I have two questions as well. Lisa, first on the datacenter business, I know you mentioned the target is still to be on track for double digit kind of unit share sometime in the middle of next year. Could you help us level set as to where the share is in Q3? And what the target is in Q4? And if you have seen your competitor react to your server share gains in any way through pricing or any other means?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, Vivek, as you know, we don't necessarily want to get ahead of ourselves in terms of server share, but what we will say is the Q3 quarter was our highest units sort of with EPYC. And so, we are seeing good strength and predominantly a very fast transition to Rome. We expect that to continue to grow as we go into Q4 and into the first half of next year.

So, this is about more platforms ramping and multiple platforms within a given customer. And you should see – we saw a number of announcements around our launches here in Q3, and you should see additional announcements as we go into the fourth quarter as well as the first half of next year.

Your question about, do we see any unusual activity from a competition standpoint? Look, our view is that the competition is aggressive, will always be aggressive, and we're counting on that. It's a very competitive market out there. That being the case, I think we are feeling very good about how our product is positioned and also the readiness of the product.

So, the question earlier about, are the platforms ready? How is the customer support? I think it's very strong. And I think our OEM and ODM partners have done a phenomenal job with the breadth of platforms, and that will help us continue to grow overall.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And for my follow-up, Lisa, I had a kind of a longer-term conceptual question, which is, it's good to see gross margins improving and the cost discipline, but do you think this is the time to actually increase OpEx a lot and really go after maximizing footprint, right? Adding more resources, more systems, rather than trying to optimize profitability? I'm just curious to hear how you are looking at the puts and takes around whether you should be maximizing footprint rather than profitability at this level.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. Look. It's a good question, Vivek. I get asked it from time to time. What you will see is I think we're very cognizant of where we're going. So, in other words, the roadmap – I mean, the long-term sort of financial roadmap, I think we understand pretty well. We want to show leverage on both top and bottom-line, and that's certainly our goal. We did spend a little bit more this year than we originally planned, and that was frankly because the opportunities are very strong. And most of the additional spend is targeted at R&D with the notion of platform investments, software investments, to ensure that we capture the opportunities that we have.

I think we have the right balance, Vivek, and certainly as we go into 2020, we'll continue to look at that balance. But I think we are very well balanced between top-line and bottom-line growth.

Vivek Arya
Analyst, Bank of America Merrill Lynch Q

Thank you.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Your line is now live.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC Q

Yeah. Congratulations, guys. Thanks for letting me ask the question. Lisa, I guess my first question is, can you help me understand a little bit about the traction that you're getting in the enterprise market on both Ryzen and in EPYC? And kind of what milestones should we be looking at relative to that sort of vertical?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc. A

Yeah. So, we're very excited about the opportunities for us in the commercial space, and I will tell you when we look at our go-to-market investments, we are putting a lot of feet on the street as well as just general go-to-market around commercial.

Starting with Ryzen, I think you have seen and you should have seen that the number of commercial platforms that we have continues to get stronger, and it's not just the number of platforms but the quality of the platforms. Certainly Lenovo ThinkPad is a premium brand that is very key. We have very strong HP commercial offerings. We have additional desktops coming out as well. What we are seeing is good traction in the commercial space, and that is the stronger part of the PC market.

And we'll continue to talk about that as it relates to new platforms. Certainly as we refresh our mobile platform going into next year, I think you'll see even stronger commercial offerings there. We're investing heavily in security and manageability and all those other aspects that are important in the commercial space.

As it relates to EPYC in the Enterprise, I'm actually very encouraged with what we see in the Enterprise. We had originally said that we thought we would be more cloud – sort of cloud would go first, and then Enterprise would take longer. I think what we currently see is cloud is certainly a big driver of our business, but our Enterprise business is coming along very nicely. And I really would say that the key metrics there are more top-tier brands adopting EPYC and talking about that publically.

We have had a number of engagements. And I mentioned earlier that the pipeline that we see in Enterprise across our top OEMs has increased very significantly just in the last sort of two months since we launched. So, the awareness around EPYC as well as the awareness around these new platforms I think is strong, and we'll continue to build that out as we go forward.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC Q

That's helpful Lisa. Then maybe for my follow-up, as we, the analyst community, look out to modeling 2020, the GPU/CPU is relatively straightforward relative to market share expectations we might have. I'm just kind of curious if you can give us some help on the Semi-Custom business. It's impacted by AS 606 (sic) [ASC 606], and also we've got a new gaming cycle next year. I know you don't want to preannounce customer product, but how should we think about the Semi-Custom business trending throughout 2020 in broad strokes?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, I think it's a good question, and we will certainly give you more guidance as we get into 2020. But the way to think about it at a high level is we are going through a product transition with Semi-Custom now. And in 2019, for example, we've had the unusual cycle where the second half of 2019 is pretty soft for Semi-Custom compared to the first half. And what you should expect in 2020 is that that would flip strongly.

So, I think both of our large customers have said that they are planning a holiday 2020 launch. That would mean that the Semi-Custom business would be quite heavily weighted in the second half. So, you should expect that revenue in the first half will be, again, quite soft with the strong recovery in the second half of the year. And the way I look at it is the gaming business, the console business, is a strong business for us, and so it will be one of the growth drivers as we go into 2020 and beyond.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Hi, guys. Thanks for taking my questions. First I wanted to ask about gross margins. I mean, I guess I'm glad to see them up, but given what's going on with the mix, I mean, I think you said data GPUs were down sequentially, we've got datacenter up more than 50%, Ryzen's growing, you have the Samsung IP in there. I guess I'm just surprised not to see them up more both in the quarter as well as into Q4. I was wondering if you could give us a little bit of more color about what's driving that margin evolution given the positive drivers of the mix that I think should be there.

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

I think if you look at it from a quarter-to-quarter standpoint, if you're talking about Q2 to Q3, you're right about the mix of the product in particular with the ramp on the 7-nanometer products, and the margins are up. Last quarter we had, call it, 41%, and this time it's slightly above 43%. And that is fundamentally due to the new products that are ramping and obviously some benefit from the Semi-Custom business, we're down slightly in Q3 compared to Q2. So that's there.

And then, as you get into the Q4 timeframe with the guide at 44%, it's driven by the new leadership products, demand for the high end of our products pack is driving a richer mix. And obviously there is a little bit of benefit, as Lisa said earlier, with the softer Semi-Custom revenue.

So, I think overall it's just these.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

I thought all those new products were supposed to have gross margins in aggregate of over 50%, and they're driving like a massive mix shift. And yet you've only got gross margins up a couple of points. Like what am I getting wrong?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

I think the numbers are coming out to be a couple of hundred basis points up on a quarterly basis with the ramp on the 7-nanometer product. I don't think you've got anything wrong. You have to look at the mix of the product relative to the total revenue of the company, at the $1.8 billion, and I think that's how it comes out, Stacy.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

I think, Stacy, maybe if this will help, in each of the product lines we are certainly mixing up, and that's why you see some of the ASP goodness. But you also have some legacy product, right? And we continue to sell some legacy product as well. And so that's perhaps the other piece.

But I think, as Devinder said – look, we're very happy with the way the gross margin has progressed. I think if you look at our long-term model, we had said 40 to 44 points, and we'll be exiting the year at 44 points. And I think very well positions us well as we go into 2020 and turn over more of the product portfolio to the new products.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Okay. Thank you. For my follow-up, I wanted to ask about the EPYC server ramp into next quarter. So, you're up you said more than 50% this quarter, so that might be, what, $80 million to $100 million maybe sequentially, which is I guess good. Your competitor added almost $1.5 billion sequentially in datacenter this quarter. So, when you say next quarter that you're – I mean, I guess you did gain share, you're up 50%, their units were up 20%, but even so.

So when you're saying next quarter you're going to grow by strong double digits on EPYC, do you think that that's like better than the trend that we saw in Q3? It's more step ramps? I mean, if we are up 50% sequentially in Q3, do you think we can be better than that in Q4? Is that what strong double digit means? Or do you have a different meaning in mind?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Well, I think we have in mind strong double digits. So, I would say – and, Stacy, I'm not being facetious. But, again, there are all kinds of puts and takes. What I will say, though, is put in context that the product has basically been in market since early August.

And if you put that in context, and we're saying that the transition is going quickly and we have a number of new platforms that are – literally they've been in market four to eight weeks – with the way the server cycle goes, I'm actually pretty happy with how it's ramping. And I expect, as I said, that Q4 will be another strong quarter for us, and it's just a matter of continuing to diligently ramp the platforms.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Got it. Thank you.

Operator: Thank you. Our next question is coming from Aaron Rakers from Wells Fargo. Your line is now live.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question. I have a question and a follow-up as well. Sticking to the server, the EPYC ramp, I'm just curious out of the gate what kind of mix have you seen maybe skewed towards the 48 and 64-core solutions? And what I'm really getting at is, is how do we think about the blended ASP trend on EPYC as Rome fully ramps?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, Aaron, it's fair to say that initially out of the chute we are seeing a higher mix to the higher end, so more 48 and 64-cores. As a mix, I think those are very attractive products and really take the full advantage of the EPYC product line.

We are seeing, as you might expect with that mix, that the Rome ASPs are showing lift versus the previous 1st Generation EPYC. As we go forward, you would expect that to build out a little bit more. So, we have a full product portfolio for the server parts, but then you also expect that you'll get more Enterprise in that. And Enterprise tends to have a higher ASP.

So, the net of all that is I can say in the server market, we feel very good about where we're positioned from an ASP standpoint, and from a sort of unit share to revenue share, I think they're actually quite close.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. And then just as a quick follow-up, maybe more of a model question. I think last quarter you talked about the Semi-Custom business being down in the mid-30% range. You also talked about Samsung contributions being around $100 million for the full year. I'm just curious, is that still where we stand? And what was kind of the Samsung contribution this last quarter?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Yeah. I think on the Samsung piece, if you look at the second half, it's approximately $100 million, slightly about half was taken in Q3 and the other half will come in Q4. So that's absolutely right.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

And then on the...

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

And then the Semi-Custom.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. On the Semi-Custom side, we had said last quarter that it would be down let's call it mid-30s. When you look at it in aggregate for the second half of the year, it will be down a bit more than mid-30s. So, let's call it high-30s.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Okay. Thank you.

Operator: Thank you. Our next question is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC
Q

Good afternoon. Thanks so much for taking the question. Lisa, I had a follow-up question on your server CPU business. And I guess the question is, when you think about pricing and sort of the margin profile that you're seeing in that business today, how does that compare with what you had planned for six or nine months ago? Is pricing and margins coming in pretty much in line with expectations, or are they coming in a little bit better?

And then, as you think about the margin profile for that business going into 2020, given 7-nanometer potentially maturing into next year, given the mix and given the change in customer mix from cloud to Enterprise, should those two dynamics serve as tailwinds for your margins in that business?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So, I would say that the margin mix as we look here in the beginning of the ramp is about what we expected. It's about what we expected. So, the only thing I would say – and I said it earlier – is the product mix is perhaps a little bit higher in the early part of the ramp.

But overall, the margins are pretty close to what we expected. The pricing environment is pretty close to what we expected. And as we go into 2020, I think the other piece of it is that the business scale will increase as we grow the business. And so that actually helps to absorb some of the fixed cost as well.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And as a quick follow-up, your nearest competitor talked about pull-ins in their datacenter business, particularly in China. Was there anything in the quarter that you thought was kind of abnormal from a customer activity standpoint on the client side or the server side? And if so, how big was that? And how should we think about kind of the implications into Q4 and potentially the early part of 2020? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. When we look at both the client and server business, I wouldn't say that we saw any significant pull-ins due to tariffs or other reasons. We monitor sort of certainly very closely the sell-in and sell-through trend, and we believe that what we're seeing in terms of the growth of the business is actually just new platforms running – ramping. And given where we are in the product cycle, that makes sense. And so, I wouldn't say that we saw any significance of pull-ins in the quarter.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from Mitch Steves from RBC. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hi, guys. Thanks for taking my question. I just have two. I guess first for Devinder, I realize you don't want to provide any kind of 2020 numbers, but you're going to get asked this a hundred different ways so I might as well save you guys some time. So, if I look at the first half of 2020, is there any reason why the gross margins won't be higher than they are in December quarter?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

I really don't want to get into 2020. There are several product transitions in play as you heard in the prior questions. We have the Semi-Custom business that's in transition. We have obviously the rest of the business in transition with the ramp in 7-nanometers. Lisa referred to some of the legacy products.

So, there is a lot of puts and takes, and I think we want to talk about 2020 once we get past 2019 and put it to bed. And we can come back and talk about 2020 in about 90 days from now.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Okay. Got you. And then, secondly, just for Lisa here, there's been a lot of articles in terms of some firmware issues or some software bugs and things like that. Could you maybe just help us address all of them at once and just kind of talk about what you guys did to fix them? Because we're still seeing kind of articles pop up here and there, and I just want to make sure that there are no issues in terms of the software.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Let me make sure I understand what you mean, Mitch. Which product line are you referring to? Or what are you exactly referring to?

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

So, there have been specific articles on Ryzen, right, saying that there is issues with the BIOS and things like that, and performance metrics are a little bit lower. But then you guys kind of really noted that you've improved them or fixed them, but we're still kind of seeing them in the market even today, for example. So, I just wanted to know in terms of what happened, and then secondly if everything has been resolved.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So, your question was relative to the 3rd Generation of Ryzen. Look, I think overall when you look at the 3rd Generation of Ryzen and the platforms that we've put out, we're very, very pleased with how that ramp has gone. And when we look at the sales from a sell-through standpoint, we're very pleased with where it is.

There have been some platform sort of optimizations that we've done through working with our ODM partners and the motherboard partners to try to improve the optimization of the maximum boost frequency, which is I think what you're referring to. And that has largely been addressed over the last couple of weeks. But I would consider that more of an optimization versus any type of major update.

And we're going to continue to improve the platform. So, you're going to see that – as is normal with a new platform, that will continue to improve the platforms over time. But I will say that we're very pleased with how 3rd Gen Ryzen has done in the marketplace, and we're excited with the launch of the 16-core 3950X as well as the Threadripper family in the next couple of weeks as well.

Mitch Steves
Analyst, RBC Capital Markets LLC
Q

Perfect. Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Operator, we have time for about two more questions, please.

Operator: Thank you. Our next question is coming from Harsh Kumar from Piper Jaffray. Your line is now live.

Harsh V. Kumar
Analyst, Piper Jaffray & Co.
Q

Yeah. Hey, guys. Just a quick one. As you look at your leverages for gross margins, what would you consider as your greatest leverage? Is it just sales growth as you take share? Or is it more products going to 7-nanometer?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.
A

I think if we look at the products, definitely the new products on the 7-nanometers are very good tailwinds for the gross margin, but also the mix of the business comes into play. The more datacenter revenue we capture in terms of market share obviously helps the gross margin. The high end of the stack, in particular in the client PC business that helps the gross margin. So, it's basically those are the things that help the gross margin as we go forward from 2019.

Harsh V. Kumar
Analyst, Piper Jaffray & Co.
Q

And as you look out, where do you think margins can go?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.
A

Well, we think, that as Lisa said earlier, when we painted our long-term target model, we painted 40% to 44% in the 2017 timeframe. That's what we said. We're exiting the year at 44%, and we'll come back and update that sometime in 2020.

Harsh V. Kumar
Analyst, Piper Jaffray & Co.

Q

Fair enough. Thanks, guys.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Harsh.

Operator: Thank you. Our final question today is coming from Timothy Arcuri from UBS. Your line is now live.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot. I think in the past you've have given the percentage of a total revenue that was datacenter, CPU, and GPU combined. Can you give us that number?

Devinder Kumar
Senior Vice President, Chief Financial Officer & Treasurer, Advanced Micro Devices, Inc.

A

Yeah. I mean, as a percentage of revenue, it's similar to what it has been the past few quarters, although the server portion was significantly higher, as we said earlier, greater than 50% sequential increase in server CPU revenue – unit shipments and revenues, so that definitely helps.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Yeah. Got it. Okay. And then I guess just a bigger picture question. In terms of the kind of competitive edge you have, some of it relates to process technology, but of course your competitor could just go to TS&C to build CPUs as well. But I guess there is other parts that relate to your fundamental architecture, which is the chiplet, the memory density, and your IPC advantage. So, I guess can you kind of break down – Lisa, can you break down how much of the advantage really is process related versus how much is actually architecture related? Thanks.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, Timothy, the way I would answer that question is, look, we've made a set of choices, and the set of choices include process technology. They include architecture, our chiplet architecture. They include sort of our overall system architecture. And I think we've made a set of good choices.

Going forward, we are not relying on process technology as the main driver. We think process technology is necessary. It's necessary to be sort of at the leading edge of process technology. And so, today 7-nanometer is a great node, and we're getting a lot of benefit from it. We will transition to the 5-nanometer node at the appropriate time and get great benefit from that as well.

But we're doing a lot in architecture, and I would say that the architecture is where we believe the highest leverage is for our product portfolio going forward.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Got it. Thank you, Lisa.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you very much, operator, and thank you, everyone, for joining us on the call today. We do have a number of events planned here in the fourth quarter, and we look forward to seeing you all soon. Have a great evening.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2019 Earnings Call for 29-October-2019 5:30 PM ET
Wednesday, October 16, 2019 03:24:03 AM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2019 Earnings Call for 29-October-2019 5:30 PM ET.
US Live Call Phone Number: 844 763-8275

Press Release URL: http://quarterlyearnings.amd.com/static-files/f5bd3d28-b247-402f-a411-f1481981e076
Live WebCast URL: https://edge.media-server.com/mmc/p/8mjc3e67
Replay WebCast URL: https://edge.media-server.com/mmc/p/8mjc3e67
Slides Link :
http://quarterlyearnings.amd.com/static-files/fc5d3409-2056-4143-9c6f-30ad1445776e

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Advanced Micro Devices, Inc. (AMD)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices' Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Graves. Please go ahead.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's second quarter 2019 conference call. By now, you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, amd.com. Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

Before we begin, I would like to highlight some important dates for you. AMD will officially launch our 2nd Generation EPYC datacenter CPU on Wednesday, August 7. On Tuesday, August 27, Forrest Norrod, Senior Vice President and General Manager of our Datacenter and Embedded Solutions Group will present at the Jefferies 2019 Semiconductor, Hardware and Communications Infrastructure Summit in Chicago. On Tuesday, September 10, Devinder Kumar, Senior Vice President, Chief Financial Officer and Treasurer will present at the Deutsche Bank Technology Conference in Las Vegas; and on Friday, September 13, 2019, our third quarter quiet time is expected to begin at the close of business.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations. We will refer primarily to non-GAAP financial measures during this call, except for revenue, and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced today are reconciled to their most directly comparable GAAP financial measure in today's press release, which is posted on our website.

Please refer to the cautionary statements in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular, AMD's Quarterly Report on Form 10-Q for the quarter ended March 30, 2019.

Now, with that, I'd like to hand the call over to Lisa.

Lisa T. Su

Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. We made history in the second quarter, both as the first company to simultaneously launch high-performance CPUs and GPUs and the first to ramp 7-nanometer high-performance processors across PCs, gaming and the datacenter. I am extremely pleased with our execution in the quarter, as we ramped production on Ryzen 3000 CPUs, Radeon 5700 GPUs and early volumes of our 2nd Generation EPYC processors in advance of their third quarter launch.

Looking at the second quarter, revenue of $1.53 billion increased 20% sequentially, driven by growth across both of our business segments. Revenue declined 13% year-over-year, in line with our expectations, as client and server processor revenue increases were offset by lower graphics channel and semi-custom revenue.

Turning to our Computing and Graphics segment, revenue declined 13% year-over-year, as significantly higher client processor sales were offset by lower graphics channel sales. Mobile client processor revenue increased by a double-digit percentage year-over-year and sequentially, driven by our highest quarterly unit shipments in five years. In desktop, we launched our industry-leading Ryzen 3000 processors, featuring our new Zen 2 core, to overwhelmingly positive customer response.

Numerous third-party reviews highlighted the superior performance of our 7-nanometer Ryzen CPUs in both multi-threaded and single-threaded applications, while consuming less power than competitive offerings. Ryzen 3000 processor customer demand has been very strong, with sales at global e-tailers and retailers outpacing our previous generations of Ryzen by more than three times at the same point following their respective launches.

Based on the market response to our latest mobile and desktop processors, and the growing number of AMD-powered commercial and consumer PCs, we expect to gain share in the high volume back-to-school and holiday periods. In graphics, revenue decreased year-over-year, driven largely by lower channel sales, partially offset by a significant increase in datacenter GPU sales. GPU revenue increased by a double-digit percentage sequentially, driven by increased channel sales of our RX 500 series GPUs and the launch of our Radeon 5700 family. The Radeon 5700 series with our new RDNA architecture, delivers up to 1.5 times more performance per watt compared to our previous generation.

Initial demand for our new GPUs has been strong, as third-party reviewers have highlighted our leadership gaming performance at relevant price points. We are well positioned for growth in the second half of the year as we continue to ramp our Radeon 5000 GPU family. We had another quarter of strong year-over-year datacenter GPU sales growth, driven largely by HPC and cloud wins. We continue making progress expanding this margin-accretive part of our business, based on our strategy to focus on working closely with marquee customers.

We also announced a strategic partnership in the quarter with Samsung, to bring Radeon graphics to their future smartphone and mobile SoCs. The partnership showcases our strategy to engage with industry leaders across the ecosystem to drive Radeon everywhere. We now have deep partnerships across the PC, game console, cloud and mobile markets that contribute to a growing developer ecosystem and installed base for our Radeon graphics architecture.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue decreased 12% from a year ago due to lower semi-custom revenue. In semi-custom, we have extended our game console leadership as both Microsoft and Sony have now both announced they will use custom AMD SoCs to power their next-generation game consoles. We are very proud to power back-to-back generations of the world's highest performing game consoles. As we look into the second half of the year, we are seeing additional softness in game console demand, which is now reflected in our full year guidance.

In server, CPU revenue grew significantly year-over-year and sequentially, driven by initial shipments of our next-generation Rome processors to lead cloud and OEM customers. 1st Generation EPYC processor-based cloud deployments continued to increase in the quarter. Amazon expanded availability of its EPYC processor-powered instances to more than 15 regions and dozens of new configurations. And Microsoft launched general availability of its Azure HB supercomputing virtual machine that for the first time ever enabled customers to run demanding HPC workloads in the cloud.

Turning to our next generation Rome server processor, Rome is on-time and exceeding expectations, delivering leadership performance and TCO across a significantly expanded number of cloud and enterprise workloads. Customer excitement continues to grow. Compared to our 1st Generation EPYC processors, we have more than twice the number of platforms in development with a larger set of partners. We also have four times more enterprise and cloud customers actively engaged on deployments prior to launch. As a result, Rome is on track to ramp significantly faster than our 1st Generation EPYC processor.

We are seeing particular strength in HPC, where we offer leadership compute density and I/O. We had multiple supercomputing wins in the quarter, including public announcements from Indiana University and Norway's National Research Network. Our supercomputing momentum was highlighted by the U.S. Department of Energy and Oak Ridge National laboratory selecting both EPYC CPUs and Radeon Instinct GPUs to power their next-generation Frontier exascale supercomputer built by Cray. Frontier is expected to be the world's fastest computer when it launches in 2021. We look forward to providing more details on Rome at our launch event on August 7.

In summary, as we complete the first half of 2019, we have reached a significant inflection point for the company as we enter our next phase of growth with the most competitive product portfolio in our history. We have seen some uncertainties across our supply chain driven by tariffs, trade concerns and the U.S. Entities List. In the second quarter, we stopped shipping to customers added to the U.S. Entities List. While we remain cautious given the fluidity of the situation, the impact to-date has been limited and offset by growing momentum in other parts of our business. We are executing well to our plans and see a path to significant market share gains for our product portfolio across the PC, gaming and datacenter markets in the coming quarters.

Now, I'd like to turn the call over to Devinder to provide some additional color on our second quarter financial performance.

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa and good afternoon, everyone. We are pleased with the financial results for the first half of 2019, which provide a solid foundation for the second half of the year. Second quarter revenue of $1.53 billion grew 20% over the first quarter. Gross margin of 41% increased 4 percentage points from the prior year driven by the ramp of our strong portfolio of high-performance products.

Quarterly revenue was down 13% from a year ago. Strong sales of Ryzen and EPYC processors and our new Radeon RX 5700 GPUs were more than offset by lower semi-custom sales and lower graphics channel sales associated with blockchain. Operating expenses grew 10% year-over-year to $512 million, driven primarily by go-to-market activities and new product introductions. Operating income was $111 million, down from $186 million a year ago, primarily due to lower revenue and higher operating expenses. Operating margin was 7%, down from 11% a year ago. Net income was $92 million compared to $156 million a year ago and diluted earnings per share was $0.08 per share compared to $0.14 per share a year ago.

Now, turning to the business segment results, Computing and Graphics segment revenue was $940 million, down 13% year-over-year as strong client processor sales were more than offset by lower overall graphics sales due to negligible blockchain-related revenue in the second quarter of 2019. Computing and Graphics segment operating income was $22 million compared to $117 million a year ago, primarily due to lower revenue. In the Enterprise, Embedded, and Semi-Custom segment, revenue was $591 million, down 12% from the prior year. Semi-custom revenue was lower and partially offset by significant growth in datacenter CPU revenue. EESC segment operating income was $89 million compared to $69 million a year ago. The improvement was largely due to growth in datacenter CPU revenue.

Turning to the balance sheet, our cash, cash equivalents, and marketable securities totaled $1.1 billion at the end of the quarter. Year-over-year, we have reduced gross debt by $392 million and in the second quarter, we also replaced our asset-backed loan facility with a $500 million secured revolving line of credit. Free cash flow was negative $28 million in the quarter, while cash flow from operations was $30 million. Inventory was $1 billion, up $60 million sequentially, primarily due to increased inventory of our new 7-nanometer products in anticipation of accelerating product sales in the back half of the year. Adjusted EBITDA was $163 million compared to $228 million a year ago due to lower quarterly earnings. On a trailing 12-month basis, adjusted EBITDA was $672 million and gross leverage at the end of the quarter was 1.9 times.

Turning to the outlook for the third quarter of 2019. We expect revenue to be approximately $1.8 billion plus or minus $50 million, an increase of approximately 9% year-over-year and 18% sequentially. The sequential and year-over-year increases are expected to be driven by Ryzen, EPYC, and Radeon products sales, partially offset by lower than expected semi-custom sales. In addition, for Q3 2019, we expect: non-GAAP gross margin to be approximately 43%; non-GAAP operating expenses to be approximately $525 million; non-GAAP interest expense, taxes, and other to be approximately $30 million; and third quarter diluted share count is expected to be approximately 1.21 billion shares.

For the full year, we now believe revenue will increase mid-single-digit percent over 2018, driven by significant sales growth of our new Ryzen, EPYC, and Radeon processors, partially offset by lower than expected semi-custom revenue. Revenue excluding semi-custom is expected to increase approximately 20% year-over-year. Full year non-GAAP gross margin is expected to be approximately 42%.

In closing, we had a strong first half of 2019. We remain focused on executing to our plans for the remainder of the year and look forward to ramping our new Ryzen and Radeon products as well as the upcoming launch of Rome.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first question please?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hello?

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Hi Mitch, it's Laura. The team from AMD, we're ready for you.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Oh yeah, sorry. Yeah. So, my question is really just two-folds. Number one first on the gross margins side, so you guys have talked about semi-custom coming down pretty materially and that's kind of the entire reason for the, I guess, the mid-single-digit growth number. So why, I guess, aren't the gross margins expanding a little bit more, if you are seeing more traction on the server side?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think, if we look at it from an overall standpoint, in Q2, we did 41%, it's the third quarter in a row of 41% gross margin. And in Q3, you're right, there's a decline in semi-custom, there's benefit to the margin and the margin guide for Q3, that's approximately 43%. I can tell you that the richer product mix, especially with the new products ramping in Q3, are going to drive the gross margin although there is a benefit on the decline of semi-custom also. The margin benefit is more weighted towards the non-semi-custom business and that's where we end up with the 43% in Q3. We've also updated our guidance for 2019 and now we are projecting 42% for the year 2019.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Right, yeah. So, I guess just to follow-up on that. So, the assumption there is that by the end of 2019 you are going to have more share on the server side. So, I guess just high level if I assume at 2020, gross margins are going to start going up as well if you keep gaining share in server? Is that a fair assumption for the next year or so?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think what I would say is, we're very pleased with the progress we have made on the margin in 2019. The product mix continues to get richer and we'll see as we get closer to 2020 in terms of the specifics. But you're right the product mix does get better, server and even in the other businesses, including the client business, the product mix being richer benefits the margin.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Okay, perfect. Thank you.

Operator: Our next question is coming from Vivek Arya from Bank of America. Your line is now live.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question and good to see the traction in the new products. Lisa, for my first question, I was wondering if you could give us some more color around the traction you're seeing in Rome, both from – if you're able to quantify it somewhat, but importantly, the traction you're seeing with customers, whether there is any pricing pressure from your main competitor, and I think in the past, you had outlined targets to reach certain market share. Just now that the product is out in front of customers, how are you seeing that traction with both the cloud and the enterprise side?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. Absolutely, Vivek. Thanks for the question. So, look, we are very pleased with how Rome is coming up. We did ship initial shipments this past quarter and the second quarter to both cloud and enterprise customers. The feedback that we're getting from customers is that the performance is very compelling both from a performance standpoint as well as a total cost of ownership standpoint. We've gotten a number of wins on both the cloud and the enterprise side, as well as HPC.

From our standpoint, next week is a big week for us. Obviously, we're going to officially launch Rome on August 7. But from a customer pull standpoint, we see good customer pull. Your question specifically about the pricing environment. You know, the pricing environment is always competitive. We expect it to be competitive. That being the case in servers, price is not the first variable in terms of a buying decision. And so, we believe the value proposition that we have for Rome from a overall standpoint is very strong and we see a good pricing environment for that.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks, Lisa. And as my follow-up on the quantification side, I think in the last quarter, you had given us some color around datacenter CPU and GPU kind of around that mid-teens as a percentage of sales. I was hoping you could give us some sense of what it was in Q2 and just what the outlook is for 2019 or the second half of the year?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes. So, in the second quarter, the percentage is similar to the last few quarters in terms of percentage of our business. We were more heavily weighted towards CPU versus GPU in the second quarter, so we saw datacenter GPU sequentially decline as expected; the CPUs grew as expected. As we go into the second half of the year, you should expect that the percentage of our revenues through the datacenter will increase as we ramp Rome.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Thank you. Our next question is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much for taking the question. Lisa, obviously, it seems like you're making a lot of progress with Rome, or at least the initial feedback continues to be very positive. That said, the overall hyperscale environment seems pretty slow based on commentary from your peers and your customers I guess. Could that impact the ramp into the second half? Is that a concern for you going forward? Then I have a follow-up.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. Sure. So look, we certainly have heard the same conversation especially around the cloud environment in the first half of the year. Our plan was always very heavily second half weighted and from our standpoint, we have seen significant customer engagement and pull for the Rome product, and we see a number of new installations that will come online over the next couple of quarters. So, I believe that there is some cloud digestion that's happening out there. I also believe that given where we are from the product cycle standpoint, we are well-positioned to grow.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then as a follow-up, I was hoping to learn a little bit more about the partnership with Samsung, the IP win in the quarter and also Frontier on the HPC side? Just from a modeling perspective, how should we think about those two deals if you will over the next couple of years and the accretion to the P&L? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure. So look, we're very pleased with both. They're both very significant announcements for us. On the Samsung side, it's a multi-year, multi-generational deal that we have across our Graphics portfolio for mobile.

In terms of 2019, the revenue is approximately $100 million that would be added. This was not originally in our guidance. And it offsets some of the headwinds that we talked about in semi-custom and in China.

It's not pure IP though, so the way you should think about it is, there is some specific development expenses that are part of that deal. And so those will be part of the COGS portion of that.

As it relates to Frontier; Frontier, again, very significant deal for us, it is NRE for the next couple of years to really get the software infrastructure, I would say, that's not material.

It's a relatively smaller number. And then, the actual deployment will be in 2021. So the bulk of the CPU and the GPU revenue will be in 2021, with a small portion of that, perhaps in the second half of 2020.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from Matt Ramsay from Cowen and Company. Your line is now live.

Matthew D. Ramsay
Analyst, Cowen and Company, LLC

Q

Thank you very much. Good afternoon. Lisa, I think, we'll be hearing plenty about Rome next week. I wanted to ask some questions about your PC business going into the back half of the year. The desktop momentum seems there, the notebook space. Intel is obviously going on to 10-nanometer for a portion of that portfolio. And it seems the 7-nanometer refresh on your side is a little bit later. Yet the SKU coverage you've talked about I think is 50% higher than it was last year for back-to-school and holidays. So, maybe you could talk a little bit about the momentum in the PC business into the back half and the differences between what you might see in desktop and notebook? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, sure, Matt. So, look we are pleased with the progress of our PC business. In the second quarter, we had notebook perform very well. We saw a ramp of our second-generation mobile product. And that is due to some of the additional platforms that we mentioned.

Going into the second half of the year, on the desktop side, our third-generation Ryzen products are very well-positioned. We expect to ramp significant production here in the third quarter, and we expect that to lead to share gains.

And we're also feeling quite good about the mobile products into the second half of the year. We've made progress on both consumer and commercial. We had always been strong in consumer, but on the commercial side we have a number of new platforms as well.

And those are ramping here into the second half of the year. So, overall, I think the PC business continues to be a good opportunity for us to gain share through the second half of the year.

Matthew D. Ramsay
Analyst, Cowen and Company, LLC

Q

Got it. Thank you. And as a follow-up from me a couple things for Devinder, I wonder, if you might talk about the margin or gross margin differential between some of the new 7-nanometer products, that you're rolling out versus some of the predecessor products that were either on 12 or 14-nanometer, just so we can get an understanding of magnitude and before you take that, just congrats on cash positive for the company overall even...

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc. A

Yeah.

Matthew D. Ramsay
Analyst, Cowen and Company, LLC Q

... [ph] including some convertible (27:24).

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc. A

Okay, yeah. So, on the margin side, the new products as we have said previously in aggregate are greater than 50% margin. And so, as we launch the new products in particular on the 7-nanometer node, those are accretive.

And that's why, you see us updating the guidance, in terms of the margin, not just for the quarter in Q3, but also for the year. And from that standpoint, as the product mix gets richer with more 7-nanometer products ramping, that should benefit the gross margin.

Matthew D. Ramsay
Analyst, Cowen and Company, LLC Q

Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc. A

Thanks, Matt.

Operator: Thank you. Our next question is coming from Hans Mosesmann from Rosenblatt Securities. Your line is now live.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc. Q

Thanks, guys, and congrats on the execution with the 7-nanometer. Hey Lisa, are you guys constrained in terms of 7-nanometer at TSM?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc. A

Hans, yeah, so we do have a number of products ramping at TSMC in 7-nanometer, and we are not constrained per se. I will say that cycle times of 7-nanometer are longer, and so it just takes more time to ramp up, but we are not constrained. TSMC has supported us quite well.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc. Q

Great. And can you give us a sense if you can on 7-nanometer high-end Navi and mobile 7-nanometer CPUs, if you can? Thanks.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Hans, you asked the good product questions. I would say they are coming. You should expect that our execution on those are on track and we have a rich 7-nanometer portfolio beyond the products that we have currently announced in the upcoming quarters.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.
Q

All right. Thank you.

Operator: Thank you. Our next question is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC
Q

Hi. Thanks for taking my question. Lisa, you have a lot of things working for you at – you got Rome, Ryzen, the GPU portfolio. Where are you seeing the biggest upside surprise on the feedback that you're getting relative to your original expectations?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So look, Mark, I think all products have really performed quite well. I think, the third generation Ryzen desktop both in terms of the reviews – third party reviews, as well as just the customer interest what we see is, obviously, it's only been in market for three weeks, and so we watch the data points very carefully. But across the globe, we're seeing sort of significant uptick in our share in the desktop market.

I think Navi has come out positioned very well. We're very pleased with our RDNA architecture. Navi is the first step, and we have a couple more steps going. And then, we'll talk much more about EPYC next week. I think the key thing is the products have been on schedule, and at or above the performance. So, our goal is of course to turn that into revenue growth in the second half of the year.

Mark Lipacis
Analyst, Jefferies LLC
Q

Yeah. That's great color. Thank you. And a follow-up if I may. You mentioned the Gen-5 game console wins at Microsoft and Sony. Can you give us a sense when do these start to ramp? When they ramp, do you book the revenues as you build inventory, as you did the previous generation? And is there going to be – if you would think about anything differently on the gross margin profile? Is it going to be similar to what you've had in the past on these things? So just some color on the Gen-5 game consoles? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Sure. So, Mark we're proud of the wins at Sony and Microsoft. Those are big wins for us as you know over many years. We can't comment on specific customers and their ramp profiles. The only thing I will say is, you can expect that in general consumer ramps are second-half weighted, especially weighted towards the holiday season. So, you would expect that.

And then, as it relates to the gross margin profiles, with our Semi-Custom business model, I think the margins will be under the corporate average. However, our business model is actually quite different. If you look forward to our business model, the growth that we see across all of our other products Ryzen, EPYC, Radeon is actually quite significant. And so the percentage of semi-custom as a percent of the overall business will be lower than for example in the last few years.

Mark Lipacis
Analyst, Jefferies LLC

Q

That's very helpful. Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. For my first one, I want to follow-up on that second half gross margin question again, I want to put some numbers behind that. So you're guiding 43% for Q3. Your implied guidance for Q4 is 43% or maybe a little under. It's only up about 160 bps year-over-year and flat sequentially, but you're guiding Q4 revenues up over 50% year-over-year.

And consoles has to be falling like 40% to 50% sequentially, so the mix must be massively switching over to the new products that in aggregate have gross margins over 50%. Why are gross margins only being guided up like 160 bps year-over-year in Q4 given that kind of a revenue trajectory and why are they only flat sequentially even with revenues growing over 20% quarter-over-quarter into Q4? I don't understand?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes. Stacy, let me start and then – maybe Devinder can add to it. So look, we guide approximately to full margin points. What you should expect as we go from Q3 to Q4 is that the product mix will get better. So we will expect more new products and from the standpoint of semi-custom. Semi-custom will be down sequentially Q3 to Q4. And so you should expect that we are not implying that the margin will be down in Q4, and we'll get to the Q4 guide as we get through the next 90 days.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. For my follow-up, the $100 million from Samsung, did your 20% year-over-year growth excluding the semi-custom include that $100 million that wasn't in the prior guidance, and what is the impact on the gross margins of that Samsung revenue as well?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So the Samsung additional revenue is included as part of the 20% year-on-year and it offsets some weakness that we have in China due to the Entities List. As to the gross margin profile for that you can expect that to be somewhat above corporate average.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

So, somewhat over low-40s?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Somewhat above corporate average.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. And it is in the 20%. Thank you very much. I appreciate it.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Thank you, Stacy.

Operator: Thank you. Our next question is coming from Aaron Rakers from Wells Fargo. Your line is now live.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question. I have one question and a follow-up as well. Just building on that last kind of question, I think, the last couple of quarters you've talked about your Semi-Custom business being down somewhere in the 20% plus range. It looks like by my math your assumption now is that that business declines maybe as much as 40% plus. And so when you parse through that you kind of factor in the Samsung relationship and the incremental $100 million revenue. Has your estimate at all changed ex those items, meaning revenue ex the semi-custom decline and then also ex the $100 million Samsung?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, so let me try to help you Aaron with that math. So look, originally when we started the year we thought semi-custom would be down let's call it approximately 20%. In the first half of the year it was down more than that. And based on what we see today, we would expect the full year now to be down let's call it mid-30s year-on-year.

If you talk about now the rest of the business, I think the rest of the business is close to where we thought it would be, close plus or minus a couple percent. And if you think about all of the moving pieces we do have some customers that we are not shipping to in China. That is offset by the Samsung upside and the new products and how they're coming in. So I think we're pretty close plus or minus to where we thought we would be ex those factors.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. That's very helpful. And then, just looking at your product segmentation. I'm curious of how you think about the trajectory of the datacenter GPU business going forward? Obviously, I can appreciate that could be lumpy. But I'm just trying to understand of how you see that? Is there a point in time where we can actually get some better visibility into that incremental growth driver of revenue stream going forward? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah, I think that's a fair comment. It is a little bit lumpy because of its size and it's fairly concentrated in a couple customers. I will say that we're going to see very nice year-over-year growth this year and we see good customer momentum across both cloud as well as HPC. On the cloud side, it is both, let's call it cloud streaming/gaming as well as machine learning. And on the HPC side the Frontier win is the public win. But we have a number of others that we're working as well. So I think we will give more color as we go forward, but it continues to be a business that we feel will be a good growth driver over the next few years.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Thank you.

Operator: Thanks. Our next question today is coming from David Wong from Instinet. Your line is now live.

David M. Wong
Analyst, Instinet LLC
Q

Thanks very much. One small clarification and then a second question. The clarification, the Samsung $100 million, does that come in under income statement to the revenue or is it on another line as a special item or something?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

It's revenue. So it's revenue and then offset by some specific development cost and also in COGS. And like Lisa said earlier, the margin when you take the revenue and the COGS offset is somewhat above corporate average.

David M. Wong
Analyst, Instinet LLC
Q

Okay. Excellent. And can you give us any numbers in terms of for the June quarter your sequential unit growth in desktop and notebook processor units and the sales growth in PC GPUs?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Let's see David. So in the – your questions is about the second quarter?

David M. Wong
Analyst, Instinet LLC
Q

That's correct. Yes.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yes. So in the second quarter we saw sequentially mobile units up and we saw desktop units down. And the desktop units down is somewhat due to the seasonality in the second quarter as well as the fact that we were going through a product transition as we were preparing for the third-generation launch which happened at the very end of the quarter.

In terms of graphics, we were up double-digits sequentially and that's both units and revenue statement as it relates to – and that was driven primarily by the graphics channel.

David M. Wong
Analyst, Instinet LLC
Q

Great. Thanks very much.

Operator: Thank you. Our next question today is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC
Q

Great, thank you. So, your full year guidance mid single-digit, if I sort of project 5% you need to get to a $2.2 billion number for the December quarter. I guess how literally should I take that – is there anything – I understand there's a lot of product momentum but that still seems like a big number. Is there anything we should understand in terms of seasonality or things that would kind of give you confidence in mid single-digit for the full year still?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. I think, Joe, our view is that we have significant amount of product launches to happen. So as we go through the third quarter and the fourth quarter, both on the PC side, the GPU side as well as on the server side. So yes, it is significant growth and I think we feel good about sort of the drivers there.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC
Q

Okay, great. That's all I had. Thank you.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse. Your line is now live.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah. Good afternoon, guys. Thanks for letting me ask the question. And congratulations Lisa on the solid results. Apologize if I missed this, Lisa just going back to the Samsung revenue. Is that $100 million all coming into the calendar fourth quarter? Or will there be some in the September quarter as well?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yes, John, so that $100 million is approximately $100 million for the year. There was a little bit in Q2 and then the rest will be in Q3 and Q4.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Is there linearity you can talk about on that or should we just kind of evenly split it between Q3 and Q4?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

I think that's close.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then just a similar question on bridging sort of the gap between your Q3 guide and your full year guide as it pertains to OpEx. If you look at kind of the full year guide you're giving on OpEx, it could imply that OpEx dollars are actually flat to down sequentially in Q4 on pretty meaningful revenue growth, which is great leverage and understandable on the SG&A line. But I'm just kind of curious, how we should be thinking or how you're thinking about the R&D spend as you start to see revenue begin to accelerate again?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Look, I think you should expect that OpEx should be flattish as we go through the rest of the year. And we have increased OpEx, obviously the first half of the year was higher OpEx as a percentage of revenue. We are investing in the right places and I think the product execution shows that. We will evaluate obviously in 2020 as we look through the overall revenue growth picture and what we'll do with OpEx. But I think we've made the right investments and we'll continue to do so.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

And John, if you're looking at additional data since you're doing the math, we expect OpEx will be approximately 30% for 2019, if you take Q3 and Q4 into consideration.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect. Thanks, guys.

Operator: Thank you. Our next question is coming from Ross Seymore from Deutsche Bank. Your line is now live.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Thanks for letting me ask a question. Lisa, maybe this is something you'll address next week in the Rome launch. But in aggregate now that we're this much closer to the launch and the second half ramp, which you sound very confident on. A year ago you talked about the market share goals. I think it was double-digit market share four to six quarters after you hit the 5% market share. Any sort of update on the timing and/or comfort around hitting that target?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So I think, Ross, we feel good about that being the right target. I'm not ready to update that yet. I think we want to get through – there's a lot of platforms to launch here in the third quarter and in the fourth quarter. We'd like to get through some of that. But we feel that the target is the right target, the product is certainly performing well. And now it's about helping our customers get their platforms to market as soon as possible.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Got it. Thanks for that. A quick follow-up. It was part of a prior question that I don't think I heard the answer to. But is the accounting for the semi-custom ramp, whenever it may occur next year, the same insofar as when you build it, you recognize the revenue. So even if the customer tends to ramp in consumer in the second half of the year, you guys obviously have to build and get the inventory staged, et cetera much earlier than that and therefore that would be revenue? Or did something change accounting-wise that that's no longer true?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. That was asked earlier and I don't think I responded to it. The accounting is the same, so I don't think the accounting changes. The only difference though is we would not ramp a product prior to qualification. So when you're doing a brand new product there is a more involved qualification cycle. And so I think it would be more commensurate with the actual product shipments.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

So the two things would happen more simultaneously is that what you're saying?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Correct.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thank you.

Operator: Thank you. Our next question today is coming from Ambrish Srivastava from BMO Capital Markets. Your line is now live.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)
Q

Hi, thank you. I also had a clarification, Lisa. I'm not sure I quite understood. In the delta for revenues you talked about semi-custom and then you also said that China is having an impact. What specific product areas are those? And is that [ph] ATIC (44:41) is also part of that? And then I had a follow-up for Devinder.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. So we did have a small impact due to China. We have several customers that are now on the U.S. Entities List and we stopped shipping to those customers in the second quarter. And so it's a small impact but there is impact that is offset by some of the positives in the rest of the business.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

So I'm assuming that's CPUs, desktop and/or server both, right?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

There is some PC business and there is some server business.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. Thank you for that. And Devinder, my follow-up is on free cash flow. The gap between free cash flow per share – earnings per share is massive. If I look at the first two quarters, roughly $300 million negative free cash flow. But you're guiding for positive for the full year. Can you put some numbers around that? Is that tens of millions? Or what's the right way to think about that? Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think so, if you ask me Q3, we expect free cash flow positive and free cash flow positive for the year. It won't be tens of millions from a year's standpoint. I think its triple digit, but I'm not going to give you a specific number.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. That's helpful. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Thank you. Operator two more questions please?

Operator: Certainly. Our next question is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Hey good afternoon. Thanks for taking my question. Just curious on the notebook market. Intel talked about some pull-ins but also shoring the market, you're ramping products. I was wondering if you could parse those items out because notebook was pretty strong for you in June. And just curious if that impacts any seasonality into the end of the year?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure Blayne. From our standpoint, our notebook ramps were due to platform breadth. We ramped a number of 2nd Gen Ryzen platforms as well as some new Chrome platforms. I can't say that I can point to any particular pull-ins per se. I think we're still expecting that we'd see a seasonal uplift in the second half of the year.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks. And then maybe just a follow-on to that. In your September guidance if you look between the Computing and Graphic segment, I'm wondering between the three segments if you can just highlight which one do you expect to be the strongest?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

So let's see. I think what I would say is that amongst the product lines and where they are in their ramp cycle, you would expect perhaps PCs to be the strongest and then graphics and server next.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our final question today is coming from Timothy Arcuri from UBS. Your line is now live.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot. Lisa, so for my first question, I just wanted to ask how you think about semi-custom sort of over the longer term? And talk maybe about cloud gaming and sort of how you think about its long-term effect on you. Because on one hand you've done quite well with some of these big launches coming up, but you're also exposed to some potential cannibalization on the semi-custom side. So I'm wondering how you think about those two factors?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So look I think we like sort of gaming overall. So if you think about gaming overall, there's PC gaming, there's cloud gaming, and then there's console gaming. We believe a rich ecosystem is important. We want to have our Radeon graphics architecture across all those three segments.

I've been asked about the cannibalization question, I think it's too early to talk about that. Maybe in a few years, I mean, we think cloud gaming is going to be important, but it's too early to say whether it's really a cannibalization thing or is it an additive getting access to more users overall. So our goal is to make sure that our architecture is very friendly to all segments of gaming.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Great. Thanks. And then I just wanted to go back to the question that Ross just asked about the service share target. So it's not that you're not reiterating that target here, it's more you're going to update us on the target when you launch Rome. Is that the right way to think about it?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

No. Let me say it this way. I think we do stand by the target. So the target being double-digit sort of four to six quarters after the initial 5% I think we feel good about that target. I'm not being more specific than that until we get through more of the ramp.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Perfect. Awesome. Thank you so much.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like turn the floor back over to management for any further or closing comments.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

No. We're good. That was a good call. Thank you for joining us for AMD's second quarter call today. We look forward to speaking to you from San Francisco on August 7, and we appreciate your support of our company. Thank you.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2019 Earnings Call for 30-July-2019 5:30 PM ET
Tuesday, July 16, 2019 09:14:12 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2019 Earnings Call for 30-July-2019 5:30 PM ET.
US Live Call Phone Number: (844) 763-8275 US Live Call Pass Code: 13692205

Intl Live Call Phone Number: (412) 717-9226 Intl Live Call Pass Code: 13692205

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30-Apr-2019

Advanced Micro Devices, Inc. (AMD)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices' First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Graves. Please go ahead.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's First Quarter 2019 Conference Call. By now, you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

I would like to highlight some important dates for you. In celebration of AMD's 50th anniversary on May 1, 2019, Dr. Lisa Su and members of AMD's executive leadership team will host a panel discussion reflecting on 50 years of innovation by AMD. This will be held at the Nasdaq MarketSite in New York City. Dr. Lisa Su, President and Chief Executive Officer, will also be delivering a keynote address at COMPUTEX in Taiwan on Monday, May 27.

Ruth Cotter, Senior Vice President of Worldwide Marketing, HR and Investor Relations, will present at the Bank of America Global Technology Conference on Tuesday, June 4, and our 2019 second quarter quiet time will begin at the close of business on Friday, June 14, 2019.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of this current date and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

We will refer primarily to non-GAAP financial measures during this call except for revenue, and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced on this call are reconciled to their most directly comparable GAAP financial measure in today's press release which is posted on our website.

Please refer to the cautionary statements in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular, AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 2018.

Now with that, I would like to hand the call over to Lisa. Lisa?

Lisa T. Su

Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. We had a solid first quarter. Revenue was in line with our expectations at $1.27 billion, down 23% year-over-year. Ryzen and EPYC processor and datacenter GPU revenue more than doubled year-over-year, helping expand gross margin by 5 percentage points and partially offsetting graphics channel softness and lower Semi-Custom revenue.

Looking at our Computing and Graphics segment, revenue declined year-over-year as higher client processor sales were offset by lower graphic sales to the channel. Client processor sales increased by a strong double-digit percentage from the year-ago period, as unit shipments increased significantly and our new products drove a higher client ASP. As a result, we believe we gained unit market share for the sixth straight quarter.

In the desktop channel, demand for our highest end Ryzen 7 and Ryzen 5 CPUs was strong, with sales increasing sequentially and outperforming seasonality. Ryzen mobile processor adoption continues to accelerate. Acer, ASUS, Dell, HP, Lenovo and other OEMs have launched more than a dozen new Ryzen mobile notebooks so far in 2019, helping us deliver our fifth straight quarter of year-over-year mobile processor growth.

Our customers are on track to increase the number of Ryzen notebook models by more than 50% from 2018. The majority of these new systems are planned to launch in the second quarter, in advance of the seasonally-stronger second half of the year.

In Graphics, revenue decreased year-over-year, driven largely by lower channel sales, partially offset by a significant increase in datacenter GPU sales.

Radeon Vega GPU shipments grew by a strong double-digit percentage both year-over-year and sequentially, based on increased adoption across OEM, gaming, and datacenter customers. Apple introduced two new iMac systems featuring upgraded Radeon Pro Vega GPUs that deliver up to 80% faster graphics performance than the previous generation.

We believe we made good progress improving channel inventory levels. Sell-through accelerated sequentially, driven by sales of both our mainstream Radeon RX GPUs and new high-end Radeon VII gaming GPUs. We are well-positioned to grow GPU revenue in the second quarter and through the second half of the year, as we expect to introduce our first 7-nanometer Navi gaming GPUs in the third quarter.

We delivered another quarter of strong datacenter GPU sales based on increased adoption across large customers. Our progress was highlighted by Google's announcement that they selected high-performance Radeon GPUs and AMD software development tools to power their upcoming Stadia game streaming platform.

Stadia is a great example of how we are expanding the depth and breadth of our datacenter customer engagements. We are seeing growing customer interest in our differentiated platforms for game streaming, machine learning and HPC workloads that combine our high-performance GPUs with open source software tools.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue decreased from a year ago, as expected, due to lower Semi-Custom revenue as we entered the seventh year of the current game console cycle. Our Semi-Custom business model continues to play an important role in our long-term growth as our strong IP portfolio enables the industry's biggest brands to create differentiated solutions.

The latest example is Sony. We are honored that Sony has selected a custom AMD SoC based on our Zen 2 CPU and Navi GPU architectures to power its next-generation PlayStation console. Our server CPU revenue grew significantly from the year-ago period as EPYC processor adoption across cloud, HPC and enterprise customers continued to grow.

Overall, in the datacenter, our CPU and GPU sales accounted for a mid-teens percentage of quarterly revenue. Our work with cloud leader Amazon continues to expand as they rolled out AMD-based offerings to additional regions and launched three new EPYC processor-powered EC2 instance families, including the first T3-series instance. Growing HPC and regional cloud service provider deployments resulted in EPYC processor channel sales increasing sequentially.

In the Enterprise, we added dozens of new customers across the aerospace, healthcare, automotive and telecom industries based on the superior performance of EPYC processors in big data and general purpose virtualized workloads.

Turning to our next generation Rome processor, we made excellent progress in the quarter, achieving key production milestones with our largest OEM and cloud customers. We are very excited about the performance of Rome, which is on track to deliver four times the floating point performance and double the compute performance per socket compared to our current generation EPYC processors. We are on track to begin Rome production shipments in the second quarter, to support a third quarter launch.

In summary, I am pleased with our first quarter financial results, based on the strong execution engine we have built across the company. Tomorrow is an important day in AMD's history as we celebrate our 50th anniversary. This is a significant milestone for any company, but especially significant for a technology company. 2019 is arguably the most important year in our history, as the $75 billion market for our high performance computing and graphics product has never been larger. And our product portfolio has never been stronger. We are right where we plan to be with our multiyear roadmap including our upcoming 7-nanometer Ryzen, Radeon and EPYC processors that can drive our next wave of revenue growth and share gains. We remain confident in our ability to continue delivering on our ambitious leadership roadmap for the PC, gaming and datacenter markets.

Now I'd like to turn the call over to Devinder to provide some additional color on our first quarter financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone. The first quarter of 2019 was a good start to the new year. Revenue was $1.27 billion, and gross margin of 41% was up almost 5 points from the prior year. This was the eighth consecutive quarter of year-over-year gross margin expansion, driven by the ramp of our strong portfolio of high performance products.

Quarterly revenue was down 23% from a year ago. Strong sales of Ryzen and EPYC processors and datacenter GPUs were more than offset by lower graphics channel sales, and lower Semi-Custom revenue.

Gross margin was 41%, up 470 basis points from a year ago, primarily driven by Ryzen and EPYC processor sales as well as datacenter GPU sales. Operating expenses grew 12% year-over-year to $498 million primarily driven by go-to-market activities and investments in our product roadmap.

Operating income was $84 million, down from $152 million a year ago, primarily due to lower revenue and higher operating expenses, partially offset by a $60 million licensing gain from the joint venture with THATIC. Operating margin was 7%, down from 9% last year. Net income was $62 million compared to $121 million a year ago, and diluted earnings per share was $0.06 per share compared to $0.11 per share a year ago.

Now turning to the business segment results, Computing and Graphics segment revenue was $831 million, down 26% year-over-year as strong client processor and datacenter GPU sales were more than offset by lower graphics channel sales.

Ryzen products continued to ramp driven by strong growth across both desktop and mobile processors. In Graphics, sales were down year-over-year, due to lower graphics channel sales and negligible blockchain-related revenue in the quarter partially offset by strong Radeon datacenter GPU sales. Computing and Graphics segment operating income was $16 million compared to $138 million a year ago. The decrease was due primarily to lower revenue and higher OpEx.

In the Enterprise, Embedded and Semi-Custom segment, revenue was $441 million, down 17% from the prior year. Server revenue growth was more than offset by anticipated lower Semi-Custom revenue.

EESC segment operating profit was $68 million compared to $14 million a year ago. The improvement was largely due to an IP licensing gain of $60 million associated with the joint venture with THATIC.

Turning to the balance sheet, our cash, cash equivalents and marketable securities total $1.2 billion at the end of the quarter. During the quarter, we received $448 million of cash related to Mubadala's warrant exercise. We used $64 million of cash to fully extinguish the 2019 term debt, and $100 million of cash to retire other term debt. The principal debt balance as of the end of the quarter was $1.4 billion as compared to $1.7 billion a year ago, and we have no long-term debt maturities until 2022.

Free cash flow was negative $275 million in the quarter primarily due to higher inventory and the timing of collections. We expect to be free cash flow positive for the full year.

Inventory was $955 million, up $110 million sequentially primarily due to an increase in inventory of new products in anticipation of higher revenue. Adjusted EBITDA was $130 million compared to $196 million a year ago, due to lower quarterly earnings and on a trailing 12 month basis, adjusted EBITDA was $737 million. Gross leverage at the end of the quarter was 1.8 times.

Turning to the outlook for the second quarter of 2019, we expect revenue to be approximately $1.52 billion, plus or minus $50 million, an increase of approximately 19% sequentially and a decrease of approximately 13% year-over-year. Sequentially, the increase is expected to be driven by growth across all businesses. The year-over-year decrease is expected to be primarily driven by lower graphics channels sales, negligible blockchain related GPU revenue and lower Semi-Custom revenue.

In addition, for Q2 2019, we expect non-GAAP gross margin to be approximately 41%, non-GAAP operating expenses to be approximately $510 million as we invest in our new products and upcoming product launches. Non-GAAP interest expense, taxes and other to be approximately $25 million.

For the full year 2019, AMD continues to expect high single-digit percentage revenue growth and non-GAAP gross margin to be greater than 41%.

In closing, the first quarter was a good start to the year. We remain focused on executing our plans for the remainder of the year and look forward to unveiling a strong portfolio of next generation products to drive financial growth and customer momentum throughout 2019.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first call.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment, please, while we pull for questions. Our first question today is coming from Matt Ramsay from Cowen. Your line is now live.

Matthew D. Ramsay

Analyst, Cowen and Company

Q

Good afternoon. Thank you very much. Congratulations, Lisa, to your new team on the 50th anniversary. I guess the first question from me is it was encouraging to see you guys reiterate the full-year growth expectation. Obviously, one of your large server competitors had a bit of a hiccup on some of the outlook and talked about maybe a bit of a softer server market for the full year. Maybe you could give an update on what you guys are seeing for the sort of the macro environment and the confidence that you might have in your products ramping. Thank you.

Lisa T. Su

Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure, Matt. Thank you for the question. So, yes, as it relates to how the year's developing, it's developing largely as we expected when we started the year. So, relative to our Q2 guidance, we are guiding up 19% sequentially and every business is growing. That's coming from – if you look across the businesses, our client business is growing due to new platforms that are launching. Our Graphics business, the channel inventory has improved since we started the year. And we have our server business, which is really starting some early shipments of Rome in the second quarter going into the second half of the year.

As it relates to the full-year guidance and how we will get it, again, it's largely as we expected, as we're laying out the year. There certainly is some discussion with our customers about some inventory in the datacenter, especially here in the first half. When we developed our plan, our datacenter business was always more second-half weighted and continues to be so, because much of that is dependent on platforms that are launching around our Rome product portfolio.

So we're going to continue to watch the datacenter overall environment, but at this point, we're focused on our products and our customers continue to have a very strong pull. There's a lot of interest in Rome. We're doing well on our qualifications. And so we feel good about how that's developing.

Matthew D. Ramsay

Analyst, Cowen and Company

Q

Got it. Thank you. And as a follow-up, you mentioned the 19% sequential guidance for Q2, it seems like a bit of a transitional quarter for the company with a lot of things going on towards product launches that will happen to feed the back half of the year. So, maybe you could talk a little bit more granularly about the drivers of Q2, just given it's a bit of a transition for a whole new portfolio rolling out. And if there's any kind of color on contributions from older or newer products in the second quarter guidance, that would be helpful. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Sure, Matt. So, yeah, as we look at Q2, it is a bit of a transition in the product portfolio. It's an important quarter for us as we are preparing to launch our 7-nanometer products. In terms of the overall business, as I stated earlier, each of the businesses is growing for different reasons. I think starting with server, again, it's the greatest percentage of growth and it really is the start of some shipments of Rome. We expect that Rome will launch here in the third quarter and there's some preparations that need to be done for that.

As we look at the Graphics business, again, the channel inventory situation has improved and so that we expect that the channel will be up here in the second quarter and then into the second half, as we launch Navi. And in the client business, we have a large number of platforms with our OEM customers that are launching here in the second quarter around our second generation Ryzen mobile processors, and we're also in preparations for our third generation Ryzen desktop as well.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Thank you, Matt. Operator, next question, please.

Operator: Certainly. Our next question is coming from Aaron Rakers from Wells Fargo. Your line is now live.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Yeah. Thanks for taking the question. I'm just – I guess, first question, and I do have a quick follow-up, is when you kind of lay out Rome and the expectation of a ramp going forward, can you just remind us of how you currently see the setup with regard to market share opportunities or market share gains that you would expect? And where do you think you fell out this last quarter in terms of market share in the overall server space?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Sure. Aaron, thanks for the question. So, look, as we look at the server market, we know very well that the datacenter market takes time to ramp with any new product. And so, that's the way we have sort of built our plans. What we have previously stated is that from, let's call it, the beginning of this year, we'd expect that over the next four to six quarters, we would continue to ramp our server market share with the goal of getting to double-digit percentage share.

As it relates to the Q1 quarter, again, we'll have to wait to see how the numbers come out. The datacenter business for us on the CPU side behaved as expected in Q1 but we did see some product mix shift. So Q4 was a large quarter for us in the cloud business for our EPYC processors. And Q1 the mix shift did more to enterprise and channel. And from that, the ASPs were higher, the units were lower and so again, largely as we would have expected.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. And then as a quick follow-up, congratulations on the announcement with Sony. I'm just curious, I think last quarter you had suggested that you expected that Semi-Custom business to decline by 20% plus this year. Assuming that that's still the case, number one. Number two, how do we now start to think about the growth profile of that looking into next year? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes. Sure. So, yes, we are very pleased with our partnership and expanding our partnership with Sony on their next generation consoles. As we see the Semi-Custom business at this point, we still believe that it's going to be down substantially in 2019. Let's call it approximately 20% plus. And then as we go into 2020, without talking about any specific customer, we believe that Semi-Custom will return to a growth business for us in 2020 and beyond.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Aaron.

Operator: Thank you. Our next question is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon, and thank you for taking the question. Lisa, we continue to hear about the CPU shortage, which is obviously primarily caused by your competitor. Curious, are you seeing any impact on your business in the near term? And more importantly, as we go into the second half and they ramp capacity, are you concerned at all that that could disrupt your business whether it be market share swings or pricing pressure? And I have a follow-up.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure. So as it relates to CPU shortages in the market, look, we see a little bit of that. I would say there are pockets of shortage mostly at the low end of the market frankly. So from our standpoint, I don't believe it's a huge contributor to our business. As we look at the PC business both in the first half and the second half of the year, we believe that the PC business can be a growth business for us. From a market environment standpoint, we believe the market is not too bad. We call it flat to slightly down.

When we look at our product portfolio in the notebook space, with our second generation Ryzen platforms, we believe we have much stronger platforms that are ramping through this year. And then in the desktop space, we believe we'll be very competitive as we launch the third generation of Ryzen desktop. So I view the PC business as an important growth driver for us in 2019 and we see it as a good market for us.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC
Q

Thank you. And then as a follow-up, in your prepared remarks you mentioned that datacenter CPUs and GPUs accounted for about mid-teens percentage of your revenue in the quarter. Like last quarter, can you give us a rough split between the two? And related to that, I was hoping you could help us size the game streaming opportunity long-term. Obviously, you're involved with Google today. How does that business with them evolve over the next 12 to 18 months and what's your opportunity elsewhere in terms of broadening your customer base? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Sure. So as we stated, the datacenter CPU and GPU business was about mid-teens percentage of revenue for us. Both businesses were down as expected in Q1 and much of that was the strength of the Q4 quarter especially around the cloud. We mentioned in Q4 that the split between CPUs and GPUs was close, so they were close. As we look longer term, for datacenter GPUs and your question about the cloud streaming opportunity, we're very pleased with our partnership with Google. It's the result of several years of effort where we were optimizing both hardware and software together. And so we think it's an important vertical for us. We are working with other customers in the cloud streaming area as well. So again I think it's an interesting and important market over the next couple of years.

We also have a number of other workloads that we feel good about as it relates to datacenter GPU including HPC. Especially when you combine our CPU and GPU portfolio together, we think HPC is a great workload for us and as well as machine learning. And we're working in machine learning, with a couple of leading cloud customers to again optimize our software to their needs.

So again, the datacenter GPU market will continue to be a important driver for us over the next couple of years.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Hi, guys. Thanks for taking my question. I had a question on your gross margin guide. I'm a little confused why it's flat sequentially into Q2 on a pretty meaningful revenue lift. I mean, you talked about all businesses growing and you mentioned a number of them, but you didn't mention Semi-Custom. I mean is this just a matter of mix with Semi-Custom driving a lot of the growth or is there something else going around on about intra-business mix or pricing or something like what's going on with the gross margins?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah, Stacy, let me start and I'll let Devinder comment. I should have mentioned Semi-Custom in that list as well. So Semi-Custom is going through a seasonal build. So although it will be down substantially year-over-year, it's still a seasonal build for us as we go from Q2 – from Q1 into Q2. Devinder, maybe you want to comment as well?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

Yeah, so, Stacy...

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Could you rank order maybe the growth by business?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Can I rank order the growth by business? That's probably a bit more granular than I would like to get but I think it's fair to say that all businesses have to grow a decent amount to get to 19% sequential growth.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

That's right, Lisa. So fundamentally, Stacy, the product mix in the quarter that is driving the flat gross margin. I have the 41% guide and it's an improvement of 4 points year-on-year. Now as you know very well, we have businesses that are higher than corporate average gross margin and lower than corporate average and the mix of the businesses with Semi-Custom that we just talked about lower than corporate average is driving the 41% guide for Q2.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

And then you would also – I'm sorry, Stacy. I would just add, you would also expect – Graphics is also a bit lower than corporate average on the consumer side.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. So it's fair to say that a good amount of growth is coming from Graphics and Semi-Custom as well as the other stuff?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah, it's really across all of the businesses. Yeah.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. Thank you. For my follow-up I had a question on OpEx. You're guiding 29% for the year and you're at $510 million in Q2 and, obviously, high single-digits growth for the full revenue. So if I had revenue up 8% for the full year, that would imply OpEx in Q3 and Q4 of $510 million flat to Q2 levels. Do you think that's realistic? Does OpEx actually stay flat for the rest of the year from Q2 levels or does it need to go higher? If it goes higher, does that imply that the revenue growth embedded in your guide for the year has to be above 8%?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think, Stacy, the way you want to look at it is the first part of 2019 we do have incremental R&D and go-to-market activities in the first quarter and even in the second. As you know, we are preparing for a strong series of significant 7-nanometer product launches this year and also share gains as we get to the back half of the year. And that's obviously driving the OpEx. All in all for the year, we are comfortable with the 29% for the year of overall revenue from an OpEx standpoint. And as you have seen us in the past, we do have a way of modulating the OpEx if needed. But right now, we are investing in the roadmaps, we're investing in product launches and the go-to-market activities and very focused to make sure that we are well positioned in the first half going into the second half where we see the revenue lift compared to the first half of 2019.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Does that imply OpEx – you see OpEx going up from current levels for the rest of the year then or does it go down or does it stay flat?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

$510 million is the guide for Q2 and 29% for the year is the way I would do the model.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you, guys. Appreciate it.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks Stacy. Next question, please.

Operator: Our next question is coming from David Wong from Nomura Instinet. Your line is now live.

David M. Wong
Analyst, Nomura Instinet

Q

Thanks very much. Devinder, can you give us some idea of what gross margins are currently running at for the client and datacenter processors and what direction these gross margins are moving in?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

The client and datacenter businesses are higher than corporate average. And the Semi-Custom business and Graphics as we just said on the last question are lower than corporate average especially on the Graphics consumer side. The datacenter GPU side obviously is better.

David M. Wong
Analyst, Nomura Instinet

Q

Great. And are gross margins rising for your microprocessor businesses at the moment?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think it's early in the year, the second quarter. We are getting the second quarter at 41% guide. And our guidance for the year is greater than 41% on an annual basis is what we have said so far.

David M. Wong
Analyst, Nomura Instinet

Q

Okay. Great. And, Lisa, my last question, in 2020, do you expect meaningful Semi-Custom revenues outside the game console space? And if so, what types of applications will these Semi-Custom chips be used in?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes, David. So, as it relates to Semi-Custom business, as we go out in time, we do expect additional applications other than consoles, but consoles are a large piece of the business. And so you would expect that they would continue to be a large piece of the business.

David M. Wong
Analyst, Nomura Instinet

Q

Great. Thanks.

Operator: Thank you. Our next question today is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Just one quick historical, and I've got two, but the first on the historical side, for March of 2018, did you guys provide a rough breakout of how much your revenue was server-related?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

No.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

No.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

No, we wouldn't have done that.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

No, we haven't done that. Not that specific. I think server is, if you're referring to the CPU side, is within the EESC segment.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Okay. And then – yes. And then, if I look at the second half of the year, you guys kind of talked about like an around 41%, 42% kind of gross margin, rough level. So is it safe to assume that we should see a pretty big step function in September quarter on the gross margin or is that – I guess, is that incorrect, is that aggressive?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think if you look at it from a viewpoint of the product, as I said, we are shipping, like Lisa said, Rome in preparation of our launch in Q3. We have a couple of other new products that will start shipping in Q3, and we'll see how the margin comes out when we come in and talk about Q3 about 90 days from now.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Got it. Thank you.

Operator: Thank you. Our next question is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. I wonder if you could talk about gross margins in the console segment. Obviously, that's been pretty low historically. You also have customers funding the R&D. But as you look to the next generation of consoles, do you see opportunity to improve the gross margin in that space?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, Joe. I think it's a bit early to talk about margins for the next generation. As you stated, the gross margins of the console business are below corporate average. The operating margins are quite good because the customers are paying the engineering expenses for it. But I think the gross margins are below corporate average. We would expect, though, and I think you would expect this, as the company continues to grow, the percentage of the company that is Semi-Custom is lower than it has historically been.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. That makes sense. And then, if you look at the GPU datacenter opportunities, the gross margin there, how does that compare to, say, the discrete graphics portion of your business and how does it compare to corporate average, things like that?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. The GPU datacenter business would be above corporate average and above our consumer graphics business.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Joe.

Operator: Thank you. Our next...

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Next question...

Operator: Certainly. Our next question is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. I had a couple of questions on the server strategy longer-term. Can you help us understand ultimately what percentage of the workloads in the cloud do you expect to target? And that's the first part of the question.

The second part of the question is, I was hoping you could provide some color on the customization strategy. I think Intel might argue that they are embedding IP blocks for their customers. Is that something that you do or you think about doing? Or to what extent does your customization strategy fall under your Semi-Custom model?

And I was wondering are your customers on the server side asking you for like an APU kind of a product, where the microprocessor and graphics processor capability is integrated together. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Mark. So, look, when we think about our server strategy and maybe our – let me generalize it to our datacenter strategy overall. It is a multiyear, multigenerational roadmap. In terms of the workloads that we plan to address, we are – in addition to the workloads that we do very, very well on like big data, data analytics, virtualization, high-performance computing, cloud workloads, I think we do quite well with general purpose workloads too as we move generations. So, as we look at, for example, the Rome generation, the second generation of EPYC, we would expect to address well 80%-plus of the workloads.

As it relates to customization for server CPUs, there are varying degrees of customization that customers want, especially as you go through a number of the different cloud workloads that are out there. There are specific requirements that are there.

We're very comfortable doing that. I think the customers have been deeply engaged with us since the first generation of EPYC. There is both software customization, as well as some hardware customization that we go through. So we feel very comfortable with our ability to address that across the cloud and the Enterprise businesses.

And then, as we go forward, I think we are also very excited about what we can do when we put our CPU and GPU portfolio together, and really do system-level optimization for the datacenter. So we view that as a early opportunity for us, but one where there is a lot of opportunity to help customers really optimize our very high performance computing applications.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you .

Operator: Thank you. Our next question today is coming from Vivek Arya from Bank of America Merrill Lynch. Your line is now live.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question and congratulations on the strong results and the pipeline. Lisa, two questions from me as well. First, you have Naples now and Rome server shipping soon. Intel has Cascade Lake with Optane. What are you hearing from customers on a pricing versus feature comparison? And where I'm going with that is how well is AMD prepared if your competitor decides to perhaps become a little more aggressive on the pricing side? At what point does pricing matter and at what point do your feature list – does your feature list matter more?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes. So Vivek, look, we understand that it's a very competitive market out there. It's always been very competitive and we are prepared for it to get even more competitive. When you look at our roadmap, I think we feel very comfortable with sort of our positioning. And the way I think about it when it comes to the datacenter market, price is only one factor. And it's probably not the most important factor when people are choosing their next generation products. The most important factor is really total cost of ownership. And the advantages that we have with our chiplet architecture and our 7-nanometer sort of process capabilities really have a great sort of power performance benefit. So we are, as you say, we're prepared for a competitive environment, but we also feel that our product from a performance standpoint and a positioning standpoint we'll be positioned quite well in the marketplace.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And as a follow-up, Lisa, you mentioned your goal of getting to double digit market shares in servers over the next four to six quarters. I assume that will require a greater contribution from enterprise customers. And if that is right, what push backs are you seeing from them now? Is it just a matter of time that you increase your enterprise traction? In general, what do you need to do anything extra to attract enterprise customers? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, no it's a great point. We certainly have deep engagements with both cloud and the OEMs. On the enterprise customers, we sell through our OEM partners. The pushback that we get – I don't know if I would call it pushback. I would just say that enterprise tends to move a bit more slowly than cloud. There are longer qualification cycles because there are qualification cycles on both the OEM side as well as the end customer side. We are continuing to build out our direct sales force as it relates to facing the Fortune 1000 customers and CIOs in that area. And I believe we will make progress in enterprise certainly as we go forward from the Naples generation into Rome we'll have more platform coverage with our OEMs. And I think there will be more familiarity with our architecture, as well as more software optimized to our architecture. So yes, we're very committed to the enterprise market and expect that we will make progress with time.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you Vivek.

Operator: Thank you. Our next question today is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks for taking my question. Lisa, just curious on the server product you mentioned enterprise was a bigger contributor in Q1, I'm just trying to think about the life cycle of EPYC 1, enterprise takes longer to qual. So I'm just kind of curious where you are in terms of roll out of that product. Obviously, Rome's going to come in at the end of the year, I'm just kind of curious how you see the tail on EPYC 1 throughout the year.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, so, Blayne, I think as I stated a little earlier, I think the datacenter business does tend to move slowly. So we would expect that there will be a good amount of time where we will have both Naples and Rome in market at the same point in time. And that just depends on qualification cycles, platform needs and some platforms are being refreshed right away, some platforms are going to take a little bit longer to be refreshed. And so from my standpoint, I think that Naples will continue to be important for us in 2019 even as we ramp Rome with our launch in the second half of the year.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Got you. And then if I could just ask on the datacenter GPU product you had. The Google ramp I think it started in Q4, just kind of curious your pipeline for that product and how you think about the slope of that business and the lumpiness of – given that large customer.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah, so we do expect the datacenter GPU business to be a bit lumpy. We do have several sort of large customers that are ramping product with us. And there will be some ebb and flow as we go on a quarterly basis.

But on an annual basis, I think 2019 will certainly be – we expect it to be significantly up from 2018. And the pipeline is good. So when we look at the pipeline, as I mentioned, cloud streaming is a good workload for us. Google is one customer, but we're working with other customers as well. And we also see HPC and machine learning as additional workloads that will be good for us in that business.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Got you. Thanks.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Hans Mosesmann from Rosenblatt Securities. Your line is now live.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Hey. Thanks. Lisa, regarding Navi, if you can comment on it, what is the positioning of that particular product relative to your current 7-nanometer GPU? And regarding Navi, can you tell us if it's going to include ray-tracing?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes. So, Hans, we are excited about Navi. Navi is a new architecture for us in gaming. It has a lot of new features across the Navi architecture. Things are progressing well. We expect it to launch in the third quarter.

From a positioning standpoint, I probably won't go through it in great detail right now other than to stay that it is 7-nanometer Navi, but it will be positioned below where, for example, our Radeon VII is positioned today from a price point standpoint.

And then in terms of ray-tracing, again, we will talk more about our overall Navi roadmap as we get closer to the launch.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Okay. Great. Thank you.

Operator: Thank you. Our final question today is coming from Kevin Cassidy from Stifel. Your line is now live.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks for taking my question, and congratulations. As you're introducing the new generations of Ryzen, should we assume that ASPs will continue to go up or are some of these purpose-built for lower price points?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes, Kevin. So as we look at the new generations of Ryzen, our goal is certainly to improve the mix of the product. And so we think as we improve the performance of the product that we can improve that mix.

Now the actual mix will vary of course depending on a number of things as we go through quarter-by-quarter, but certainly as – our goal is to continue to improve our penetration at the higher end of the PC processors.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Great. Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Kevin.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, everyone, for joining us today. This concludes our call. We appreciate your time and attention to this earnings call and certainly your support of our company. Have a nice evening.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2019 Earnings Call for 30-April-2019 5:30 PM ET
Wednesday, April 17, 2019 12:04:10 AM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2019 Earnings Call for 30-April-2019 5:30 PM ET.

Press Release URL: http://ir.amd.com/static-files/a84dfc6c-0da6-4706-bd9f-f35149030e4d
Live WebCast URL: https://edge.media-server.com/m6/p/azrzpdyv
Replay WebCast URL: https://edge.media-server.com/m6/p/azrzpdyv
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Advanced Micro Devices, Inc. (AMD)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Advanced Micro Devices Fourth Quarter and Full Year 2018 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to turn the call over to Laura Graves. Please go ahead.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's fourth quarter and fiscal year 2018 conference call. By now, you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, www.amd.com. Participants on today's conference call are: Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

I would like to highlight some important dates for you. Dr. Lisa Su will present at the Goldman Sachs Technology and Internet Conference on Tuesday, February 12. Also, Ruth Cotter, Senior Vice President of HR, Worldwide Marketing and Investor Relations, will present at the Susquehanna Annual Technology Conference on Tuesday, March 12. And our 2019 first quarter quiet time will begin at the close of business on Friday, March 15, 2019.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

We will refer primarily to non-GAAP financial measures during this call except for revenue, gross margin and segment operational results, which are reported on a GAAP basis. The non-GAAP financial measures referenced herein are reconciled to their most directly comparable GAAP financial measure in today's press release which is posted on our website. Please refer to the cautionary statements in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's quarterly report on Form 10-Q for the quarter ended September 29, 2018.

Now, with that, I will hand the call over to Lisa. Lisa?

Lisa T. Su

Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. 2018 marked another year of strong financial performance driven by our expanded high-performance product portfolio despite near-term graphics weakness. We grew annual revenue by 23% with Ryzen, EPYC and datacenter GPUs product revenue growing by more than $1.2 billion for the year. Our new products gained share and significantly expanded gross margin, leading to our most profitable year since 2011.

Looking at the fourth quarter, revenue of $1.42 billion increased 6% from a year ago, with approximately 65% of sales coming from our new products. We reached an important milestone in our business in the quarter as our high margin datacenter CPUs and GPUs accounted for a mid-teens percentage of overall revenue. While we expect our datacenter revenue to be lumpy, the ramp of our datacenter business is beginning to contribute meaningfully to our financial results.

Looking at our Computing and Graphics segment, we delivered our eighth straight quarter of year-over-year segment revenue growth. Sales of Ryzen desktop and notebook processors and datacenter GPUs offset lower GPU sales as the channel continued working through elevated levels of Graphics inventory. Client processor unit shipments grew by more than 50% from the year-ago period. We had our highest client computing revenue in more than four years and we believe we gained client CPU unit share for the fifth straight quarter.

At CES, Acer, Asus, Dell, HP, Huawei, Lenovo and Samsung all launched notebooks powered by our new 2nd Generation Ryzen Mobile Processor with Radeon Vega graphics. The 2nd Gen Ryzen Mobile Processor delivers more performance, enhanced features and longer battery life than any mobile processor we've ever built, and is the fastest processor available for ultrathin notebooks.

The industry's first AMD-based Chromebooks launched earlier this quarter from Acer and HP. We expect additional AMD-based Chromebooks to launch later this year as we expand our participation in this growing portion of the PC market. Based on the competitive positioning of our Ryzen processors, we expect the number of Ryzen systems that will launch in 2019 to increase by more than 30% from 2018, with the number of Ryzen notebook systems planned to launch increasing by more than 50%.

In Graphics, GPU revenue decreased year-over-year driven largely by lower channel GPU and memory sales, partially offset by a significant increase in datacenter GPU sales. We saw an improvement in channel GPU sellout throughout the quarter as our partners continued to drain their inventory. There is still more work to do, but we remain confident we're taking the right actions to further reduce channel inventory.

We set a record for professional GPU revenue in the quarter driven by multiple high volume wins for our Vega-based datacenter GPUs. We started shipping our new 7-nanometer Radeon Instinct accelerators in the quarter and introduced a major set of enhancements to our datacenter GPU software that make it easier for customers to deploy Radeon GPUs for AI and machine learning workloads.

At CES, we highlighted the significant gaming momentum we are generating for Radeon across consoles, PCs and the cloud. For gamers and creators, we announced our return to the high-end GPU market with the new Radeon VII GPU. Powered by our 2nd Generation Vega graphics core and featuring 16 gigabytes of second-generation high-bandwidth memory, our new 7-nanometer Radeon VII GPU delivers leadership performance in content creation and compute workloads, and is very competitively positioned when running the most demanding AAA games at 4K resolution. In cloud gaming, we announced that Google selected Radeon Pro GPUs to power their game streaming initiative, Project Stream. The performance and differentiated virtualization features of our Radeon Pro GPUs enables Google to deliver an uncompromised high-definition gaming experience on virtually any PC.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue was flat from a year ago as a double-digit percentage decrease in Semi-Custom revenue was offset by strong growth in EPYC processor sales. As expected, Semi-Custom sales were down from a year ago based on where we are in the current console cycle. This console generation remains one of the most successful ever, as Microsoft and Sony combined have now shipped well in excess of 120 million AMD-powered consoles.

Fourth quarter server unit shipments more than doubled sequentially based on growing demand for our highest end 32-core EPYC processors with cloud, HPC and virtualized enterprise customers. As a result, we believe we achieved our goal of mid-single-digit server unit share exiting 2018. We had another strong quarter of cloud adoption, highlighted by industry leader Amazon announcing new versions of their most popular EC2 computing instances powered by EPYC processors, businesses can easily migrate their AWS instances to AMD and save 10% or more based on the technology advantages of our platform.

Microsoft Azure also announced general availability of their AMD-based storage instance in the quarter, as well as a new HPC instance powered by EPYC processors that is 33% faster than competitive x86 offerings. We secured multiple HPC wins in the quarter, including Procter & Gamble, the U.S. Department of Energy, and one of Europe's largest supercomputers at the University of Stuttgart's High Performance Computing Center. Lawrence Livermore Labs also announced a new supercomputer featuring both EPYC processors and Radeon Instinct Accelerators that will be used for machine learning and big data analytics workloads.

Customer interest in our next-generation Rome server processor remains very high. Rome is expected to deliver four times the floating-point performance and double the compute performance per socket compared to our current generation EPYC processors. We publically demonstrated a single 64-core next-generation EPYC processor outperforming two of our competitors' highest-end server processors in multiple workloads. Rome development is proceeding very well and we are on track to start shipments midyear.

I am also pleased to report that we concluded discussions with GLOBALFOUNDRIES on the seventh amendment to our wafer supply agreements. The amendment affirms the strategic partnership with GF for products built at 12-nanometers-and-above and provides AMD with full sourcing flexibility at the 7-nanometer-and-below nodes. GF continues to be a critical supplier of AMD's current generation products and will play a key role in our next-generation Ryzen and EPYC products with our chiplet strategy.

In summary, 2018 was another strong year for AMD. Increased adoption of our high-performance products drove a second straight year of double-digit annual revenue growth, expanded gross margins and improved profitability. I would like to thank the more than 10,000 AMD employees, whose dedication to building great products, have made these results possible.

While headwinds remain in the Graphics channel and macro uncertainties are causing some caution in the first half of 2019, we believe we are well positioned to gain share throughout the year and accelerate growth as we ramp our next-generation 7-nanometer products. As we enter 2019, we are preparing to launch our strongest product portfolio ever. In gaming, we will launch our high-end Radeon 7 GPU in February followed by our next-generation Navi GPUs later in the year.

In client computing, we started the year with our second generation Ryzen mobile processors and we are on track to launch our third generation Ryzen desktop processors in the middle of the year. And in the server market, we expect to deliver a significant step function performance increase with the launch of our next generation Rome processors in the middle of the year. I am very proud of what we accomplished in 2018 and even more excited about how our long-term investments are set to pay off in 2019.

Now, I'd like to turn the call over to Devinder to provide some additional color on our fourth quarter and full year financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone. 2018 was a strong year for AMD. New product introductions drove the highest annual revenue since 2011 and a significant improvement in gross margin year-over-year. Earnings per share increased from $0.10 per share in 2017 to $0.46 per share in 2018. Full year 2018 revenue was $6.48 billion, up 23% year-on-year driven by strong performance in the Computing and Graphics segment with significant growth in Ryzen processor sales. Although there was weakness in the Graphics channel in the second half of the year, we saw strength in datacenter CPUs and GPUs.

Gross margin was 39%, up 440 basis points from the prior year. Gross margin improvements were primarily driven by our new Ryzen, EPYC and Radeon products. Operating expenses were 29% of revenue, an improvement of 2 percentage points from the prior year.

For the full year, operating income was $633 million, up $409 million from $224 million in the prior year. Net income was $514 million, up $411 million compared to net income of $103 million in the prior year. On the balance sheet, we reduced principal debt by $171 million and improved gross leverage significantly from 4.6 times a year ago to 1.9 times at the end of 2018.

Let me turn to the details of the fourth quarter results. Fourth quarter revenue, gross margin, operating margin and earnings per share all improved year-on-year. Quarterly revenue of $1.42 billion was up 6% from a year ago. Strong sales of Ryzen and EPYC processors and datacenter GPUs more than offset lower channel GPU and Semi-Custom sales during the quarter. Fourth quarter 2018 revenue did not include any IP-related revenue and blockchain related GPU revenue was negligible.

Gross margin was 41%, up 740 basis points from 34% a year ago. Year-on-year gross margin improvement was driven primarily by the ramp of Ryzen and EPYC processor sales. Gross margin has increased year-over-year for seven consecutive quarters, driven by a higher percentage of revenue from new products. Fourth quarter 2018 gross margin excludes a $45 million write-down of older technology licenses that are no longer being used. Operating expenses grew 9% year-over-year to $474 million and remained approximately flat as a percentage of revenue from the year ago period. We continue to invest in our product roadmap and go-to-market activities as we gain market share in important markets.

Operating income was $109 million, up $90 million from $19 million a year ago. Operating margin was 8%, up from less than 2% last year. Net income was $87 million compared to $8 million a year ago. Q4 2018 net income excludes a withholding tax refund plus interest of $43 million related to an IP litigation settlement from 2010. Diluted earnings per share using a diluted share count of 1.180 billion was $0.08 per share compared to $0.01 per share a year ago.

Now turning to the business segment results. Computing and Graphics segment revenue was $986 million, up 9% year-over-year. Revenue growth was driven primarily by continued strong Ryzen desktop product sales and the adoption of second generation Ryzen mobile processors largely offset by lower channel GPU and memory sales compared to the prior year. Ryzen products continued to ramp and were greater than 80% of total client revenue driven by OEM and channel momentum.

In Graphics, sales were down year-over-year due to negligible blockchain-related revenue in the fourth quarter of 2018 as well as elevated levels of Graphics inventory in the channel. Total Graphics revenue grew sequentially driven by strong Radeon, datacenter, GPU sales.

Computing and Graphics operating segment income was $115 million compared to $33 million a year ago. The increase was driven primarily by strength in Ryzen product sales and significantly higher ASPs in both desktop and notebook compared to a year ago.

Enterprise, Embedded and Semi-Custom revenue was $433 million, flat from the prior year. Server revenue growth was offset by lower Semi-Custom revenue. EPYC processor units more than doubled sequentially driving significant growth in datacenter revenue in the quarter. EESC segment operating loss was $6 million compared to a loss of $13 million a year ago. The improvement due to higher EPYC processor revenue was partially offset by lower Semi-Custom revenue and continued engineering and go-to-market investments in the server business.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities totaled $1.16 billion at the end of the quarter. We generated free cash flow of $79 million in the quarter. Free cash flow was a negative $129 million for the full year, primarily due to growth in inventory related to new products and the timing of collections. Inventory was $845 million, up $107 million sequentially primarily due to the ramp of new products.

Total principle debt was $1.5 billion as we further reduced term debt by $60 million during the quarter resulting in total debt reduction of $171 million during 2018. We expect to pay off the remaining $66 million of 2019 term debt in March 2019 and beyond that, there are no long-term debt maturities until 2022.

Adjusted EBITDA was $152 million compared to $58 million a year ago, and on a trailing 12-month basis, adjusted EBITDA was $803 million, more than doubling year-over-year. Gross leverage was 1.9 times as we ended 2018 and we are pleased to have achieved our long-term gross leverage target of less than two times.

Before turning to our financial outlook, let me discuss our wafer supply agreement with GLOBALFOUNDRIES. Today's seventh amendment of the WSA spans from January 2019 through March 2024. It establishes purchase commitments and pricing at 12-nanometer and above for the years 2019 through 2021. The amendment also provides AMD full sourcing flexibility at 7-nanometer and beyond without any onetime payments or royalties for products purchased from other foundries.

Turning to the outlook for the first quarter of 2019. We expect revenue to be approximately $1.25 billion plus or minus $50 million, a decrease of approximately 12% sequentially and 24% year-over-year. Sequentially, the decrease is expected to be primarily driven by continued softness in the Graphics channel and seasonality across the business. The year-over-year decrease is expected to be primarily driven by lower Graphics sales due to excess channel inventory, the absence of blockchain-related GPU revenue and lower memory sales. In addition, Semi-Custom revenue is expected to be lower year-over-year, while Ryzen, EPYC and Radeon datacenter GPU product sales are expected to increase.

In addition, for Q1 2019, we expect non-GAAP gross margin to be approximately 41%, non-GAAP operating expenses to be approximately $480 million, non-GAAP interest expense, taxes and other to be approximately $25 million and we also expect to record a $60 million IP licensing gain associated with the THATIC JV in the first quarter of 2019 which will be a benefit to operating income and recorded on the licensing gain line of the P&L.

For the full year 2019, despite near-term weakness in the Graphics channel and a cautious macro environment, we expect high-single digit percentage revenue growth driven by Ryzen, EPYC and Radeon datacenter GPU product sales and as we ramp our 7-nanometer products throughout the year. We expect non-GAAP gross margin to be greater than 41%, non-GAAP operating expenses to be approximately 29% of revenue and a non-GAAP tax rate of approximately 4% of pre-tax income.

In closing, we made excellent progress in 2018. We grew the top-line by more than $1.2 billion, expanded gross margin and significantly improved profitability. We continue to execute our long-term financial model driven by our new high performance computing products that gained solid momentum last year. We are pleased to enter 2019 with a strengthened balance sheet and a strong portfolio of next-generation products capable of driving continued financial growth.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first question, please.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] . Our first question today is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. Thank you so much for taking the question. Lisa, I had a question on your full year 2019 outlook. You guys are guiding revenue growth kind of in the high-single digit range. Embedded in that outlook, what kind of growth rates are you assuming for your core businesses; Computing, Graphics, Semi-Custom and server CPUs. Then on the gross margin side, 41% or greater. Is the improvement year-over-year primarily a function of revenue growth and mix or is the amendment in the WSA playing a role there as well? Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure. Thank you for the question. So relative to the full year guidance of up high-single digits, you know the primary growth drivers are – Ryzen and EPYC are the two largest growth drivers with datacenter GPU. Also, we're expecting that to be up. And then we would expect that Semi-Custom will be down. If you look at the lifecycle of Semi-Custom, we'll be in the seventh year of the console cycle. And so we expect Semi-Custom to be down approximately 20%. And then we would expect Consumer Graphics to also be down, let's call it, double-digit as we really burn off some of the channel inventory that we see in the first half of the year. So Ryzen and EPYC are the large drivers of the growth, and that's as we launch our 7-nanometer products throughout the year.

And then your second question was?

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Gross margins; 41% or greater, that's 2 percentage point or greater improvement year-over-year. Is that primarily a function of revenue growth and improvement in mix given Ryzen and EPYC or is the WSA amendment providing a tailwind wind as well?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes, it's primarily due to mix. So the mix of the higher margin, new products Ryzen, EPYC and the datacenter GPUs.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Next question, please.

Operator: Certainly. Our next question is coming from Matt Ramsay from Cowen & Company. Your line is now live.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Thank you very much. Good afternoon. Lisa, I guess I wanted to attack Tosh's question on the full year a little bit differently, and maybe just talk about, a little bit, what share gain assumptions you guys are embedding for your 7-nanometer roadmap versus maybe some pragmatism or conservatism on the market just given the macro. I mean Intel talked about a flat PC TAM in terms of units, and obviously is only, I guess, guided us to mid-single digit growth for their sort of expansive server business for the year. And you guys are starting off down maybe 25% year-over-year in revenue for the first quarter given what's going on in the Graphics business. So maybe you could just walk us through a little bit what you're thinking about the TAM growth of your two main growth markets for the year versus share gains you're embedding. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah absolutely, Matt. So look, I think as it relates to the market, I don't think we would have a very different view of the market as others may have stated. Our story really is a share gain story. And when you take a look at sort of the progress that we've made in 2018 and the design wins that we have in 2018 as we go over to 2019 when we look at both Rome as well as Ryzen, we look at sort of the breadth of OEM platforms that we have, the customer engagements by workload and sort of how we see that progressing, we feel very good about the opportunity to gain share as we go through the year, particularly given how competitive the product set is.

Similarly on the PC side, we've made nice progress over the last four or five quarters on Ryzen. We started strong on desktop and then in the last couple of quarters we've made good progress on notebook. We see a broader portfolio with our OEMs as we go into 2019, and we also see a more competitive desktop product line as well as notebook product line. So that's how we're thinking about the year.

To your point about starting a little bit with lower guidance in Q1, I think that's true. When we look at Q1, particularly on a year-on-year basis, there are a lot of moving pieces. But it's primarily due to the Graphics channel and that's both the reduced demand as well as the absence in blockchain revenue on a year-over-year basis as well as the Semi-Custom business. But as we move forward, as we go into Q2 and beyond, we see a significant opportunity with the ramp of our new products and that's how we see the year.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC
Q

Got it. Thank you very much for the color there. That's helpful. Devinder, maybe just a couple of little things in terms of licensing gains and IP revenue. I got asked a few times tonight, so I just want to clarify it here that, the gross margin outlook for the first quarter does not include any IP or licensing gains? And then for the full year, are you including any IP revenue in the revenue outlook?

And how should we think about the rest of the THATIC licensing gains applied to sort of timing for when those might get recognized? I know it's a lot there, but lots of questions on just the moving pieces there tonight. Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

Yes. I can take that. License gain essentially does not impact gross margin. That is on a separate line altogether on the license gain line of the P&L. So the gross margin is not impacted by that. As far as IP revenue is concerned, in Q1, there is no contemplated IP revenue. So the gross margin at 41% guide is based on the products that we have. And for the year, at this point, outside of the THATIC JV, IP licensing gain that we are expecting to record in Q1, while there might be opportunities from an IP standpoint but nothing substantial contemplated at this point.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC
Q

All right. Thank you very much.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Thanks, Matt.

Operator: Thank you. Our next question is coming from Vivek Arya from Bank of America Merrill Lynch. Your line is now live.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Thanks for taking my question. Lisa, I'm curious as you look back at 2019 (sic) [2018] (30:10) and the success you had with EPYC, the initial success with EPYC, what was the mix of cloud versus Enterprise? And then how do you think it trends in 2019 because of all the concerns around slowdown in cloud CapEx and so forth? And as part of that, if you could share with us what your market share assumptions are as we exit the year on EPYC?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yes. Sure, Vivek. So look, as we look through 2018, we are pretty pleased with our progress on EPYC. And coming off of the fourth quarter, actually it was a fairly strong fourth quarter for us in the fact that we doubled the number of units for our server business. And when you look at that mix, it is more cloud weighted. So we had some large deployments that went online here in the fourth quarter and that was positive for us.

That being said though, we are making nice progress in the Enterprise and HPC side of the business too. We've had a number of wins in the quarter as well as going into 2019. So as we look into 2019, I would expect that the early Rome deployments will also be cloud-based. We'll be the first ones, but we have a strong set of Enterprise platforms, and as I mentioned earlier, it's the breadth of the OEM platforms that gives us good confidence that we're going to a broader set of workloads and having broader coverage in the market.

In terms of share assumptions, we'll have to see how the market and the year play out, but I think what we've said before is that after reaching the mid-single digit market share in the fourth quarter of 2018, we would expect it would take another four quarters to six quarters to reach 10% market share and I think we're still in that range.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And for my follow-up, there were two things that came out on your competitors' last few public discussions which is, one, this concept of CPU shortages and I'm wondering if that has had any positive or negative effect on your strategy or your positioning?

And then, Intel has also mentioned being a little more tactical when it comes to pricing and I'm wondering how that figures into your full-year outlook. So both the impact of CPU shortages and pricing, any color would be very helpful. Thank you.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure, Vivek. So look, on the CPU shortages, my comment is that there are some pockets of shortage particularly at the low end. However, our focus has really been on ramping Ryzen. And if you look at the Ryzen percentage of our overall business; Ryzen, Devinder mentioned, was 80% of our client business. So we are really actually improving our mix in the client business. I think that, again, from my view, the shortages are temporary. But we look at it as really getting consistent share gain. And as we have gone through each quarter in 2018, we've seen consistent share gain and we believe we gained share in the fourth quarter as well. So I think we're well positioned with the portfolio and we'll certainly drive that into 2019.

And then the other?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Pricing.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Oh pricing. Yes. Relative to pricing, look, when we think about pricing and when we put together our long-term model, we have factored in that pricing and competition will be aggressive. I think we know that to be the case. What we've seen in the market is consistent with that. But we also believe that particularly as you go into the datacenter, the single largest factor from a buying decision standpoint is the performance and the total cost of ownership of the product. And we believe that Rome will be very, very well positioned in 2019. And so we are cognizant of the competitive environment, but feel good that we have the right setup assumptions.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Thank you. The next question is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question and great to hit the mid-single digit milestone exiting the year. Lisa, as you start, I just wanted to confirm you expect to start shipping Rome mid-year, and as you do what's the biggest risk for Rome? Is it execution on delivering the product or is it the sales process convincing customers to take EPYC 2 and volume?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes. So I think with Rome, our biggest opportunity/risk is adoption rate. I think from a competitive standpoint, the product is very solid. Everything going through our development labs looks very good as well as our customer engagements, and so this is just about getting customers to production as fast as possible. We do expect, though, that the adoption rate for Rome will be faster than the adoption rate for Naples. And the reason for that is we are in a socket-compatible infrastructure and so customers who don't necessarily need the newest features of the platform can actually use the same motherboard and system that they currently have with Naples and drop in Rome. And so I think that will help us accelerate some of the adoption, but right now it's about helping customers in their environment. We are widely sampling Rome and there's a lot of work to be done, but we feel good about the trajectory.

Mark Lipacis
Analyst, Jefferies LLC

Q

Great. Thank you. And a follow-up, if I may, for Devinder. So inventories looked like they were up about $100 million going into a pretty healthy seasonal quarter that's declining. How should we read that, Devinder? And was there just some opportunity to get some wafers more cheaply or are you trying to stockpile product in front of launches? And when can we expect the inventory to be a source of cash on the cash flow statement? Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, Matt (sic) [Mark] (00:36:37). So the inventory growth is primarily driven by our new products and in preparation for our 7-nanometer next-generation product launches later this year as you just mentioned. We overall expect to manage our inventory in line with revenue, but also in support of the new products that will be launching and ramping throughout the year, Lisa mentioned a few of the launches at CES and also in the script and we're prepared to support that from an inventory standpoint and we'll see how the year progresses and then manage it from there.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Mark. Next question, please, operator?

Operator: Certainly. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my question. Around the Q1 guide, obviously you mentioned the GPU weakness, but you also mentioned seasonality across the businesses. Is my assumption correct that that means everything is basically down sequentially, CPUs, GPUs, servers? Can you tell us is that true? And if so, can you give us an idea of the magnitude like at least what is down I guess most versus least sequentially, Ryzen versus GPU versus EPYC?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure Stacy. So the largest driver, as I said, is the GPU channel situation on a year-over-year basis. On a sequential basis, typical seasonality for, let's call it, PCs and GPUs and datacenter is probably around 10% or so. We are forecasting or we believe that that will be down a little bit more than that. And in terms of the ranking, I would say GPUs are down a bit more than the other two segments. That's the way we currently see it.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you. For my follow-up, I had a question just on general EESC. So its revenues are flat year-over-year. The server revenues are up a bunch. It's still losing money. And I get it there's some incremental investments and everything, but I guess how do we think about the profitability of that segment? How big does EPYC or Rome in the server business need to get before its sustainably profitable, especially if Semi-Custom is going to continue the decline, you said 20% in 2019?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. I think the key, Stacy, is going to be ramping the server business in 2019. You are right that year-over-year we look at it. It's lost a little bit of money, but fundamentally it's investing in the go-to-market programs and launching the new products, investing in the ongoing engineering work that's needed to make sure that customers bring out the product on time. And Semi-Custom, given the fact that it is in the seventh year of the cycle, we expect that to be down from 2018 to 2019, but we do expect to go ahead and ramp our server business and that will definitely benefit the EESC profitability in 2019.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Right. Do you think it's profitable for the full year?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Too early to tell. I don't want to predict profitability at the segment level, but we'll see how it evolves over the year.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you so much.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Stacy.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Your line is now live.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hey guys, thanks for letting me ask the question. Lisa, a potentially different way to ask the same question on the full year 2019 guide. Late last year at a few different events, you talked about the server business being second-half weighted. If I go through the remainder of this year, it seems like you have to grow the better part at 20%-plus sequentially in each quarter to get there. I know it's not going to be perfectly linear like that. But I guess my overall question is if the server side of the business is back-half weighted, what sorts of businesses are helping the middle portion of the year? Is there some snapback on the GPU side? Is there something going on in the Ryzen side? Just trying to get somewhat of the shape of the year off of a base that's admittedly pretty low as your first quarter starting point.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure, Ross. So, I think it is fair to say that our quarterly progression will have a lot to do with our product launches. So, you would expect that server will be more second half weighted than first half. In general, our business is more second half weighted though, if you think about the consumer portions of our business. But think about it as we would expect sequential growth in PCs. We would certainly expect sequential growth in datacenter, although stronger in the second half. We would – we're also, as we see the GPU business right now, we see the first quarter as the low point in the business, with the channel getting improving as we go into the second quarter and we have additional product launches there as well. So, that's the way we would see the portfolio. And Semi-Custom, although, it's lower on a year-over-year basis, we would expect it to also increase as we go from second quarter into third quarter as well.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Perfect. Then, a question on the GPU side, your big competitor in that market, obviously, is having some current issues and mentioned that the new product at the high-end wasn't selling through. Are you at all concerned that the competitive landscape in that market, whether it's because China demand being weaker as they cited or them having to be a little bit more aggressive on pricing, would do anything to your ability to penetrate the market with either existing or new GPU products as the year progresses?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, when we look at the GPU market, and let's separate sort of gaming and datacenter, I think on the gaming side, from what we are seeing, we did see sellout increase in Q4 versus Q3. So, gamers are still buying

GPUs. They may be more discerning about price points. And so, I can imagine that there might be a bit more softness at the high-end versus in the mid-range. But we believe that we have a good understanding of what's happening in the gaming side of the business and it will be driven – our gaming growth will be driven by new products. We would see that as we go through this year and with our Radeon VII launch, as well as our Navi launches on the gaming side.

On the datacenter side, we're making good progress in GPU datacenter, obviously, from a low base. But the GPUs in the datacenter are very workload dependent, and there are some workloads that actually we do very well in things like cloud gaming and virtualization and we have some early HPC wins. And so, we see this as sort of customer acquisition, [ph] new deployment (00:43:21). And so, those are the sources of growth on the GPU side for us.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question today is coming from Aaron Rakers from Wells Fargo. Your line is now live.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks. Thanks for taking the questions as well. Just two questions, if I can, building on that last one. In your prepared remarks, you noted that you've reached the milestone of which GPUs as well as datacenter CPUs reached mid-teens percentage of your total revenue. I'm curious, as you kind of contemplated your full year guidance, where do you think that mix of business can go and is there a point in time where we actually – you foresee us kind of getting granularity on how big the datacenter GPU business is trending?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yes, Aaron. So, I think the mid-teens percentage revenue for us in Q4 was a good milestone. I mean, I think that's a meaningful percentage of our revenue and it was a contributor to our gross margin as we exited 2018. I think as we go into 2019, again, we will continue to give you visibility into where the datacenter growth is. To be fair, my expectation is that the CPU side of the datacenter business will grow faster than the GPU side, just given what we see in terms of overall deployments. But I think both businesses will be meaningful for us and are a key part of the growth story for us in 2019, and we'll continue to give color on how they develop as the year develops.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. That's very helpful. And then, just real quickly on the Semi-Custom side. As you kind of contemplated the guidance as well through the course of this year and that 20% decline for the full year, is your assumption that Q1 kind of marks the bottom and we can grow seasonally off of that level or should we think about something differently from a progression through the quarters in 2019?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. Aaron, yeah, that's the correct way of thinking about it. So, Q1 will be a low, Q2 will be higher, Q3 will be higher, and then Q4 will come down again. That should be the seasonality of Semi-Custom.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Okay. Thank you very much.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Your line is now live.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah. Good afternoon, guys, and congratulations on the solid results. Lisa, notwithstanding that the macro is extremely uncertain, making any predictions difficult, I'm just kind of curious going back to Ross' question, how do you see sort of the cadence of growth sequentially throughout the year? Because as he pointed out, if you kind of divide it up equally by quarter, you're growing north of 20% in Q2, Q3, Q4, half-on-half growth would be somewhere around 50%. If you assume more seasonal, and seasonal is a little bit difficult to get to because of the change of accounting, I think you get half-on-half growth as high as 75%. So, as you think about the full year growth, is this something that's more like 50% half-on-half or 75% half-on-half?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.
A

Yeah. Thanks for the question, John. It might be a little bit early for us to go there, but what I would say is the following. When we look at the year-on-year compares from 2019 to 2018, Q2 2018 was still a very strong quarter for us, because we still had a significant amount of blockchain sales in Q2 2018. So, I expect that we will grow sequentially into Q2, but I think that will still be, let's call it, a tougher year-on-year compare. But then when we get into the second half of the year, we expect to be fully ramped on the entire 7-nanometer portfolio. And so, we would see a heavier weighting in the second half. So, we see sequential growth into second quarter, but more heavily weighted into the second half.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

That's really helpful. And then, Devinder, on the profitability front, if you kind of run the numbers, from Q1 guidance to kind of what you need to be exiting Q4 at to hit the full year number, you could see revenue up well over $1 billion Q1 to Q4. I'm a little bit surprised that despite that the gross margin guidance isn't a little bit better. I know you guided the full year to greater than 41% with Q1 at 41%. But I'm kind of curious, if you look at a Q4 run rate that's north of $1 billion higher than the Q1 run rate, how should we think about gross margin and operating margin exiting the year?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

Yeah. I think, John, if you look back at the last many quarters, I think seven quarters year-on-year, we've improved gross margin on the strength of the newer products. We ended the year quite well in 2018 and achieved gross margin in the fourth quarter that was nice. And now we start the year with 41%, and as we start the year, it's early we're guiding greater than 41%. I think you should expect that as the products ramp, in particular with the 7-nanometer product that Lisa referenced, our margin should continue to improve and we'll see where we end up by the end of the year, but we do expect that year-on-year margin goes up from where we ended in 2018 at 39% and greater than 41% for 2019.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks, guys.

Operator: Thank you. Our next question is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hey. Thanks for taking my question. Two quickly, first on the C&G side. I realize that there is going to be a lot of kind of sequential difficulties there, but when I think about the long-term growth rate, I know you guys had kind of talked to high-single to double-digit growth. Is that still essentially what you think that business can grow at long-term?

And then secondly, in terms of the next EPYC 2, is there any reason why it would underperform a Intel 10-nanometer in a testing environment? And if so, why would that be?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Let me take the second question and then maybe, Devinder, you can take the first question. So, as it relates to our Rome product, when Rome was originally planned, we had planned that it would be competing against a 10-nanometer product. So, that was our expectation when we started. I think we've shown some of the generational performance advantages in terms of double the performance on a socket basis, four times performance on a floating-point basis.

And the other thing I would say is that with our 2nd Generation Rome, the customer set is now more used to our architecture. And so, some of the architectural and software improvements that we've also spent quite a bit of time on over the last four to six quarters are coming into play. So, I think we feel very good about the competitive positioning of Rome, and the other thing to keep in mind is we're deep in development of our next-generation beyond Rome. So, the Zen 3 product portfolio is deep in development as well. And so, our goal is to ensure that we have a consistent cadence of very competitive products.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. And then, as far as your question on the segment growth is concerned relative to high-single-digits growth for the company level, in both of the segments, there are some factors that come into play. In Computing and Graphics, obviously, we feel good about the datacenter side of the GPU, but on a compare basis when you look at 2018 to 2019, we do have the impact of the blockchain and some memory sales from 2018 that don't happen in 2019 from a standpoint of where the market is.

And then on the EESC side, Semi-Custom being down, obviously, is a factor when you compare year-on-year per segment, but good growth on the datacenter piece of it, in particular with the 7-nanometer Rome product ramping in the back-half of 2019, and that's the way you kind of look at it. It is still early in the year from an overall standpoint, and where we ended up in 2018, we're projecting high-single-digit growth at the company level for 2019 over 2018.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Got it. Thank you.

Operator: Thank you. Our next question is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks for taking my question. Lisa, I just wanted to ask you, you laid it out a little bit, but in terms of EPYC 2, same socket, but you have sampled it early. In terms of getting over the finish line and getting these shipped, I guess the customer still has to wait for production silicon and then typically people talk about 6 to 12 months to kind of test it and make sure it does everything with the production silicon. So, can you just walk me through that timeline because, obviously, you're baking in a pretty steep ramp in the second half? Thanks.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, we started sampling EPYC actually last year, so the second half of last year to some of the top-cloud vendors as well as our OEM partners. We've had a significant amount of development with our ODM partners as well. So, I think there is a good amount of overlap between the customer development cycle and our development cycle.

Now, as you said, production silicon is very key and ensuring that the final specifications are locked in is work that we still have to do here in the first half of this year, but I think we feel good about it. We feel good about the platforms, the customer engagements, the current progress of development, and so that is very much our plan from an execution standpoint.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks. And I just wanted to ask on the GPU side, it looks like your ASP is up substantially with the datacenter. I'm just kind of curious as you think about the mix of datacenter, how do you think about the trajectory of that business? I mean, is that portion lumpy as well or is this kind of the go-forward kind of level after that pretty sharp initial shipment in December? Thanks.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, on the datacenter side, we do expect that the datacenter GPU business will be a growth driver for us in 2019. It will be a little bit lumpy, so I wouldn't say it's a straight line. But I would say on a year-over-year basis, it's an important growth driver for us. And as it relates to the overall datacenter GPU ASPs affecting overall ASPs, I think that's true, because the gaming ASPs are – I'm sorry, the gaming business was lower than expected given the channel inventory situation. So, I think it's also just weighted in terms of the units.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Blayne. Operator, we have time for two more questions, please.

Operator: Thank you. Our next question is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. It seems like the GPU datacenter business is doing pretty well. Can you give us some color – if you look at mid-teens exposure overall between the two datacenter businesses, CPU and GPU, can you give us some qualitative sense for how much of that is GPU at this point and what are the main applications, is it mostly virtualization? What other applications are you seeing there?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Sure, Joe. So, for the mid-teens percentage of revenue in Q4 between CPU and GPU, it's actually roughly similar. And then, in terms of the workloads on the GPU datacenter side, we do very well in cloud gaming, we do very well with our virtualization solutions and we have some early traction in HPC.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. That's helpful. And then, I guess just in terms of the business segmentation, I think you've alluded to this earlier, but it seems like the conversation typically is around microprocessor, Graphics and Semi-Custom as sort of three different opportunities. Have you thought about moving the segmentation to more in line with that? And I realize that's easy to talk about and hard to implement, but what's your thought in terms of over time sort of migrating that more in line with the way you guys talk about the business?

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, we look at the business in all different cuts, as you can imagine, we look at it by segment. Our CG and EESC, CG is very much a PC-driven segment and EESC with Enterprise and Semi-Custom. And we are also, based on some of the feedback, trying to be a little bit more granular in terms of how the various businesses fall underneath that. So, I think as the datacenter business becomes the larger piece of our business, we'll continue to look for how do we get – give you guys more color and more transparency on how that is doing.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from Vijay Rakesh from Mizuho. Your line is now live.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Yeah. Hi, guys. Just in terms of the GPU gaming side, you mentioned higher inventory levels. I was wondering if you can give us some number on where normal inventory GPU levels are and where are they running currently. Thanks.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, when we look at the GPU channel inventory, we do believe our channel partners reduced inventory in Q4 and they will reduce inventories in Q1. We still think that Q1 levels are elevated and there will be some spillover into Q2 where we'll see some elevated inventory levels. We'll have to see how the sell through really plays out. But my expectation is that in Q2, we'll have sort of improved channel inventory levels and we will return to sequential growth in the gaming side of our business.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Got it. And on the 7-nanometer side, is the 7-nanometer GPU and CPU – as those ramp in the back-half, are they accretive to this 41% gross margin levels? Thanks.

Lisa T. Su
Director, President & Chief Executive Officer, Advanced Micro Devices, Inc.

A

Yeah. So, the 7-nanometer GPUs on the datacenter side started ramping in Q4. So, that was part of the datacenter GPU revenue that we talked about. The 7-nanometer CPU will ramp middle of the year, and the 7-nanometer CPU and GPU are both above corporate average margins, so you would expect that they're above the 41 points and would be sort of accretive to margin as that mix improves.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Got it. Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you very much, operator. We appreciate everyone joining us here today. We're quite proud of the accomplishments in 2018 and look forward to seeing you all on the road in 2019. Have a great afternoon.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2018 Earnings Call for 29-January-2019 5:30 PM ET
Wednesday, January 16, 2019 09:38:09 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2018 Earnings Call for 29-January-2019 5:30 PM ET.

Press Release URL: http://ir.amd.com/static-files/a69f5450-a053-498f-b77d-e3f3ca25f0e9
Live WebCast URL: https://edge.media-server.com/m6/p/k7q8gn6e
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Advanced Micro Devices, Inc. (AMD)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the AMD Third Quarter 2018 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to turn the call over to Laura Graves. Please go ahead, Laura.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you. And yes, welcome to AMD's third quarter 2018 conference call. By now, you should have had an opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, www.amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer, and Treasurer. This is a live call, and will be replayed via webcast on our website.

I would like to highlight some important dates for you. AMD's next Horizon event is scheduled for Tuesday, November 6, 2018, where we will discuss innovation of AMD products and technologies, specifically designed for the datacenter on industry-leading 7-nanometer process technology. Dr. Lisa Su, President and Chief Executive Officer, will present at the Credit Suisse 22nd Annual Technology Media & Telecom Conference on Tuesday, November 27. And our 2018 fourth quarter quiet time will begin at the close of business on Friday, December 14.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and as such, involve risks and uncertainties that could cause actual results to differ materially from our expectations.

We will refer primarily to non-GAAP financial measures during this call except for revenue, gross margin, and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced today are reconciled to their most directly comparable GAAP financial measure in today's press release posted on our website. Please refer to the cautionary statements in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

Now, with that, I will hand the call over to Lisa. Lisa?

Lisa T. Su

President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. We executed well in the third quarter. We continued to build momentum for our new products as strong sales of our Ryzen and EPYC processors offset soft GPU channel sales, and drove our fifth consecutive quarter of year-on-year revenue growth, increased profitability and margin expansion.

Third quarter revenue was $1.65 billion, an increase of 4% from a year ago. Looking at our Computing and Graphics segment, third quarter CG segment revenue increased 12% year-on-year, driven by significant growth in both client processor and OEM GPU sales that offset a larger-than-expected decline in channel GPU sales.

Ryzen processor sales increased to more than 70% of our total client revenue in the quarter. We delivered our highest processor unit shipment in nearly four years, and believe we gained desktop and notebook client processor unit share in the quarter, driven by growth with both OEMs and in the channel. In desktop, we had strong demand for our higher end Ryzen 7, Ryzen 5 and Ryzen Threadripper processors, helping to drive a double-digit percentage year-over-year and sequential improvement in client processor ASP.

We expanded our desktop offerings in the quarter, bringing our Zen processor core and Vega Graphics to the entry level part of the market with the Athlon APU, and launching our flagship 32-core Threadripper 2 processor. With these new introductions, we now have a top to bottom lineup of client processors, based on our high-performance Zen architecture.

In notebooks, Ryzen mobile processor unit shipments doubled sequentially for the second straight quarter as OEMs ramped production of their latest AMD-based notebooks. 54 of the 60 Ryzen processor based notebooks planned for 2008 (sic) [2018] (04:45) have launched with the final notebooks expected to go on sale this quarter. Based on the success of first-generation Ryzen mobile notebooks, the expanded breadth of our customer engagements and our design win momentum, we are on track for an even larger assortment of AMD-powered notebooks in 2019.

In graphics, the year-over-year revenue decrease was primarily driven by significantly lower channel GPU sales, partially offset by improved OEM and datacenter GPU sales. Channel GPU sales came in lower than expected, based on excess channel inventory levels, caused by the decline in blockchain-related demand that was so strong earlier in the year. OEM GPU sales in the third quarter increased by a strong double-digit percentage year-over-year as new design wins began to ramp, including first shipments of our mobile Vega GPUs to support new premium notebooks launching this quarter.

In professional graphics, revenue increased by a double-digit percentage from a year ago, driven by datacenter GPU sales, as we continued to gain traction in this important part of the market. We launched the Radeon Pro WX 8200 GPU for workstations in the quarter, delivering the world's best workstation graphics performance under $1,000 on real-time visualization, VR, and photorealistic editing workloads.

We remain on track to launch the industry's first 7-nanometer datacenter GPU this quarter. Customer interest in the product is strong based on its performance and differentiated feature set, and we have already secured multiple datacenter wins with shipments expected to begin in the fourth quarter. We continue to increase investments in GPU hardware and software to deliver industry-leading products that we believe will drive growth in the gaming, professional, and datacenter markets.

Turning to our Enterprise, Embedded and Semi-Custom segment, third quarter revenue decreased 5% year-on-year, primarily based on semi-custom sales declining, as expected, as current generation consoles enter their sixth year. In server, we delivered our third straight quarter of strong double-digit percentage sequential revenue and unit shipment growth. We are seeing the largest demand for our top of the stack 24 and 32-core EPYC processors, which combine industry-leading core counts and I/O to deliver performance advantages across cloud, virtualization and HPC workloads.

We continued to accelerate engagements with our cloud service providers, highlighted by yesterday's announcement that Oracle launched new AMD-powered instances that offer significant TCO and performance advantages on general purpose cloud workloads in Oracle applications. We expect additional Tier 1 cloud service providers to announce availability of new EPYC processor deployments this quarter.

We secured multiple new customer wins on the HPC front, including Microsoft's announcement, they would offer an EPYC processor based supercomputing instance; and that Haas Hoss racing Racing has chosen Cray to build an EPYC-powered supercomputer to improve their computation fluid dynamics modeling for future cars.

Turning to enterprise adoption, we continue to build a strong pipeline and accelerate the ongoing ramps of EPYC-based offerings from the major OEMs, including Cisco, Dell and HP Enterprise. In the third quarter, we added dozens of new end customers across oil and gas, healthcare, aerospace, banking and other industries, based on the superior performance of EPYC processors in both data analytics and general purpose virtualized workloads.

We began sampling our next generation Rome server chip broadly across our customer base in the third quarter. And the feedback on this leadership product is very strong. As a result, cloud and OEM customers are engaging earlier, deeper, and more collaboratively with us on both Rome, and our long-term data center roadmap. We remain on track to exit the year with mid-single digit server unit market share based on cloud customer adoption. And based on our strong competitive position and broad customer engagements, we believe we can achieve double-digit server unit share with Rome.

In closing, 2018 remains an inflection point for AMD, as we expect to exit the year with well over 50% of our revenue coming from new products, driving significant margin expansion. The foundational changes we have made across the business to strengthen our execution and the investments we have made to deliver a leadership Computing and Graphics roadmap are paying off.

Our current generations of high performance CPUs and GPUs are doing very well in market, putting us on track to increase profitability, grow revenue and expand margin for the second straight year. We see significant opportunities to build on this momentum as we transition to our next generations of high performance products and launch the industry's first 7-nanometer x86 CPUs and discrete GPUs over the coming quarters.

Demand for our high performance computing offerings remains strong, and our product portfolio and competitive positioning are getting stronger. We remain focused on executing our strategy and delivering our leadership product roadmap.

Now, I would like to turn the call over to Devinder to provide some additional color on our third quarter financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa. Good afternoon, everyone. Q3 was a good quarter for AMD, as revenue, operating margin and earnings per share grew year-over-year. Gross margin was 40%, highlighted by the continuing ramp of our new Ryzen and EPYC products. We strengthened the balance sheet, reduced long-term debt by $97 million and further improved our gross leverage.

Quarterly revenue of $1.65 billion was up 4% year-over-year, driven by higher Computing and Graphics segment revenue, with higher client revenue more than offsetting lower graphics revenue. Third quarter revenue, including (sic) [included] (11:26) IP-related revenue, of which $86 million was related to our THATIC joint venture.

Gross margin was 40%, up 390 basis points year-over-year, primarily driven by the ramp of new products, including Ryzen and EPYC processors. On a sequential basis, gross margin was up 280 basis points, primarily driven by IP-related revenue and the ramp of new products. Excluding IP-related revenue and memory and inventory-related adjustments, third quarter gross margin would have been 2 percentage points lower.

Operating expenses grew 12% year-over-year to $476 million, driven by R&D investments in our product roadmaps and incremental go-to-market investments. Operating income grew to $186 million from $148 million a year ago. Operating margin was 11%, and both business segments recorded double-digit operating margin percentage. Net income was $150 million compared to $100 million a year ago. Non-GAAP diluted earnings per share, using a diluted share count of 1.177 billion, was $0.13, compared to $0.09 per share a year ago.

Now, turning to the business segment results. Computing and Graphics segment revenue was $938 million, up 12% year-over-year. Revenue growth was driven primarily by strong Ryzen product sales as we expanded our client compute offerings in the quarter. Ryzen products accounted for more than 70% of client revenue, up from approximately 60% last quarter, as we saw strength in both desktop and notebook offerings across OEM and channel partners. In graphics, channel GPU sales were down year-over-year, partially offset by strong Radeon, datacenter and OEM GPU demand.

For comparative purposes, third quarter 2017 blockchain-related GPU sales were approximately high-single digit percent of overall AMD revenue, while blockchain revenue in the third quarter of this year was negligible.

Computing and Graphics segment operating income was $100 million or 11% of segment revenue compared to operating income of $73 million a year ago. The increase was primarily driven by a richer client product mix and IP-related revenue, partially offset by lower graphics revenue.

Enterprise, Embedded and Semi-Custom revenue was $715 million, down 5% year-over-year. The year-over-year revenue decrease was driven primarily by lower semi-custom product and IP-related revenue, partially offset by higher server sales. For the third quarter in a row, EPYC processor units and revenue grew by strong double digits percentages quarter-over-quarter. EESC operating income was $86 million or 12% of segment revenue. This is up from operating income of $74 million a year ago, primarily due to a richer server and semi-custom product mix.

Turning to the balance sheet, our cash, cash equivalents and marketable securities totaled $1.06 billion at the end of the quarter, and we generated free cash flow of $62 million. Inventory was down sequentially from $750 million to $738 million. Total principal debt was $1.6 billion as we reduced our long-term debt by $97 million in the quarter. Term debt due in March 2019 is down to $66 million, and beyond that, there are no term debt maturities until 2022.

Adjusted EBITDA was $227 million compared to $184 million a year ago, and on a trailing 12-month basis, adjusted EBITDA was $709 million, resulting in gross debt leverage of 2.2 times.

Now, turning to our financial outlook, for the fourth quarter 2018, AMD expects revenue to be approximately $1.45 billion plus or minus $50 million. This would be an increase of approximately 8% year-over-year driven by sales growth of Ryzen, EPYC and datacenter GPU products. For comparative purposes, Q4 2017 revenue was $1.34 billion, adjusted for the ASC 606 revenue accounting standard, and included blockchain-related GPU sales of approximately low-double digit percent of overall AMD revenue. Sequentially, the midpoint of third quarter revenue outlook would be a decrease of approximately 12% driven primarily by lower semi-custom sales.

In addition, for Q4 2018, we expect non-GAAP gross margin to be approximately 41%, up from 34% in the prior year, driven by the ramp of Ryzen, EPYC and datacenter GPU processors. Non-GAAP operating expenses to be approximately $465 million. Non-GAAP interest expense taxes and other to be approximately $30 million and free cash flow to be positive. For the full year 2018, we continue to expect annual revenue growth of mid-20s percent and to be free cash flow positive, and we now expect non-GAAP gross margin in excess of 38%.

In closing, the third quarter was a good quarter as we continued to ramp our new products. This momentum is driving improvement in our financial results against a backdrop of expanding customer demand as we prepare to ship and launch our first 7-nanometer GPU products before the end of the year. We are executing on our strategy and investment in financial priorities as we continue making excellent progress towards our long term target financial model.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first question.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question today is coming from Mark Lipacis from Jefferies. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. First question, if I may, Lisa, as you look into the fourth quarter and maybe discuss also the third quarter, can you just review the important puts and takes on the revenues, on the microprocessor and GPU side separately? And I know you don't like to discuss the competition, but I think there's some unique things going on in the competitive environment. I think there's a view that Intel's capacity constrained and with Nvidia's new product launches, how is that impacting how we should be thinking about the revenues? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. Hi, Mark. Thanks for the question. So, let me take those in order here. So, if we just look at the third quarter revenue, I would say that we did see a shift in our revenue mix as we went through the third quarter. Looking at the individual product lines, we had expected that the client business would be strong as we were ramping quite a few new notebook OEM systems as well as we had strong desktop product portfolio. And we saw the client business was strong. It was actually probably a bit stronger than we expected. The server business also performed quite well.

In the graphics business, we had our OEM and datacenter compute business performing well, but we did see the softness in the channel that was larger than we expected, and that was due to some of the channel inventory comments that I made earlier.

Now, as you shift into the fourth quarter, I think what we see is that our fourth quarter revenue mix really mixes towards the new products. And so, what you see in the product lines are, you'd see that client business continue to grow. And client is usually seasonally down into the fourth quarter, so we're doing better than seasonality with the client business. We expect the server business to grow as well as we get more traction with our EPYC products, especially in the cloud.

And then, we would expect, with our graphics business, that that will also grow sequentially, primarily on the strength of new products around our datacenter GPUs. And the semi-custom business actually will decline sequentially. The semi-custom business always declines in the fourth quarter. I would say this fourth quarter is a bit more pronounced; it gets a bit more pronounced as we get later in the cycle, as well as the fact that the ASC 606 accounting regulations tended to pull some of the revenue earlier in the year. But hopefully, that gives you a view of sort of the puts and takes around revenue.

Mark Lipacis
Analyst, Jefferies LLC
Q

That's very helpful. And a follow-up, if I may, I think I heard Devinder say that you're expecting to ship EPYC 2 before the end of this year. And if I think back to a dozen years ago, when you had the second generation of server product, that kind of signaled an opportunity an inflection in the revenues. How should we think about EPYC 2 as we go into early next year? And what is EPYC 2 bring to your customers that EPYC did not? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah. So, Mark, maybe just a correction. I think Devinder's comment was that our 7-nanometer GPU would ship here in the fourth quarter. We're on track to launch that here shortly. The second generation of EPYC, our 7-nanometer CPU, will ship in 2019. We are broadly sampling it now. I think from what we see, the performance is very competitive. And also many of our customers have had a chance to really spend time with the first generation of EPYC, get to learn our architecture and do much of the platform bring-up.

So, we're excited about what the second generation of EPYC can do for us. We're going to talk a little bit more about that in a couple weeks at our datacenter event, but we believe that our competitive position gets stronger as we get into 2019.

Mark Lipacis
Analyst, Jefferies LLC
Q

Thanks for the clarification.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Thanks, Mark.

Operator: Thank you. Our next question today is coming from Hans Mosesmann from Rosenblatt Securities. Your line is now live.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thanks. Hey, Lisa, can you give us the puts and takes – or Devinder or both – on the gross margin dynamic in Q3? And also in Q4, is there an IP component in Q4? And I have a follow-up. Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure. Maybe let me start, and then Devinder can add. So, on the gross margin for the third quarter, I think we were up 4% year-on-year. We did have an IP component in this year as we had an IP component in the third quarter of last year. The majority of the improvement though was due to the positive product mix, sort of the client and server business really growing year-on-year, and with that, improving the product mix.

As we go into the fourth quarter, there is no IP-related revenue that's planned right now. So, with the guide at 41% margin, we really are at the, let's call it, the low end of our long-term guidance. And, again, that's on the strength of the product mix. It's a very positive product mix for us. The processor business, as we've always said, the new products are accretive to margin. And so, the client business is expected to grow. The server business is expected to grow. The datacenter GPUs are expected to grow. And then, there is a portion of that, that is the semi-custom business declining sequentially. But I would say that's a smaller portion. It's really the positive product mix that's going into the Q4 guide.

Maybe, Devinder, is there anything you wanted to add?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

No. I think actually you covered it, Lisa. Thank you.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Great. And then, the follow-up – if you don't mind a follow-up, as we look into early 2019, what can we expect in terms of seasonality for the semi-custom part of the business and on the PC side, just because there's some constraints out there from Intel and so on? Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, so, look, if you – Hans, our typical seasonality is the second half of the year is stronger than the first half of the year. As we go into 2019, you would expect that the semi-custom business will be down relative to this year. And then, you would expect that we're still going to need a bit of time to work through some of this graphics channel inventory that we have. But on the positive side, we do see strength in our processor business in both the client and the server side.

As it relates to the current supply environment, we did see some pockets of constraints in the supply chain around PCs. We saw that towards the end of the third quarter. We are increasing our production such that we can satisfy some of that demand. And I think that's a short-term statement. But I think on a mid-term statement, it's an environment where we're partnering very closely with our OEMs to make sure their requirements are met.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Okay. Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Thanks, Hans.

Operator: Thank you. Our next question is coming from Matt Ramsay from Cowen & Company. Your line is now live.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Thank you. Good afternoon. Lisa, I wanted to follow up a little bit on the last, I guess, couple of sentences in your prior answer there. There is a lot of things moving in the model near term, but as we think about how you're positioning the company in the client business over the next, I don't know, 24 months or so, with some supply constraints at Intel and some changes in their marketing support for OEMs for some of those programs and their spending. How do you think about how you're positioned with the key top five or six OEMs in terms of both PC and, I guess, desktop and notebook over the next 24 months? And sort of what are the puts and takes of how much you're really willing to lean into that business in order to gain unit share? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, Matt, thanks for the question. So, on the PC business, particularly around client processors, I am bullish on that business. It's a good business for us. Our products are very well positioned, when you look at both the desktop and notebook segments. It was important for us to get these new platforms out into the market, and so we have 54 new notebook platforms out in the market with a few more to go, as we finish up here the fourth quarter. I think the traction that we see in terms of unit shipments, the metric around Ryzen being 70% of our client business, over 70%, and we expect that to continue to accelerate. So, we're bullish on the client business as a good business for us to grow over the next 12 to 24 months.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Got it. That's helpful. And just as a follow-up, I understand in a couple weeks you'll probably be talking a bit more about the datacenter GPU portfolio. But I guess there has been a lot of movement in software ecosystem as you've been working, and the team has to develop the MI-Open product in terms of software. Maybe you could give us a little bit of an update on how you feel that's positioned for Caffe and Tensor, which I guess are the two key development environments for AI, and what do you think the long-term prospects for that business are over the next couple of years. Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. So, on the datacenter GPU business, this will continue to be an area of investment for us. I think we've made very nice progress this year. I think as we finish up the year, we expect it to again make good progress. We have invested in both the hardware and the software side, so I think the 7-nanometer GPU starting shipments here in the fourth quarter is important for us. And on the software side, yes, we will also be updating the status of our software environment.

I think the nice thing is, as we said, the datacenter is just an enormous opportunity whether you're talking about CPUs or GPUs, and we're engaging deeply with cloud customers, who are spending the time and the resources to optimize to our architecture. So, again, I think a datacenter tends to take longer from design win to revenue, but we're starting to see some nice signals there.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

All right. Thanks very much.

Operator: Thank you. Our next question today is coming from Mitch Steves from RBC Capital Markets. Your line is now live.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Hey, guys. Thanks for taking my questions. I had two of them really quick. The first is actually on the CPU side, the server side. So, is there any reason why a 10-nanometer chip wouldn't be able to outperform your 7-nanometer product, given that you've already been able to do some of the testing on the server side?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Maybe I would answer the question this way. When we look at our 7-nanometer product and its positioning in 2019 across the server landscape, we feel very good about the positioning. I think it's not just 7-nanometer, 7-nanometer is important, but we've also made some significant changes to the architecture as well as how – sort of the system. So, I think, overall, we feel with the design and process capabilities, that our 7-nanometer products will be quite competitive.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Got it. And then, secondly, in terms of production, I know you guys kind of gave out the mid-singles and double-digit market share opportunity in the server side. So, is that due to capacity constraints at TSMC or is that due to your own estimates of what type of share you think you can get?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Well, we have a great relationship with TSMC. I think they're very supportive of our roadmap in 7-nanometer. So, it's not due to any supply constraints. It's just due to the time that we believe it will take for vendors to really qualify new systems.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Got it. And just one last really small one for me, the graphics business, the highest blockchain or cryptocurrency quarter was Q1 of 2018, is that correct?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

The highest – it was between Q4 and Q1. They were pretty close.

Mitch Steves
Analyst, RBC Capital Markets LLC

Q

Okay. Perfect. Thank you.

Operator: Thank you. Our next question is coming from Vivek Arya from Bank of America Merrell Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question. For the first one, Lisa, can you help us kind of quantify how much of a headwind was that excess graphics inventory in Q3 and maybe also in Q4, so we can reconcile some of the differences between what you're reporting and guiding versus some of the consensus expectations out there?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah. Sure, Vivek. So, the best thing I can say is when we look at the CG segment as a segment, we're down about $150 million here in the third quarter. We had expected the segment to be down, but we probably expected it to be down about $50 million or so. And if you look at that difference from when we started the quarter, that's entirely the GPU channel. We had some other puts and takes in there, but it's basically the GPU channel.

As we go into the fourth quarter, we do expect graphics to be up, and that's primarily on the strength of the datacenter GPU business. And we're modeling the channel, let's call it, roughly flattish. It's seasonally about flattish, but given some of the inventory in the channel, that's how we're modeling. Does that help you?

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Yes. So, basically, you're saying this problem kind of goes away in Q4 or you're done with it by now? Or can it continue to be a headwind in Q4?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

We are expecting that it might take a couple quarters to completely get back to, let's call it, a normal channel. However, it is factored into our Q4 guidance.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right. And then the second one, Lisa, is on the server business. You outlined the target to get to mid-single digit exiting this year. Is the next 5% share easier or tougher to get? How do you think your competitor will respond? And how important is it to ramp your 7-nanometer product next year to get towards that – to make that jump from the 5% to the next target of 10% share?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah, so the way I look at it, Vivek, is it's really a continuum, and the continuum is we have a number of customers that are very actively working with EPYC. I think the first 5% does include some cloud customers ramping, and that's important. And then, as we go beyond that, we would expect that they're more used to our architecture. Our architecture is socket compatible between the first and second generation. We're sampling it now. And so, I think the idea is we would like to see some acceleration in that, as we bring in the 7-nanometer product, but we'll certainly have to go through that process.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy Aaron Rasgon
Analyst, Bernstein Research
Q

Hi, guys. Thanks for taking my questions. First, I wanted to ask about graphics trajectory in the next year. I mean, given my math – I know you talked about maybe $100 million light versus your expectations, but my math suggests it might have fallen as much as $250 million sequentially, if you're going to get it at least to the level that it was last year. And if I look at what that trajectory means going forward, if I asked you whether or not you thought graphics revenues could be down 20% year-over-year in 2019, like how would you feel about that? What's your response to that?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah. Stacy, let me make sure I clarify the first comment, and then I'll certainly answer your comment. My comment was at the segment level. So, at the segment level, I said we were about $100 million light. And I also said that client performed a little bit better than expected. So, I think you can say that it was probably – if you – that should help quantify sort of Q3. When I look at it going forward, I would not expect that type of decline on a year-on-year basis. I think what you'll see is some funky seasonality, right? So, the first half of the year was very strong for graphics. I think the first half of 2019 will not be very strong for graphics.

But we have a number of product launches coming up, and we're pretty excited about some of those product launches. And so, I would view that – we need to work off some of this channel inventory that's in place, and then go back to sort of a more typical seasonality, which would see the second half stronger than the first. Does that help?

Stacy Aaron Rasgon
Analyst, Bernstein Research
Q

Okay. That does help. Thank you. For my follow-up, I want to ask about the datacenter GPU. So, you've been talking a lot about that. You've actually been calling it out as driving, like, some of the growth in the current quarter and going forward. How big is that today? I mean, you're calling it out, but can you give us an order of magnitude? I mean, is it more than $20 million in the quarter at this point? Where do you see that going into Q4? Like, what are your expectations, as you ramp the 7-nanometer product into next year?

Lisa T. Su A
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

You always have a way of asking the most granular questions. I would say...

Stacy Aaron Rasgon Q
Analyst, Bernstein Research

I don't think it's that granular.

Lisa T. Su A
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

It is more than $20 million. We do see it as a driver. We do see it as more of a driver as we go into 7-nanometer. And this is one of those cases where typically the datacenter products ramp slowly, but as you know, the deployments can sometimes be lumpy. And there's good traction on some early design wins. And so, we expect it to be a meaningful contribution in Q4.

Stacy Aaron Rasgon Q
Analyst, Bernstein Research

Got it. And just, one more really quickly, how do you feel about your $0.75 in 2020? Are you still holding to that?

Lisa T. Su A
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

There are no changes to our long-term financial model at this point.

Laura Graves A
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Yeah, not today.

Stacy Aaron Rasgon Q
Analyst, Bernstein Research

Not today. Okay. Thank you.

Operator: Our next question today is coming from Ross Seymore from Deutsche Bank. Your line is now live.

Ross C. Seymore Q
Analyst, Deutsche Bank Securities, Inc.

Hi, guys. Thanks for letting me ask a question. I just want to go back to the IP side of things. You gave some color about the fact that it's not contributing anything in the fourth quarter, and that's helpful on the gross margin side. But one other detail, Devinder or Lisa, is I think the $86 million you talked about, you said that was a portion of the IP, and then you had some other inventory related changes. Can you just give us a little bit more color on the size of those different buckets? How big was IP overall? Anything there would be helpful.

Devinder Kumar A
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Yeah, on the IP, I think as we talked about, there's $86 million that's associated with our THATIC joint venture. There was some other IP, call it, about approximately about $35 million in the quarter, and that is why we talk about it in two parts.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. And then as my follow-up, as I'm looking at the GPU side of things, not to kind of beat the dead horse there too much more, but the ASP side of that equation or pricing side, is the channel inventory clearing dynamic something that also manifests itself on pricing pressure? Or is it just a matter of time to absorb that inventory which, Lisa, I think you said was going to be a flat dynamic in the fourth quarter, but it sounded like it was going to be returning to a headwind in the first half of next year?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, no, if that's how it sounded, that's not what I meant. So, I would say that the GPU – let's call it, the weakness in the GPU channel or primarily in the sell-in, is, let's call it, for – we might see that for the next quarter or two. But as you look through the overall business, I think gamers are still buying GPUs, and so this is really a matter of just absorbing some of the first half let's call it oversupply as it relates to GPUs. And that's translating into a bit weaker sell-in. But we are still tracking the sell-out and the sell-through through the – to the end customers.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And if I could sneak in one quick one, just OpEx intensity. I know you're not going to guide for OpEx for 2019. But the 26% to 29%, how do we think about where you are in the investment stage where whether it's the EPYC or the other new products – EPYC 2, I should say or the other new products, where you kind of get over the hump and you don't need to invest as much? Is that a framework we should think about? Or do you believe the opportunities are big enough and the competitors are spending enough that, that OpEx intensity in that range is likely to persist?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Well, I think, Ross, if you look on an annual basis for 2008 (sic) [2018] (40:48), we'll be approximately 28% of OpEx to revenue. And I think what we said in the past is we will grow OpEx, but we will grow it slower than revenue growth on an annual basis. And that's still our philosophy.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. If you said this, I may have missed it. But can you talk about how much servers grew sequentially in Q3? I guess you were fairly specific on that point in Q2. I think you said double digits this quarter.

Do you expect to be sort of – as you talk about mid-single digit next quarter, are you kind of halfway to that target this quarter? Just help us calibrate where server is.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, I think, Joe, it would be fair to say that with strong double digits this quarter, and we'd just say we're about halfway, I think that's reasonable, plus or minus.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. And then with regards to the 7-nanometer, I know you're going to talk more about this as at the product launch. But can you talk about what 7-nanometer itself gives you? Do you expect there to be a higher sort of clock speed on the microprocessors and the GPUs? Is it a better transistor budget? Is it a better cost per transistor? Obviously, there's a lot of writing on you guys being early in both segments on 7-nanometer. Can you just talk about the benefits of that?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, and we will go through this in a lot more detail on November 6. But at a high level, I think 7-nanometer gives us better density. So, for a given system, we can put more cores on it. It gives us better power, so that gives us total cost of ownership. And it does give us better performance as well.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Your line is now live.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, good afternoon, guys. Thanks for letting me ask the question. Lisa, congratulations on the strong gross margin results. I just wanted some clarification. The calendar fourth quarter guidance, does that include IP revenue in the gross margin? And clearly, gross margin's being helped in December by the growth in new products, but it's probably also being helped by the sharp falloff in semi-custom. Should we think about kind of the gross margin level in December as being the new floor off of which you can continue to grow sequentially, even as semi-custom comes back seasonally? Or how do I think about that? And I have a follow-up.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. So, on the gross margin, [Technical Difficulty] (43:25) Q4 guidance, there is no assumed IP-related revenue. So, that's all product. We do have, as I said earlier, a very positive product mix within the processor side of the business, so the client, the server, as well as the data center GPUs. We are helped somewhat by the fact that semi-custom is down. But I would say the much larger piece of that is the product related growth in new products.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Is this the new floor, Lisa, or is it too hard to tell?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

I don't know if I would say it's the new floor. I would say that we're very pleased that we're at the lower end of our long-term guidance. And certainly, we'll see what the puts and takes are as we go from a quarterly standpoint into 2019. But on a full year basis, in 2018, I think Devinder mentioned this in his prepared remarks, we're now over 38%. We've really grown margins every quarter over the last number of quarters and we're happy with that. I think that's the strength of the model. We've always said that the strength of the model is improving the product mix and I think that's what we see here today.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

And then, Lisa, I apologize, if I missed it, but just relative to your Q4 guidance, given some of the capacity issues that your competitor's having, is there any share gain – incremental share gain assumptions based upon shortages of CPUs? Is that something that should be a tailwind in Q4? Or does that take longer and might be something we don't see until the calendar first quarter? Any commentary around that would be helpful.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, we do see pockets of shortages. We are ramping up production. I do believe we see some incremental benefit here in the fourth quarter. But I don't want to take away from the fact that we have a strong portfolio, and we have a lot of platforms ramping. So, the client business was always going to be up for us in Q4 and, are we benefiting a bit from let's call it some of the pockets of shortages? Perhaps.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. Our next today is coming from Aaron Rakers from Wells Fargo. Your line is now live.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thank you for taking the questions. I have two, as well, if I can. I wanted to go into the semi-custom segment. And we've talked about kind of an elongated or near the end of the life in some of these gaming platforms. I was just kind of curious as to how you guys think about that piece of the business as we start to look into 2019? And is there a point in time where we can start to think about product cycles as driving reacceleration of growth in that segment?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. Sure. So again, without commenting on any specific design wins, what I would say is, in 2019, we will be in the seventh year of the game console cycle, and so we do expect it to be down. And if you look at the cycles, you'll see that it's very consistent with previous cycles. When we look forward, when I look at what happens beyond 2019, I like our semi-custom business. I think it's a good business for us. I think it continues to be a place where we differentiate ourselves because of our ability to customize for various customers. And I do see it growing again beyond 2019, and it will continue to be an important part of our business.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Okay. And then on the channel inventory dynamic, there's a lot of kind of moving parts right now in the market, and we've seen obviously with the U.S.-China tariff situation, there's been some questions around demand pull-forward or any kind of elements around the tariff situation that's impacted demand. I'm just curious, have you seen anything from your customers that has suggested that there's been any kind of demand pull-forward and any effects on your business as it relates to U.S.-China, especially as we start to look into next year and the potential for increased tariffs further?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yes, so, we're monitoring the tariff situation very closely. There's a lot of activity around that. I would say from what we see today, we don't see anything material as it relates to the tariffs, whether it's pull-ins or just the overall impact of tariffs. But we are doing quite a bit to adjust our supply chain, as I'm sure many others are. We already had a supply chain that was highly multi-sourced, and so that's very helpful. And we're adjusting our supply chain to ensure that we have further options such that the tariffs are not a significant impact on our business.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Okay. Thank you.

Operator: Thank you. Our next question is coming from Harlan Sur from JPMorgan. Your line is now live.

Harlan Sur
Analyst, JPMorgan Securities LLC
Q

Good afternoon, and thanks for taking my question. On the weakness in the channel-based GPUs, I'm just wondering if some of the weakness is due to the gaming bans in China? It looks like China is hindering the introduction of new games, but not sure if it's impacting actual GPU sales, and sort of the enthusiast gamer's motivation to kind of move up the stack?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

I don't think we see that specifically, Harlan. I think what we're seeing is more just we had very strong demand in the first half of this year. And as the supply chain filled up, we're just seeing some excess inventory that needs to be worked through right now. We're not seeing anything specific relative to that China issue you mentioned.

Harlan Sur
Analyst, JPMorgan Securities LLC
Q

Great. Thanks for the insights there. And then, on the wafer supply agreement with GLOBALFOUNDRIES, now that they're not going to be supporting 7-nanometer, you'll be moving I think most of your 7-nanometer client products to TSMC. And as of right now, I think you guys still need to pay them a fee for every 7-nanometer product you produce at TSMC. Can you just give us an update on the new wafer supply agreement that doesn't include 7-nanometers? Obviously, this should be beneficial for your gross margins.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. So, look, GLOBALFOUNDRIES is a good partner. They continue to be a very important partner for us. We are in discussions with them about how to update our agreement post their strategy updates, and we're making good progress on that. So, we'll give you more detail as we get closer, but overall, GLOBALFOUNDRIES continues to be an important partner for us.

Harlan Sur
Analyst, JPMorgan Securities LLC

Q

Yeah, absolutely. Thanks, Lisa.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Thanks, Harlan.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Hey. Good afternoon. Thanks for taking my question. Just a question and a follow-up on THATIC, the $86 million. My understanding is you had an original agreement. You were getting an OpEx offset, and then eventually if there was product revenue, you'd recognize that revenue with your portion of your ownership on those wafers. So, I'm just kind of curious, what's this $86 million? Is it additional IP? And any color as to what it's for, if possible?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, Blayne, it is related to some additional IP with THATIC. And we've completed some technology milestones in this past quarter. And so that's what that was.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Got you. And then I wanted to ask you – it's been well-known that there is graphics inventory. You mentioned that graphics pricing was down. Just kind of curious your expectation for that discounting as we get into the end of the year here. What have you seen? And what are your expecting as you look into December?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, we're not expecting any significant changes from an ASP standpoint, if that's what you're asking. I think what we see is the inventory just has to be worked through, and it's working through the system.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our final question is coming from Toshiya Hari from Goldman Sachs. Your line is now live.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you for taking the question. I did join a little bit late, so I do apologize, if you addressed this. Lisa, I just had a question on the client CPU business and how you think about market share versus profitability going forward. Given some of the shortages near term, I'm sure you have the opportunity to pick up share, if you wanted to but perhaps at a lower gross margin. So how do you think about the client business over the next year or two? How do you balance market share versus profitability? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure. So, the Client business is a good business for us from a margin standpoint. And as we look forward, we look at it as an end-to-end portfolio. So, we really do have an end-to-end portfolio across notebook and desktop, and our goal is to continue to improve the profitability of that business.

As it relates to unit share, I think unit share is certainly important. We look at revenue growth overall as important for that business, but I believe we'll be able to do that at good margins and to continue on our margin path.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you very much for joining our conference call today, everyone. This does conclude our call.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2018 Earnings Call for 24-October-2018 5:30 PM ET
Wednesday, October 10, 2018 09:50:13 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2018 Earnings Call for 24-October-2018 5:30 PM ET.
US Live Call Phone Number: (877) 407-8037

Press Release URL: http://quarterlyearnings.amd.com/static-files/4ef860c8-6b5a-48a1-bf9d-b110e196e5b9
Live WebCast URL: https://edge.media-server.com/m6/p/kik7az96
Replay WebCast URL: https://edge.media-server.com/m6/p/kik7az96
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Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Laura Graves

Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's Second Quarter 2018 Conference Call. By now you should have had the opportunity to review a copy of our earnings release and slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, www.amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on her website.

I would like to highlight a couple of important dates for you. Jim Anderson, Senior Vice President and General Manager of Computing and Graphics; and Ruth Cotter, Senior Vice President of HR, Worldwide Marketing and Investor Relations, will attend the Jefferies 2018 Semiconductor Hardware and Communications Infrastructure Summit on August 28. Also, Devinder Kumar, Senior Vice President and Chief Financial Officer, will present at the Deutsche Bank Technology Conference on September 12. And our 2018 third quarter quiet time will begin at the close of business on Friday, September 14, 2018.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations speak only as of the current date, and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations. We will refer primarily to non-GAAP financial metrics during this call except for revenue, gross margin and segment operational results, which are reported on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release posted on our website.

Please refer to the cautionary statements in today's press release for more information. You also find detailed discussions about our risk factors in our filings with the SEC, and in particular, AMD's quarterly report on Form 10-Q for the quarter ended March 31, 2018.

Now with that, I will hand the call over to Lisa. Lisa?

Lisa T. Su

President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

Thank you, Laura; and good afternoon to all those listening in today. We ended the first half of 2018 strong delivering our fourth consecutive quarter of double-digit year-over-year revenue growth, driven by increased demand for our high-performance products. Second quarter revenue of $1.76 billion grew 53% year-over-year and gross margin improved more than three percentage points, resulting in our highest quarterly net income in seven years.

We are very pleased with the year-over-year financial performance across both of our business segments. As we continue to gain share, driven by strong customer adoption of our new products in the PC, gaming and data center markets.

Looking at our Computing and Graphics segment, second quarter CG segment revenue increased 64% year-over-year, driven by strong demand for our Radeon GPUs and a significant ramp of our Ryzen mobile processors. Ryzen unit shipments grew strong double-digit sequentially as Ryzen mobile processor shipments more than doubled in the quarter. Acer, Asus, Dell, HP, Huawei, Lenovo and Samsung launched dozens of Ryzen processor-based notebooks, which position us well to continue growing Ryzen mobile sales, heading into the back-to-school and holiday seasons.

In the commercial PC market, we launched our Ryzen PRO commercial mobile APUs in the quarter. For the first time in our history, all three major commercial OEMs, Dell, HP and Lenovo now offer enterprise class notebooks and desktops, powered by AMD. And we are seeing strong initial interest as customers evaluate these new systems.

Continuing our strong roadmap execution, we launched our second generation Ryzen desktop CPU to very positive reviews in April, just 13 months after the first Ryzen desktop processors were released. Additionally, in June, we delivered the first public demonstration of our second generation AMD Ryzen Threadripper processors, with the industry's first 32 core PC processor designed for the high-end desktop market. We are on track to launch our second generation Threadripper processor in August with leadership performance for the enthusiast and content creation markets.

Overall, we are very pleased with the market adoption of our Ryzen processors. 44 consumer and commercial Ryzen-based desktops and notebooks have been launched this year, and our customers remain on track to bring a total of 60 Ryzen-based systems to market in 2018. In Graphics, strong channel and data center demand drove significant year-over-year increases in revenue and ASPs. Sequentially, Graphics revenue was down primarily driven by lower blockchain-related sales, partially offset by stronger data center sales.

Sales into the high-end enthusiast and performance portions of the gaming market grew substantially year-over-year based on the adoption of our latest Radeon RX 500 and Vega series GPUs.

We continue to execute our software strategy to provide the best gaming experience in the industry, with new AMD Radeon GPU drivers published for every major game launched in the quarter and expanded partnerships with Ubisoft, Capcom and Rebellion to optimize their next generation of games on Radeon graphics.

On the hardware side, we continue to expand the adoption of our Radeon Vega architecture with the introduction of new OEM systems and AIB cards in smaller and more mobile form factors. Samsung also announced they added our FreeSync technology to many of their high-end TVs, giving PC and console gamers the ultimate big screen gaming experience. The AMD FreeSync ecosystem is the broadest in the industry with more than 400 FreeSync-enabled monitors and TVs in market to-date.

Data center GPU revenue increased significantly in the quarter, driven by Vega-based Radeon Instinct MI25 shipments. Our GPU engagements with large cloud customers continued to expand as we increased our investments in hardware and open software solutions in this important space.

At Computex this year, we showed the first public demonstration of our next generation 7-nanometer Radeon Vega GPU, which includes new features optimized for the artificial intelligence and machine learning markets. We started sampling of this product in the second quarter and we are on track to launch this next generation product, the world's first 7-nanometer GPU later this year.

Turning to our Enterprise, Embedded and Semi-Custom segment, second quarter segment revenue increased 37% year-over-year, primarily driven by strong Semi-Custom sales and growing adoption of our EPYC data center processors.

Starting with our Server business, we celebrated our one-year anniversary of the launch of our EPYC server processors with an increase of greater than 50% in both revenue and unit shipments sequentially.

We have over 50 customer platforms now in market, including Cisco who announced their highest density server offering ever, powered by EPYC processors and HP Enterprise who launched their first EPYC-based single socket ProLiant server, which delivers significantly lower costs per virtual machine than the leading dual-socket competitor.

We also saw strong progress with our mega data center partners as Tencent Cloud announced immediate availability of their SA1 Cloud Service, delivering 30% lower costs per VM with outstanding performance across key workloads.

Shipments for mega data center customers more than doubled in the quarter, as we made significant progress towards qualification of production instances at multiple cloud providers in anticipation of deployments planned in the second half of this year. We're also seeing momentum from Tier 2 next wave cloud service providers that have the ability to ramp quickly with the noted preference for the value and capability that our EPYC single socket offering brings.

Turning to large enterprise customers, we added dozens of new end customers in the quarter. Our value proposition continues to be strong in segments like HPC, data analytics and in general-purpose virtualized enterprise environments. We are extremely focused on accelerating EPYC processor adoption in these targeted segments in the second half of the year.

Finally, I'm very pleased with our execution against our long-term roadmap. We received first silicone of our next generation 7-nanometer EPYC processor with Zen 2, code-named Rome, in the second quarter. And the silicon quality and bring-up has gone very well. I am happy to report that we've recently started sampling Rome to select partners for early validation and we are on track to launch in 2019, strengthening our already outstanding competitive position in the market. We remain focused on our near-term milestone of achieving mid-single digit server unit share by the end of 2018 on the path to our midterm goal of double digit market share.

Moving on to our Semi-Custom and Embedded businesses, Semi-Custom revenue increased year-over-year and sequentially in support of Sony and Microsoft game consoles. We are proud that Microsoft and Sony have collectively shipped well over 100 million AMD-powered game consoles in the current cycle. The game console market continues to be an important segment for us in the long term, and we are well-positioned based on our strong partnerships and differentiated IP and design capabilities.

Embedded sales increased by double digit percentage year-over-year, driven by growth across the embedded gaming, industrial and medical imaging markets. We also saw strong initial design wins for our new EPYC and Ryzen-embedded product families following their launch last quarter.

In closing, we are very pleased with our second quarter financial results. We delivered strong revenue growth and margin expansion as demand for our new high-performance products continued to accelerate. Most importantly, we believe our long-term technology bets position us very well for the future. Several years ago, we made important decisions around our CPU and GPU roadmaps to drive leadership at the 7-nanometer node. We now have line of sight to those products coming to market and we see incredible opportunities ahead based on the competitive positioning and customer interest in our upcoming 7-nanometer products.

We are confident that with continued execution, we are on an excellent trajectory to drive market share gains and growth in revenue and profitability. We are focused on that continued execution as we make significant investments in our hardware and software roadmaps to deliver even more compelling products to our customers in the 2019 and 2020 timeframe.

Now I'd like to turn the call over to Devinder to provide some additional color on our second quarter financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa; and good afternoon, everyone. Q2 was another strong quarter for AMD. Year-over-year, we grew revenue 53% and expanded gross margins to 37%, while significantly growing operating margin and earnings per share. Quarterly revenue of $1.76 billion was higher year-over-year, driven by strength across all product lines.

Gross margin was up 360 basis points year-over-year, driven by the ramp of new products. Operating expenses were $467 million or 27% of revenue, down as a percentage of revenue from 34% a year ago. We are delivering operating leverage while launching new products and making strategic R&D investment to support our multi-generational product roadmaps. R&D investments in the first half of 2018 increased 25% as compared to the first half of 2017 in support of our future product roadmaps. Operating income grew from $186 million from $23 million a year ago. Operating margin was 11% and both our business segments reported double-digit operating margin percentage.

Adjusted EBITDA was $228 million, compared to $58 million a year ago, and on a trailing 12-month basis, adjusted EBITDA has grown considerably to $666 million, resulting in gross debt leverage of 2.5 times. Net income was $156 million, a significant improvement compared to a loss of $7 million one year ago. This is our highest quarterly net income since 2011. Non-GAAP diluted earnings per share was $0.14, using a diluted share count of 1,147 million compared to a loss of $0.01 per share a year ago.

Now turning to the business segment results. Computing and Graphics segment revenue was $1.1 billion, up 64% year-over-year, led by strong sales of both Radeon and Ryzen products. Ryzen products accounted for approximately 60% of client revenue and we saw particular strength in Ryzen mobile processors in the second quarter as new notebook products continued to ramp.

Strong channel and data center demand drove year-over-year Graphics revenue increases. Sequentially Graphics revenue was down primarily driven by lower blockchain sales partially offset by stronger data center sales. We believe blockchain-related revenue declined from approximately 10% of our revenue in the first quarter to approximately 6% of our overall revenue in the second quarter.

Computing and Graphics segment operating income was $117 million or 11% of segment revenue compared to operating income of $7 million one year ago. The significant increase was due to strong revenue growth coupled with improved operating expense leverage. Enterprise, Embedded and Semi-Custom revenue was $670 million, up 37% year-over-year, driven primarily by Semi-Custom and EPYC processor sales. These results include higher-than-anticipated Semi-Custom revenue in Q2 due to higher inventory with non-cancelable purchase orders in accordance with ASC 606. EPYC processor units and revenue grew greater than 50% quarter-over-quarter, primarily driven by mega data center sales.

EESC operating income was $69 million, or 10% of segment revenue, up from an operating income of $16 million a year ago on higher revenue. Q2 2017 operating income for EESC also included a licensing gain of $25 million.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities totaled $983 million at the end of quarter. Free cash flow was negative $88 million in the second quarter due to working capital requirements in support of recent revenue growth. Inventory was $750 million, up slightly from the prior quarter. Total principal debt, including our secured revolving line of credit, was $1.7 billion.

Now turning to our financial outlook. For the third quarter 2018, AMD expects revenue to be approximately $1.7 billion, plus or minus $50 million. This would be an increase of approximately 7% year-over-year, primarily driven by higher sales of Ryzen and EPYC products, partially offset by lower sales of GPU products in the blockchain market. Sequentially, this would be a decrease of approximately 3% with higher Ryzen and EPYC processor revenue offset by lower GPU revenue. In addition, we now expect Semi-Custom revenue to be lower sequentially in Q3 following higher-than-expected Q2 revenue.

As a reminder, for comparative purposes, Q3 2017 revenue was $1.58 billion, adjusted for ASC 606 revenue accounting standard. In addition, for Q3, we expect non-GAAP gross margin to be approximately 38%, up from 36% in the prior year, driven by the ramp of Ryzen and EPYC product sales; non-GAAP operating expenses to be approximately $470 million, or 28% of revenue; non-GAAP interest expense, taxes and other to be approximately $35 million; and free cash flow to be positive. For the full-year 2018, we continue to expect revenue growth of mid-20s-percent, gross margin in excess of 37% and to be free cash flow positive.

In closing, Q2 was an excellent quarter and 2018 is expected to be a solid year. I am pleased with our business execution and financial results, driven by the strength of our high-performance products portfolio. We remain focused on executing our long-term financial model for revenue growth, margin expansion and improved profitability.

Now with that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves

Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first question here in the room.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Mark Lipacis with Jefferies. Please proceed with your question.

Mark Lipacis
Analyst, Jefferies LLC
Q

Hi. Thanks for taking my question. Lisa, for you, on the – it seems Intel seems to have pushed their 10-nanometer volume ramp-out into 2019. And I think a lot of people view your foundry 7-nanometer kind of the same ZIP Code as their 10-nanometers. And I'm wondering if you could give us some context and/or color on what does this mean? If you're at parity with Intel, have you – has AMD ever been at parity before with Intel? And does that change the conversation with your customers in terms of their interest in your products? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah, Mark. Thanks for the question. So, look, in terms of our roadmaps, both on the CPU and GPU side, we made some important technology decisions a couple years ago. And we bet heavily on 7-nanometer. We thought 7-nanometer would be a big node for the industry and it would be important for us to be early in the adoption of 7-nanometer. So when you look at where we are today, especially on the CPU side, we have first silicon of our Rome product; it looks very good. We also have a good number of architectural improvements and enhancements in Zen 2 that will come with 7-nanometer technology.

So we're very pleased with where we are and where the competitive positioning is. And I would say, to your question about how is it perceived? I think customers are very interested in where we are. Clearly, we have to execute. But with our current generation, Naples customers have certainly gotten to understand our architecture. With the improvements that we have going into 7-nanometer with Rome, I think, there is enhanced interest. And from a competitive positioning standpoint, we do believe we have an excellent competitive position going into 2019. So we are very excited about that.

Mark Lipacis
Analyst, Jefferies LLC
Q

Thank you. A follow-up, if I may. As we look at the double-digit bogey for next year on servers, is that – do you need EPYC 2 to get to that? And what are the risks on bringing that to market? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah, so, Mark, we view the double-digit share goal as an important share goal. I think it certainly will come with the second generation of EPYC, so the Zen 2 product. But I view it as a journey, right? We have now sort of three generations that we have. We have Zen 1 that's in the market today. We have Zen 2 that's well into the productization phase, and then we have a very strong roadmap around Zen 3 as well. So we feel good about our competitive position and the path to double digit market share. I think this is all about rate and pace. And we're working very, very closely with our customers to accelerate that ramp.

And actually, I was very pleased. I mentioned in the prepared remarks earlier that in the second quarter, we saw some nice acceleration of the mega data center customers. So we saw units there more than double, and that's an indication that we're getting the right level of engagement and progress with our large customers.

Mark Lipacis
Analyst, Jefferies LLC

Q

Very helpful. Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Thanks, Mark.

Operator: Our next question comes from the line of John Pitzer with Credit Suisse. Please proceed with your question.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, Lisa, Devinder. Congratulations on the strong results. Lisa, I wonder if you could just give us a little bit more detail into the foundry strategy at 7-nanometers and how much flexibility do you have between the two foundry partners. And to what extent if one of them is having troubles on 7-nanometer, does the wafer supply agreement give you the ability to move capacity without having to pay for wafers?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, sure, John. So a couple of years ago, we did amend the wafer supply agreement. It was a very strategic agreement for us as we look over the long term. So at 7-nanometer, we are engaged with both TSMC and GLOBALFOUNDRIES. I would say that we do have, on a product-by-product basis, the choice between the foundries and we make those decisions on a product-by-product basis. But in terms of our long-term roadmap and how we feel about it both on the GPU and CPU side, the main message is we don't believe process technology is going to be a gate for us. We have a lot of architectural work, a lot of architectural improvements, but we don't believe process technology is a gate for our roadmap.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

And then, Lisa, as my second question, can you help me better understand? Because one of the things I know you've been working on aggressively with the launch of EPYC 2 is your ability to cover a broader swath of workloads, and just increase the server TAM you can go after. So can you help quantify to me as you go from EPYC 1 to EPYC 2 what that growth in workload coverage looks like? And, importantly, as you continue to broaden out, how do we think about the R&D burden from here?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, sure, John. So when we go from the first generation of EPYC to the second generation of EPYC, I do think that there are some improvements that we'll make in the architecture that will expand the TAM. But from a TAM standpoint, we are not limited. I view our coverage today as 80% of the TAM. And, yes, some workloads are really clean kills and other workloads are closer, but we are servicing a large portion of the TAM. I think the value proposition increases with some of the architectural improvements that we've made in the second generation of EPYC. But from the standpoint of TAM, I think we feel good about it.

From an R&D standpoint and Devinder made the comment in our prepared remarks that we did increase R&D by 25% year-on-year. But I think we've done it in a very responsible way. So we have revenue growth. We're seeing margin expansion, which is a very, very key piece of our business model. And then, we will increase R&D and go-to-market resources effectively. But I don't believe that we will ever increase our OpEx ahead of revenue. I think it's a balance between each of those lines.

So we have these – I think we have a strong roadmap at this point and we'll look for opportunities to increase R&D, particularly on the software side, actually. I think we have a lot of opportunity on the software side across CPUs and GPUs to accelerate some of our machine learning work. And so that's where incremental R&D would go.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

And then, if I could sneak one last one in, Lisa, just on the GPU side, I think this is the second or third quarter in a row that you've highlighted incremental gains inside of the data center. Can you help size what that represents as a percent of revenue today? And, I guess, more importantly as you bring to market the 7-nanometer GPU part, how are you thinking about exploiting that in the data center and the TAM expectations, or revenue expectations we should have over the next four quarters to eight quarters?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, so on the GPU side, there's no question that the demand for GPUs in the data center are growing very quickly, even faster than on the CPU side for sure. And our data center engagements, our focus on the GPU side is very cloud-centric. So large customers, places where our GPU capability can be well-targeted. I would say, the size of the business is still small, so we are growing, but it is still small. But there's lots of interest in our current generation MI25 and there's even more interest in our 7-nanometer Vega GPU that's coming to market later this year.

So we expect an opportunity to grow that segment over the next four quarters to eight quarters. And as you can see in the market, overall, the GPU segment is growing quite a bit in data centers. And so we'll continue to invest heavily in this area.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Appreciate it. Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Thanks, John.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Next question, please, operator?

Operator: Our next question comes from the line of Vivek Arya with Bank of America Merrill Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question. I wanted to just start with the clarification and then I have a follow-up. What's the assumption for blockchain revenue in Q3 and for the full year? And just if you have an updated view of overall 2018 sales growth?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, sure, Vivek. So let me take that, and then Devinder can add if necessary. So for Q2, we were approximately 6% of revenue for blockchain. For Q3, we're planning very little blockchain. So we expected it to be down in the second half, but we're planning very little in Q3. So if you update that on a full-year basis for 2018 blockchain will be lower than what we had previously discussed in the last earnings call. So I would say previously we said mid- to high-single-digits. I think this would more on the mid-single-side. And we'll continue to watch the market develop over the next couple of quarters.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right. And then, Lisa, have you seen any competitive response from Intel so far in either PCs or servers. For example, some of your desktop parts saw some ASP decline. Was it just mix or price competition? Or anything else that we should keep in mind?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, sure, Vivek. So let me take each of the segments separately. So if you look at the PC segment, what we have seen is basically a ramping of our product portfolio. Certainly in desktop, we had some mix here in the second quarter where we increased the percentage of the APUs that were being sold into the desktop channel segment. And so you saw a little bit of a mix to a bit softer desktop ASPs. But overall, when I look overall, I would say that the competitive situation is about what I would expect. There is product competition and we see that.

We do ensure that there is good transition of products. So when we moved from our first generation Ryzen to our second generation Ryzen, we had some channel programs to make sure that we managed channel inventory on the first generation. But we've seen nothing that I would call unusual.

On the notebook side, actually, I'm pretty please because we're really seeing the notebook side of the business pick up. And so mobile ASPs were up, the percentage of Ryzen units in mobile were up and we see that continuing into the second half of the year.

And then on the EPYC side, again, I would say that the competition is really product-based. And for us, there are some workload optimization that we do with customers. But I haven't seen anything that's unusual relative to the pricing environment. And, in fact, as EPYC ramps, our ASPs are going up.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right. And one last quick one, if I may. When should we expect to see the breakout quarter for EPYC, Lisa? Will that be Q3, Q4, what's the visibility around that?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

I think we are very focused on ensuring we deliver that mid-single-digit unit share at the end of 2018. I think as we go into the second half of the year, I would still see it as fourth quarter would be a real important quarter for us. I think we'll see ramps into third quarter. And the key is as you know with some of these cloud partners, it's actually important when they actually ramp these larger instances. And so lots of visibility into work being done and the exact timing will depend on our customers' ramps.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks very much.

Operator: Our next question comes from the line of Matt Ramsay with Cowen. Please proceed with your question.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Good afternoon. Thank you. Lisa, a couple of questions on the server business and then I'll follow up on a couple of PC things. In server, you guys have laid out the mid-singles unit share number by the end of this year. And maybe you could walk us through that with a little bit of granularity, like how do you balance what seems to be really high demand within the cloud customer base for Rome versus pushing volumes in the near term of Naples? And I think some folks have asked a couple of questions around process node, and you're obviously sampling already with Rome. So maybe could be explicit about where you're manufacturing that? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, sure. So a couple of different questions here, Matt. On the EPYC, your question is Naples versus Rome and how we manage that. Look, our focus from a sales and go-to-market standpoint right now is on Naples. First generation EPYC, we have a lot of platforms in market, over 50 platforms in market. There are a lot of customers that have systems in their labs, going through various stages of qualification, and we're very focused on supporting that and ensuring that we see that ramp into the second half of the year.

Rome is really a 2019 story. I think the good part about it is I expect that customers perhaps took a little bit longer in their initial qualification and work around Naples. And our hope is that as we go into Rome, you see those qualification timelines tighten up a little bit. But no question that for 2018, it's a Naples story, and there's a lot of customer interest around Rome. And we will manage that. But we want to make sure that we also do as much of the validation work on our side before we sample too broadly. I think the good news is there's a lot of interest, and it's really just on us to execute cleanly through the next couple of quarters.

And Matt, you had some other questions? Or...

Matthew D. Ramsay
Analyst, Cowen & Co. LLC

Q

Yeah. The last there on server was about manufacturing for Rome. And then, just talk about one thing on the PC side, particularly notebooks, one of the questions I'm getting most often from investors is as the product portfolio from AMD improves dramatically, and I think well, again, as you guys go to 7-nanometer, it seems like winning sell-in share with OEMs is something that you guys have a bit of control of.

But I wanted ask a little bit about sell-through and consumer adoption and mind share around your client products. Intel has wound down some of the Intel Inside marketing program, and I know maybe you have some opportunities there. Maybe you could talk about some of the steps that their marketing team is making to maybe change and refresh some of the consumer perception of the products relative to how quickly they've improved fundamentally? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc. A

Yes. Absolutely. So, Matt, on your first question relative to the manufacturing of the second generation of EPYC, so as I said earlier, we are working with both the TSMC and GLOBALFOUNDRIES in 7-nanometer. As for the 7-nanometer Rome that we're currently sampling, that's being manufactured at TSMC. And then your second question about where we are in the PSPC market, sell-in versus sell-out share, actually it's a great question. It's a great question. And when I look at the PC market, we have great relationships with the OEMs.

You can see it from the number of platforms that we have out there. But there's no question that there's opportunity for us to get the consumer perception and the commercial enterprise perception up. And so we've been very focused on that. And that comes with additional investment in go-to-market expenses.

So getting the Ryzen brand out there, getting the Radeon brand out there, it includes additional training at some key retailers to ensure that they know how to sell Ryzen and they know what the value proposition is. And what we see is some clear signs of early momentum in sell-out. So as our platforms launched here in the month of June, we actually saw quite a few of the outlets that they actually sold out of our product. And we've had to restock that here quickly.

And as we go into the second half of the year, I think you'll see in both back-to-school and in holiday globally that we have a larger presence of assortment than we have had in the past. So that's a clear focus for us in the PC market.

Matthew D. Ramsay
Analyst, Cowen & Co. LLC Q

Okay. Thank you very much.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc. A

Thanks, Matt.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc. A

Thanks, Matt.

Operator: Our next question comes from the line of Stacy Rasgon with Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Hi, guys. Thanks for taking my questions. First, I wanted ask about Ryzen share. I thought I heard you say that Ryzen was 60% of your CPU revenues in the quarter. I thought that's what you said it was last quarter as well. So how do I reconcile that with the other color around the sequential growth of Ryzen into Q2?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, so, Stacy, it was approximately 60%. And when you look at it on a quarter-on-quarter basis, we had more units overall in desktop and notebook. Particularly, in notebook, we saw an acceleration of Ryzen mobile units in the notebook. So it's an approximate number, it's not an exact number, but it's approximately 60%. We also saw some legacy business increase, and that's why you see that.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Okay. So basically, it was maybe like a little below 60% before and like a little above 60% now but kind of around 60%?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

In that range, exactly.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Okay. For my second question, you said you had EPYC up more than 50% sequentially. So I think it doubled last quarter; it's up 50% this quarter. But is there any – I think you're still running, call it, 1%, maybe a little – kind of in that ballpark of share. So if you're going to get 5% exiting the year, you got to probably triple or more the current run rate by Q4. And I know you had mentioned earlier that Q4 was going to be a kind of like an important quarter. Is that the kind of, I guess, ramp rate or run rate you're actually thinking about this EPYC business into the back half of the year in order to meet your targets?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, Stacy. I think we view an acceleration as we go into the second half of the year, particularly as some of these guys go into larger production. But yes, there are significant number more units. I think we just see a pipeline that can accomplish that.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Got it. Just one quick housekeeping. Just why did the accounts receivable go up so much?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Devinder?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I didn't get the question, Stacy?

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

I'm sorry. Accounts receivable and why did they go up so much.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Accounts receivable.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, it went up – primarily it's higher revenue and timing of collections, so that's the main reason. In addition, there was an increase in this, associated with unbilled AR for Semi-Custom revenue which, as you know, is recognized under ASC 606. Those parts have not shipped, but they get recognized as revenue. And that sits as unbilled AR under the AR line.

Stacy Aaron Rasgon
Analyst, Bernstein Research

Q

Got it. Thank you, guys.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Thanks, Stacy.

Operator: Our next question comes from the line of Joe Moore with Morgan Stanley. Please proceed with your question.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Wondering if you could talk a little bit about the Chinese JV and the product that's being developed there that you've licensed. Can you talk about when you expect to see that product emerge? And how do you think about that sort of AMD proper competing with the JV within those Chinese customers? Are you agnostic to who wins, or just how should we think about that?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure, Joe. So we did start this Chinese JV a couple of years ago, and the whole idea was to get more share in the domestic China market. The partnership has gone well. The product development is going well. We view the product as complementary to our current portfolio. So I think from that standpoint, we will continue to sell AMD EPYC into the China market. And then, for certain domestic China applications, I think the China JV product will be available. They have not yet announced the exact timing of that. So I'll wait until the official announcement of it. But so far, it's gone as expected. And I think the product development has gone quite well.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Joe. Next question?

Operator: Our next question comes from the line of Hans Mosesmann with Rosenblatt Securities. Please proceed with your question.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thank you. Lisa, a couple of questions. The timing of the Ryzen version of 7-nanometer after EPYC, when will that happen in 2019? Is that the quarter after or six months? Just the timing. And then the second question is how many of the mega data center guys are you actually engaged with at the moment? Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah, okay. So, Hans, on the timing of the 7-nanometer Ryzen, I would just keep it as it's after the 7-nanometer EPYC. So we'll launch 7-nanometer EPYC first. I wouldn't say, it's very far out, but I would say it's after. And then, in terms of mega data centers, we are engaged with all of them in some way, shape or form across CPU and GPU. On the CPU standpoint, I would say, we are heavily engaged with five.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thank you.

Operator: Our next question comes from the line of Kevin Cassidy with Stifel. Please proceed with your question.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Question. Just again, on EPYC, you were very clear that it was going to be about four quarters in qualification before your customers would start deployment. With EPYC 2, are there any programs in place? Or can we expect that it'd be a shorter amount of time before that could be deployed?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, Kevin. So I believe – and, of course, we'll have to see how this plays out. But I think with EPYC, there were some customers who waited for us to completely qualify before they started, let's call it, their own evals and that's to be understood because we were returning to the market. I think with the second generation of EPYC, one would expect that there would be some customers who would do, let's call it, parallel qualifications with our own qualifications.

And so I think there is an opportunity to overlap some of that work and certainly that's part of the reason that we've started early sampling as early as we have to try to parallelize some of that activity.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Great. And on the GPU traction you're getting in the data center, is there a high attach rate with your EPYC processors? Or is that just an independent traction?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

I would say, at the moment for 2018-type revenue, they are independent engagements at the moment. I think as we move into the 7-nanometer node with both EPYC and our Vega 7-nanometer, there will be more of an attach rate and there is more interest, frankly, in that attach.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Operator: Our next question comes from the line of Toshiya Hari with Goldman Sachs. Please proceed with your question.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, thanks for taking the question. How should we think about OpEx growth over the next several quarters? It seems like you've been growing OpEx in the 20%-plus range. Should that moderate going forward? Or should we expect that to stay relatively stable?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think the first thing is if you look at our model that we've laid out, we've set the long-term target model to stay within the range of 26% to 30%. This year, with the revenue guide that we've given in the mid-20s, we are guiding to about 28% OpEx to revenue. Year-over-year basis, you're right, we have increased it and largely those increases have been in R&D.

If you look on the first half of 2017 to the first half of 2018, OpEx is up, but is largely weighted towards the R&D side. We are pleased with the operating leverage that we are getting from a company standpoint with the increase in revenue, but at the same time targeted investments vary heavily in the product roadmaps. And some of the things that you heard Lisa just talked about from the products and all of the multiple levers that we have to increase revenue, we are definitely investing in those areas.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Great. And as a follow-up, Lisa, it's been a little bit over a year since you laid out your long-term financial model. I realize crypto has been sort of a tailwind since then. But is it fair to say that you guys are on track to hit the $0.75 and above EPS number, ex-crypto?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yes. I think, Tosh, if you look at the long-term financial model and put aside temporal things, we feel that we are on track towards that long-term financial model. In some places, we are ahead. In some places, we are on track. But, overall, I think we feel good about where we are towards the long-term financial model.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

Operator: Our next question comes from the line of Chris Danely with Citigroup. Please proceed with your question.

Wayne Loeb
Analyst, Citigroup Global Markets, Inc.
Q

Hello. This is Wayne Loeb for Chris Danely. Thank you for taking my call. What kind of performance improvement will 7-nanometer EPYC have over the current one?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah, Wayne, I think we're not yet getting into details of what the performance improvement is of the 7-nanometer EPYC. So I think we'll have more details on the architecture and where we are in performance later this year.

Wayne Loeb
Analyst, Citigroup Global Markets, Inc.
Q

Okay. As a follow-up, you talked about your goal of mid-single-digit share for EPYC by the end of the year. Exiting the year, what do you think your share would be in desktops and notebooks?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

I think we'll continue to make progress in desktops and notebooks. In particular, I think, we expect that the notebook share will increase as we go into the second half of the year. Obviously, the PC market overall is doing a little bit better than most people expected. And so we'll have to see how the market does. But from our standpoint, we don't have a specific share target out there for end of this year. We believe we'll continue to gain share based on what we see in design wins at this point.

Wayne Loeb
Analyst, Citigroup Global Markets, Inc.
Q

Thank you very much.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.
A

Thanks, Wayne.

Operator: Our next question comes from the line of Ambrish Srivastava with BMO Capital. Please proceed with your question.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Hi. Thank you very much, Lisa. I had a – and I'm sorry if you addressed it earlier on the call. What is the timing for the 7-nanometer GPU? And then my related question on GPU is could you just update us on what's the progress on the software ecosystem? Specifically, in competition with the moat, seemingly huge moat than NVIDIA has built with CUDA. Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure, Ambrish. So our 7-nanometer GPU started sampling here in the second quarter and we will launch it later this year. So it will launch – we expect it to launch in 2018.

As it relates to the software ecosystem, we're making good progress. We're making incremental progress each quarter. And the important thing and the reason – our strategy right now in GPUs in the data center is to engage with large cloud guys who have the ability to work with us, and in some sense we're focusing our software efforts on their needs first. And that allows us to do this vertical by vertical. So I think we're making good progress. It's a multi-year effort and we are very clear that it's a multiyear effort. But we have seen some initial positive momentum and we're going to continue to invest in this space. So it's the number one investment priority for us.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

So in data center, Lisa, sorry, just a quick follow-up. What areas have you been able to gain traction within the – and it's a pretty large area within machine learning, where specifically have you been able to let yourself in? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, again, we're working with several cloud vendors on key applications in their data center.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Ambrish. Operator, we have time for two more questions, please.

Operator: No problem. Our next question comes from line of Aaron Rakers with Wells Fargo. Please proceed with your question.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thank you for taking questions, also congratulations on the quarter. I apologize to continue to go back to EPYC. But just curious as we think about the ramp, you've mentioned that you have over 50 platforms now in the market. I'm just curious if you were asked to characterize how many of those were shipping in volume, and what your expectation would be through the course of the remainder of this year in terms of those turning into true meaningful volumes?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah. So I'm thinking about that. I would say, a number of those platforms, a large majority of those platforms are shipping to multiple customers. So volume, of course, is all relative. And the way we count platforms are obviously platforms from the OEMs as well as platforms from ODMs and a number of the cloud guys are doing their own platforms, more specific platforms.

So I would say, a large number of those, the majority of those would have our shipping to multiple customers, and production sort of the scale of the production is what is customer-dependent. So some of them are in hundreds of units, some of them are in thousands of units, some of them are in tens of thousands of units and different scales of numbers.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Okay. Fair enough. And then, as a quick follow-up. As we think about the ramp of some of your new platforms going forward, and we tie that to your long-term gross margin target of – I think it was 40% to 44%, can you just remind us again of how we can think about the mix in terms of the margin profile of some of the new businesses ramping? And how quickly maybe we should consider that 40%-plus targeted gross margin?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Well, we're guiding the third quarter to 38% gross margin. That's largely on the strength of new product portfolio. I think what we said before, and which still holds is our Ryzen, our EPYC, our Radeon data center products are all in aggregate over 50% from a gross margin standpoint. So they're well above the corporate average. I think we're starting to see the mix and that margin accretion of the new products. And so we'll continue to do that over the next couple of quarters.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

So I guess, it's fair to assume...

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Did that answer your question?

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah, I guess, I'm just trying to – I guess, given the commentary around the fourth quarter and EPYC really that being an important quarter, could we assume that gross margin from here continues to trend higher?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Well, I think it's fair to say that as we go into the second half of the year, our new products will be a larger percentage of our overall product revenue. And that is positive from a margin standpoint.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you very much.

Operator: Our final question comes from line of Tim Arcuri with UBS. Please proceed with your question.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thank you. I had two. I guess, when I look at the stock, there is no – I'm not sure there's a lot of data about the share gain targets this year. But maybe there is some question about the ability to sustain those targets next year and the year after. So I guess, the question – first question is what are you doing differently this time that was not done in the Opteron cycle? Are you giving your customers more visibility to your roadmap? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Tim, I think the major thing that we're doing differently as a company and certainly around EPYC is we are doing what we said we were going to do. We laid out a five-year roadmap for what we wanted to do in servers. We told them what first-generation EPYC would look like. It came out a little bit better than they expected.

We told them when to expect second generation EPYC and what we were trying to do that. And I'm really pleased to say that we are exactly on track to what we said we were going to do. And we have a third-generation behind that. So our focus is to execute really, really well and provide customers a differentiation in the value proposition to consider us as a long-term partner. We are not after what happens over the next two quarters. This is extraordinarily – it's a journey for us with EPYC. And I think we feel good about what we've done. And the entire team is focused on delivering what we said we were going to do.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Got it, Lisa. Thank you for that. And then, I guess just the last question is really around the strategic foundry roadmap beyond 7-nanometer. Clearly, you have a lead now that because Intel is going to really I think functionally skip over 10-nanometer, which is great, and maybe it's a little bit unexpected given when you began development of these parts. But how do you think strategically beyond 7-nanometer as you move to 5-nanometer with your partner? And where Intel will be at that time? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

What we see in the foundry roadmap is actually a very nice cadence of technologies. So we do believe 7-nanometer will be a large node. There will be derivatives of 7-nanometer, 7-nanometer, 7-nanometer plus. We have seen the first view of 5-nanometer, and we think 5-nanometer is very competitive as well. So again, our goal is to use the best the process technology can offer in the foundry market, and then differentiate on architecture, and product positioning, and those kinds of things.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Thank you very much, Tim.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. And I would like to turn the call back to Laura Graves for closing remarks.

Laura Graves

Investor Relations, Advanced Micro Devices, Inc.

Thank you, operator, and everyone who joined our call today for the Q&A, thank you very much. We appreciate your time, and we'll speak to you again soon.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2018 Earnings Call for 25-July-2018 5:30 PM ET
Monday, July 16, 2018 08:22:06 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2018 Earnings Call for 25-July-2018 5:30 PM ET.
US Live Call Phone Number: (877) 407-8037

Press Release URL: http://ir.amd.com/news-releases/news-release-details/amd-reports-second-quarter-2018-financial-results
Live WebCast URL: https://edge.media-server.com/m6/p/3z3czae4
Replay WebCast URL: https://edge.media-server.com/m6/p/3z3czae4
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Advanced Micro Devices, Inc. (AMD)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices First Quarter 2018 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Graves. Laura, please go ahead.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's first quarter 2018 conference call. By now, you should have had the opportunity to review a copy of our earnings release and slide presentation. If you have not reviewed these documents, they can be found on the Investors Relations page of AMD's website at www.amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

I would like to highlight a couple of important dates for you. Dr. Lisa Su, President and Chief Executive Officer, will present at the 46th Annual JPMorgan Global Technology Media and Communications Conference on May 15; Mark Papermaster, Senior Vice President and Chief Technology Officer, will present at the Cowen 46th Annual TMT Conference on May 30; and our 2018 second quarter quiet time will begin at the close of business on Friday, June 15, 2018.

During our call today, we will focus discussion on key metrics and year-over-year trends in our business, as we believe this is the most meaningful way for analysts and investors to evaluate our growth trajectory. We have expanded the slide content and eliminated the written CFO commentary document.

For those of you on social media, we will be sharing key messages from this call on our Twitter feed @AMDNews at the conclusion of this call.

Please be reminded that AMD adopted revenue recognition standard ASC 606 effective 2018, using the full retrospective method as of Q1 2018. All prior period results have been adjusted to adopt this new standard, and our comments on today's call reflect these adjustments. For more information and historical financial statements, please refer to our 8-K filing on February 27, 2018.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

We will refer primarily to non-GAAP financial metrics during this call, except for revenue, gross margin and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release posted on our website.

Please refer to the cautionary statements in today's press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's annual report on Form 10-K for the year ended December 30, 2017.

Now, with all of that out of the way, I'm happy to turn the call over to Lisa. Lisa?

Lisa T. Su

President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

Thank you, Laura. And good afternoon to all those listening in today. We started 2018 with excellent financial results, as we delivered our third straight quarter of double-digit year-over-year revenue growth. First quarter revenue of $1. 65 billion grew 40% year-over-year. Gross margin improved 4 percentage points and earnings per share increased significantly based on very strong operating and net income growth.

Our strong first quarter financial results demonstrate that our long-term strategies paying off. We are executing consistently on our product roadmap. Our customers are increasingly adopting our new products and we are strengthening the foundation of AMD with the right long-term investments.

Looking at our Computing and Graphics segment in the quarter, excellent momentum for our premium product portfolio drove double-digit year-over-year and sequential revenue growth. Client processor sales were significantly better than seasonality, as Ryzen processor shipments grew year-over-year and sequentially. Ryzen processors accounted for 60% of our overall client processor revenue, up from the low-40s in Q4, with desktop and notebook client processor ASPs increasing.

Product execution was strong in the quarter, as we expanded our Ryzen processor portfolio with new high-performance products. We launched the first AMD Ryzen desktop APUs, combining the power of our Zen CPU and Vega GPU on a single chip, delivering the world's most powerful graphics on a desktop processor, with the Ryzen desktop 2400G.

Initial sales were strong in the component channel, which contributed to the significant Ryzen processor sales increase in the quarter. Additionally, we began shipments of our second-generation Ryzen desktop CPUs based on a 12-nanometer Zen+ architecture, delivering outstanding gaming performance and best-in-class multiprocessing leadership for gamers, creators and hardware enthusiasts.

Ryzen mobile unit shipments also ramped in the quarter ahead of OEM system launches planned for Q2, driving double-digit increases in our mobile processor unit shipments, both year-over-year and sequentially.

Initial Acer, HP and Lenovo platforms had strong sales in the quarter, and Dell released new notebooks and 2-in-1s in early April that further expanded our Ryzen portfolio. Additionally, our first Ryzen PRO commercial notebooks are expected to launch in Q2. Dell, HP and Lenovo are all planning to offer AMD-based commercial notebooks based on the excellent performance and features of this new APU.

Overall, the number of Ryzen-based systems from OEMs continues to grow. In Q2 alone, we expect 25 new Ryzen-based consumer and commercial notebooks to launch, and our customers remain on track to bring a total of 60 Ryzen-based systems to market by the end of the year.

In Graphics, we delivered strong year-over-year revenue growth as ASP and unit shipments increased significantly. On a sequential basis, revenue increased and we outperformed seasonality with strong Radeon Vega and 500 series channel sales, driven by both gaming and blockchain demand.

Gaming continues to be a top priority for us, with growth being driven by the expanding number of PC gamers and increasing demand for graphics performance to deliver more immersive experiences. Demand for our Radeon series of graphics products remained strong as new AAA game titles, such as Far Cry 5, were released. We continued our investments in gaming software and released our Radeon esports experience, providing a performance uplift on popular esports games such as Fortnite, PUBG, DOTA 2 and Overwatch.

We continue to see significant demand for Radeon Vega graphics family, as customers accelerate their ramps based on increasing availability of our high-performance GPUs, with more supply coming to market.

In Professional Graphics, HP and Dell both expanded their AMD Radeon Pro workstation portfolio offerings in the quarter, including HP's launch of new ZBook thin and light mobile workstations powered by the AMD Radeon Pro WX 3100.

Our machine learning strategy continues to gain momentum. Mega data center partners are validating and testing our Radeon Instinct MI25 for deep learning applications, and we introduced our Radeon Open Compute ecosystem, ROCm 1.7, a top to bottom open solution software stack for machine learning.

I'm also happy to report that our next-generation 7-nanometer Radeon Instinct product, optimized for machine learning workloads, is running in our labs and we remain on track to provide samples to customers later this year.

Turning to our Enterprise, Embedded and Semi-Custom segment. Q1 revenue decreased year-over-year, due to lower semi-custom revenue, as expected, based on maturity of the current game console cycle, and increased sequentially. In the quarter, Microsoft announced support for our industry-leading Radeon FreeSync technology in their Xbox One S and Xbox One X consoles, delivering stutter-free gaming experiences.

Server revenue increased double-digit percentage sequentially, across mega data center, OEM and channel customers. EPYC processor unit shipments nearly doubled from the previous quarter. We continued to grow our data center momentum with dozens of new design wins across key workloads, including HPC, storage, virtualization and cloud applications.

Dell EMC launched three of their newest PowerEdge platforms, powering virtualized storage area networks, hybrid cloud applications, dense virtualization and big data analytics with EPYC 7000 series processors. Recently, supercomputing leader, Cray, announced that it added EPYC processors to its Cray CS500 line of HPC offerings. The Cray announcement tops off a very active quarter in HPC and big data, building on workload momentum in automotive simulations, university clusters and healthcare.

And multiple mega data center customers pass key production milestones as they look to expand their deployments of EPYC-powered instances this year. To-date, there are more than 40 EPYC-based platforms in market, and we are actively working with OEMs, system integrators and channel partners to increase deployment to end customers. We remain focused on achieving mid-single-digit server unit share by the end of 2018.

Our Embedded business delivered increased revenue, unit shipments and ASPs, year-over-year and sequentially, as we introduced two new product families: the EPYC Embedded 3000 and the Ryzen Embedded V1000 processors to enable a new class of thin client, IoT and other embedded solutions.

In closing, we are extremely pleased with our first quarter financial results and strong product execution. We believe 2018 is shaping up to be an excellent year for AMD, with continued revenue growth and margin expansion driven by significant demand for our high-performance Ryzen, Radeon and EPYC products.

Looking forward, we are confident that we have the right long-term strategy to deliver sustained revenue and profitability growth. The market TAM in high-performance computing will grow to over $75 billion over the next few years, including high-growth segments like gaming, data center, machine learning and artificial intelligence.

We have built a strong execution engine, and we will continue to make significant investments in hardware and software to deliver an even more compelling roadmap for our customers in 2019 and beyond.

Now, I'd like to turn the call over to Devinder, to provide some additional color on our first quarter financial performance.

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa. Good afternoon, everyone. The first quarter was a strong quarter for AMD. Year-over-year, we grew revenue 40%, expended gross margin by more than 400 basis points, significantly improved net income and earnings per share and achieved GAAP and non-GAAP net profitability.

Total revenue of $1.65 billion was driven by strong demand for our new products, with Ryzen and Radeon products growing double-digit percentage year-on-year, Ryzen sales coming in higher-than-expected and EPYC server processors ramping. Gross margin was 36%, up 420 basis points year-on-year, driven by a higher proportion of revenue from new products.

Operating expenses were $446 million compared to $371 million a year ago. Operating expenses were 27% of revenue, lower than our prior guidance of 28%, and down 4 percentage points from 31% a year ago, as we continue to make strategic R&D investments, launch new products and invest in our multi-generation product roadmaps.

Operating income was $152 million, up sharply from $34 million a year ago, and operating margin was 9%, up from 3% a year ago. Net income was $121 million or diluted earnings of $0.11 per share as compared to a net income of $2 million a year ago. Adjusted EBITDA was $196 million compared to $68 million a year ago and on a trailing 12-month basis adjusted EBITDA was $496 million.

Now, turning to the first quarter business segment results. Computing and Graphics segment revenue was $1.12 billion, up 95% year-over-year due to strong sales of both Radeon and Ryzen products. Our Ryzen offerings outperformed our expectations in Q1, accounting for approximately 60% of client processor revenue and contributed to strong sequential double-digit percentage growth in client revenue. The strength in Radeon products was driven by both gaming and blockchain demand. We believe blockchain was approximately 10% of AMD revenue in Q1 2018.

Computing and Graphics segment operating income was $138 million compared to a loss of $21 million a year ago. This significant turnaround was due to strong revenue growth and improved operating expense leverage.

Enterprise, Embedded and Semi-Custom revenue was $532 million, down 12% year-over-year, with lower semi-custom revenue partially offset by higher server and embedded revenue. As a reminder, revenue in both Q1 2018 and Q1 2017 include semi-custom revenue related to quarter-end inventory, associated with non-cancelable purchase orders as required under the ASC 606 revenue accounting standard.

EESC operating income was $14 million, down from $55 million a year ago, primarily due to a licensing gain in Q1 2017, as well as increased operating expense investments in our data center business.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities totaled $1.04 billion at the end of the quarter, down from $1.18 billion in Q4, and up from $943 million in the year ago quarter. Free cash flow was negative $132 million in the first quarter. Inventory was $715 million, up slightly from the prior quarter.

Total principal debt, including our secured revolving line of credit, was $1.7 billion. We deployed cash to repurchase $14 million of debt in the first quarter, as we continue to reduce term debt and interest expense.

Now, turning to our financial outlook: For the second quarter of 2018, AMD expects revenue to be approximately $1.725 billion, plus or minus $50 million. This is an increase of 50% year-over-year, driven by the growth of Ryzen, Radeon, EPYC and semi-custom revenue. On a sequential basis, we expect Q2 revenue to benefit from continued strength in our Ryzen and EPYC product families and a seasonal increase in semi-custom revenue, partially offset by a modest decline in graphics due to blockchain.

As a reminder, for comparative purposes, Q2 2017 revenue was $1.15 billion under the ASC 606 revenue accounting standard. In addition, for Q2 2018, we expect non-GAAP gross margin to be approximately 37%, non-GAAP operating expenses to be approximately $460 million or 27% of revenue, non-GAAP interest expense, taxes and other, to be approximately $35 million and inventory to be up slightly on a sequential basis in support of higher revenue.

Our financial progress in the first quarter is attributable to the ongoing strength of Radeon and Ryzen products, as well as continued early contributions from our EPYC products. Our business is strong, and we look forward to continued revenue growth, margin expansion and increased profitability year-over-year.

Based on the strength of our business momentum, for the full year 2018, we now expect revenue to increase by mid-20s percent over 2017, driven by the ramp of our new products. Blockchain revenue to be mid to high-single-digit percentage of revenue for 2018. Non-GAAP gross margin to be greater than 37%.

In summary, the first quarter was excellent. We are pleased with the momentum in our business execution and strong financial results, which we believe lay the foundation for a strong 2018. We are focused on delivering our long-term target financial model, as we execute our multi-generational roadmaps and introduce and ramp high-performance computing products.

With that, I'll turn it back to Laura for the Q&A session. Laura?

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you very much. Appreciate that, Devinder. Operator, we're ready to go.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Vivek Arya from Bank of America Merrill Lynch. Your line is now live.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Thanks for taking my question and congratulations on the strong results, especially on getting to the double-digit op margins in your Computing and Graphics segment. it's been awhile since we saw that.

For my first question, Lisa, on EPYC server sales, you mentioned they doubled sequentially. If you could give us some sense of what the magnitude is, so we at least have some ballpark sense of where you are right now. But importantly, what are the remaining pushbacks from customers, in terms of what they would like to see before they adopt EPYC in a more meaningful way, is it just a matter of time? Is it a performance or a pricing gap, or what else do you need to deliver on to get EPYC to a more meaningful level?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yeah, absolutely, Vivek. Thanks for the question. So look, on EPYC, we did make a very nice progress in the quarter. I think when you look at it from a revenue standpoint, it's strong double-digit percentage. There's – we certainly view that the units increasing is also a very positive thing. The traction actually is across all areas. So we saw traction in Enterprise sort of end user deployments. We saw some channel and system integrator deployments as well as hyperscale deployments.

And our goal is to get to mid-single-digit share by the end of this year. I think we are making good progress towards that. What we're working with customers now is just going through their various stages of qualifications. So they go from proof-of-concept to initial deployment then to large volume deployment. And we're in that initial deployment phase.

And so, I think we're making good progress, and it is – there are no real pushbacks other than just time going through the qualification process and working with them in their environments to make sure that we get fully qualified.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Got it. And as a follow-up, if I look at your server ASPs in the past, they were sort of in the $300 to $400 range, well below what your competitor had. As you look at a lot of these engagements that you're participating in now, how should we think about pricing trends that you're seeing in that market? Are you able to sell in a higher value segment than you were able to do in the past?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yes. So Vivek, I think the very strong part of our roadmap right now is we're really playing across the entire portfolio. So from, let's call it, the low-end of the server market, the entry-level, all the way through the high-end 2P SKUs. So the pricing that we're seeing in the market is very reasonable. From our standpoint, they are – we are providing value to the customer, but they're also very accretive to the margins of our overall business. So the pricing environment is good.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Lisa. Thanks, Vivek. Next question, please.

Operator: Thank you. Your next question is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. First question on the Ryzen notebook effort, it sounds like it's really starting to hit its stride. And I was hoping you could give us a little bit more color, which segments does it seem to resonate with, to what extent, is it a commercial versus a consumer product? And do you think that the Ryzen notebook opportunity, is it bigger than the desktop opportunity ultimately in your minds? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, Mark. So look, we're making very good progress on Ryzen. I think we're very pleased with the Q1 results, and then, what we see going into Q2 in the second half. It is true that up until this quarter, much of our progress has been in the channel and in the desktop portion of the business. We saw a nice increase this quarter in notebooks and what it is is many of the OEMs are actually launching systems in Q2. And with that, we had – they're basically building up their production for the second quarter launches.

What you're going to see in second quarter is a number of impressive premium consumer designs, thin and light designs that I think are representative of the strength of the product. And we will also see the first launch of the commercial systems from the top OEMs and the expectation is that the commercial notebooks will kick in in the second half of the year. Q2 is more of a consumer cycle.

But overall, I think we're seeing that the notebook OEM opportunity is a good one. We have strong design wins. The customers are working closely with us. We're doing a lot of work with retailers and the overall go-to-market to ensure that the notebook opportunity is important and notebook is larger than desktop overall.

Mark Lipacis
Analyst, Jefferies LLC

Q

Okay, great. That's helpful. And a follow-up, if I may. On EPYC, the product has been in the market for a while. I understand that you have to go through the testing phase, and then, pilot programs and initial deployments, and then, hopefully, larger scale deployments. How do you think or how should we think about the cadence of updates on this product? Is this a similar cadence that you would see on the desktop or notebook side? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure, Mark. So on the server side, the cadence of deployments does tend to be longer. I think we're well into the cadence. And so, I think the EPYC work with the OEMs, you saw the combination of that with HPE announcing in December, and then, Dell announcing in the first quarter, that will now move over into Enterprise customers who are then taking their systems into their labs and doing their initial deployments. So I think the cadence is over a number of quarters.

I will say for the first-generation EPYC, we're seeing really nice customer interest, and it's quite broad. And so, it is across Enterprise as well as the hyperscale customers. And we view this as a multi-generational play. So we're very excited about what EPYC can do over the next couple of quarters. But we also believe that this is the right investment to make with the customer set, as we bring out the second-generation of EPYC and the third generation of EPYC, obviously, it would go a little bit faster, because the customer set is familiar with our system.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Your line is now live.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, good afternoon, guys. Congratulations on the strong results, Lisa and Devinder. Devinder, impressive year-over-year gross margin growth in the March quarter of 400 basis points. I'm just kind of curious, clearly, Ryzen has had a positive impact. Can you help break down the 400 basis points year-on-year growth between kind of new products and the fact that semi-custom sort of declined as a percent of the mix pretty significantly from 2017 to 2018? And then, how do we think about the incremental margin leverage as EPYC comes in and perhaps Ryzen too?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yes, good question, John. Actually, if you look at it from a margin standpoint year-over-year, the semi-custom revenue was actually down, so that was helpful. But beyond that, if you look at the new products, fundamentally, the new products is what's driving the margin. Ryzen, EPYC, GPU Compute, which are all higher than corporate average, those are all driving the increase in the margin.

And as we get to the rest of the year as you observed, the momentum in the products is there for the new products. They're going to go ahead and contribute to the margin increase and that's why, from prior guidance, we just updated our margin to, say, maybe you said greater than 36% the last time, we updated to, say, greater than 37% this time for the year and that's fundamentally all with the momentum that we have for the new products.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

That's helpful, Devinder. And then, Lisa, as my follow-up, I appreciate kind of quantifying blockchain for both the first quarter and for last year and also your commentary about it being it looks like down sequentially at least in embedded in your June guidance. I'm just kind of curious, just given how hard it is to track where these GPUs are really going, how do you get a sense of what's a blockchain application versus something else, one?

And two, do you see this as a viable long-term market or do you believe that as this market develops, it's going to have to move from proof of work to proof of stake which might just negate mining altogether? And if that scenario were to play out, how worried are you about sort of secondary cards coming back into the market and kind of hurting pricing either in the second half of this year or into 2019?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Sure, John. So look, on the blockchain there is a lot of discussion about this. From our standpoint, we stay very, very close to the customer set in the graphics space. And so, we spend time with the commercial miners as well as spending time with our partners.

And the way we look at this, our first priority when we look at allocation of graphics cards is to gamers. And so that's through OEMs, that's through system integrators, that's also working with key e-tailers to make sure that they are prioritizing the gamers segment and we're going to continue to do that. And so, that's one piece that we know well.

We also work directly with the commercial miners, and so, we see kind of what their forecasts are and they work with us and so that we have good visibility on. There is a piece that go through retail that is hard to tell whether that's gaming or mining, but we believe we have a good sense of what that is. So it is an approximation, but we think it's a good approximation of where we are.

And then, to your longer-term question, I do think the blockchain infrastructure is here to stay. I think there are numerous currencies. There are numerous applications that are using the blockchain technology. We don't see a significant risk of secondhand GPUs coming into the market. I think what you find is that, one, there are number of different currencies, and, two, a lot of these users that are buying GPUs these days are actually buying them for multiple use cases, both commercial and consumer. So they're not necessarily buying just for mining.

And I think for that reason, we do think this is a different cycle. That being the case, we do see a bit of volatility and that's why we are putting into our forecast for the second quarter and the second half a little bit lower blockchain demand, but that's more than made up for by the other new products and the way the new products are ramping in the business.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

That's great. Thanks, Lisa. I really appreciate it.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Thanks, John. Operator, next question.

Operator: Certainly. Our next question is coming from David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. Could you give us some idea of what your June guidance assumes in terms of sequential microprocessor sales growth compared to discrete graphics growth?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure, David. So in our second quarter guidance, we're actually assuming that Ryzen and EPYC are up, and semi-custom is also up seasonally, and we expect graphics to be down modestly based on some of the blockchain demand.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Excellent. Could you give us an update on what new products you plan to launch through the rest of this year and next year? And when these are scheduled to come out?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure. That's a lot, David, but let me say a couple things. I think, relative to our CPU business, I mean we are launching additional Ryzen-based products in the second half of the year. We just launched the second-generation Ryzen desktop in 12-nanometer and that launch has gone really well. I mean, we're very happy with the positioning and how customers are reacting to that. In the second half, we'll have some commercial systems and some other updates to our Ryzen lineup that we will launch.

We have a 7-nanometer GPU based on Vega that we'll sample later this year. We have a 7-nanometer server CPU that we'll sample later this year. And then, obviously, we have a number of products that are planned for 2019 as well. So it's a very, very busy product season for us. But we're pleased with the sort of the execution on the product roadmap.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks, Lisa.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, David.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Your line is now live.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. Firstly, on OpEx, are you still looking for a 28% of revenue for the full year on a higher revenue base? And given that – if that's so, what areas are kind of key for investment on this as we go through the rest of the year and going forward?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. Let me take that, and then, Lisa can add. So yes, we are targeting 28%. As you've seen, Stacy, we had a long-term target model of 26%, 30%. The year has started out well. We came in at 27% in Q1 and targeting around the same for Q2. But we are still in investment mode, and obviously, investing in R&D and the product roadmap. And Lisa can maybe add some of the details in terms of where we are investing in terms of OpEx.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah. Sure, Stacy. So I think from the investment side, certainly, we're investing in R&D on the CPU and the GPU side, but a key focus for us is in software, and particularly, machine learning software. I think there's a high demand of people wanting to use our GPUs in the compute space. And so, we're increasing our investments in software around machine learning.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you. For my follow-up, I had a question on the ASC 606. I know last quarter you kind of gave some historicals for how that was a headwind versus a tailwind versus what would have been normal seasonality, particularly in semi-custom. Is the ASC 606 in the Q2 – is that a headwind or tailwind on the guide? And how should we think about that as we go through the second half as well versus what we would have seen without the accounting change?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. Fundamentally, ASC 606, from a revenue standpoint, what happens is the seasonality and the profile of the semi-custom revenue changes. Some of the revenue that we used to get in the second half moved to the first half, so I would say, it's a little bit more balanced between the first half and the second half, as opposed to the peak revenue we used to see in Q3. So that is the primary effect on the profile of the revenue, not necessarily the annual revenue.

ASC 606 has not had any significant impact on our annual revenue. It's more of the profile of the revenue within the quarters. As far as impact is concerned, if you're comparing year-over-year, for example, in Q1 of 2018, semi-custom was down, because we had more revenue in Q1 of 2017, and in Q2, it is slightly up, but very balanced from where we see it from an overall standpoint.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

So last year in Q2, it was like – I forget how much, like a $75 million headwind versus what would have been otherwise? Is it a similar amount of headwind this time in Q2 or is it less? Or is it a tailwind?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I would say that it was a headwind last year. This year, from an overall standpoint, if I compare year-over-year, it is up slightly from where we were in Q2 of 2018. So if you're comparing Q2 2017 to Q2 2018, it's a benefit to the revenue in Q2 of 2018 in our guidance.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

A

Thank you, Stacy. Go ahead.

Operator: Thank you. Our next question today is coming from Timothy Arcuri from UBS. Your line is now live.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thank you. I had two. I'm curious about your comments just now on blockchain, and I'm a little surprised to hear as you think that there would be limited risk that that product would come back into the market. Can you again go over why you think that is, because you're selling more of a general SKU, right? And then, I guess, also, how you handicap the potential for there to be some ASP effect on that too? I know you've captured some of the rising ASPs in the channel, so how do you handicap that looking out throughout the rest of the year? Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah. Absolutely, Tim. Look, so when you look at, I think, most people are comparing sort of this blockchain time period to the last one which was a couple of years ago and I think there are a couple of important differences. I think the first one is that there are multiple currencies and multiple applications that are being used. And what we've seen is that people who are mining do go from one currency to another depending on what's happening.

We're also seeing that many users, on both the commercial and consumer side, are actually buying GPUs for multiple use cases. And from that standpoint, again, we see that there is good demand for, not just blockchain, but for gaming, for the cloud and for those things as well. So I think it's a balanced assessment of where we are. I think the breadth of the blockchain applications and also the breadth of the customer base give us that belief.

Now, as you go forward, there's also a – when we look at the Graphics business go forward minus blockchain, we actually see a very good environment. We see a good environment for gaming growing, we see a good environment for GPU Compute growing, and frankly, on the gaming side, some of those users have not been able to get access to GPUs, and so, again, that's – those are all positives as we go forward.

And then, you had a second question, Tim?

Timothy Arcuri
Analyst, UBS Securities LLC

Q

I did, yeah. I think you said that the 7-nanometer product is in the lab, and it's going to launch later this year. That's the product at TSMC, correct? And I guess, I'm just wondering on that front do you feel comfortable that you can get capacity from that vendor. Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

So our foundry strategy is to use both TSMC and GLOBALFOUNDRIES on the first 7-nanometer product. We are using TSMC for that product and we have a very strong relationship with them. And so, we do see a good momentum on it from what we see, and I'm not concerned about capacity.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thank you so much.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Tim.

Operator: Thank you. Our next question today is coming from Harlan Sur from JPMorgan. Please proceed with your question.

Harlan Sur
Analyst, JPMorgan Securities LLC

Q

Good afternoon. And solid job on the quarterly execution. Just a follow-up on the semi-custom business, on the June quarter guide, you mentioned sequential growth in semi-custom. But if I look at your ASC 606 reconciliations for last year, it looks like the semi-custom business was actually down double-digits percentage points sequentially going from Q1 to Q2. So like-for-like on the 606, why the different shipment profile this year, Q1 to Q2?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, I can explain that. So in Q1 of 2017, there was a strategic buy of wafers that we did in Q1 2017. So it had a bigger impact in Q1 2017. And then, the effect caught up in Q2. So the impact Q1 to Q2 was significant. This year, it's more balanced, and from that standpoint, when you compare year-over-year, Q1 to Q1, it's down, but Q2 to Q2, it's up. So there was a different profile in Q1 2017 just based on the way the wafers are purchased in 2017 as opposed to 2018 where it's a little bit more balanced.

Harlan Sur
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for the insights there. Question for Lisa. Embedded solutions contributed to the year-over-year and quarter-over-quarter growth in EESC. I think that this is kind of an often overlooked part of the business, because embedded is nice, because it gives you guys exposure to kind of a diverse set of the market applications. Can you just help us understand where the team is seeing good demand traction in embedded and maybe give us a rough idea on kind of overall revenue contribution to EESC?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, Harlan. So yeah, embedded is a nice segment. You're absolutely right. I think it's a margin accretive segment to us. The end markets that we ship into there are thin clients, they are places where you need graphics for displays, so there's some embedded displays that we ship into there.

It's still a small business for us, but we actually believe, in addition to the goodness around Ryzen and EPYC, when we launch those products, Ryzen and EPYC embedded, we actually saw very strong interest from customers. And so, we think as the products strength in our PC and in our server business increase, they will also help that embedded solutions business overall.

So I would say it's still a small piece of the business, but we believe it will be a nice growing margin accretive portion of the business over the next couple of years.

Harlan Sur
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from Srini Pajjuri from Macquarie. Your line is now live.

Srini Pajjuri
Analyst, Macquarie Capital (USA), Inc.

Q

Thank you. Lisa, a question on the ASPs. I think you said the ASPs went up because of the Ryzen mix improving. Could you give us some more color as to where Ryzen is in terms of mix? And then, with the Ryzen 2, do you expect that to be accretive to ASPs and margins?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah. So in terms of the client business, we saw units up overall. We saw ASPs up overall and they were up in both desktop and mobile. And when you look underneath that, I think what the main thing is we're seeing a larger mix of the business become Ryzen. So in the fourth quarter, we had stated that the Ryzen mix of the client business was kind of in the low-40s. And so, we had notebook, a lot of legacy product that we're still shipping and in desktop, we had some legacy product that we're still shipping.

As we move over to the first quarter, the notebook mix has mixed nicely into Ryzen, and the desktop is now mixed very nicely into Ryzen as well. So overall, that's what led to the ASP increase.

I think the second generation Ryzen is a very, very good product. I think it's – it actually – when you look at the first-generation Ryzen, we were very good on multi-threaded performance, but there were some detractors around single-threaded and gaming performance. I think the second-generation Ryzen is actually much more competitive on gaming performance. So we do see an opportunity for that to help us increase share in the desktop business, and certainly, that would be accretive to margin.

Srini Pajjuri
Analyst, Macquarie Capital (USA), Inc.

Q

Great. And then, one question on the server business, I guess, your target is to get to mid-single-digit share by end of this year, which is fairly gradual ramp. Just curious as to when you expect the 7-nanometer part to be available in the market and when that happens, do you see an inflection to your share gains or do you continue to expect gradual share gains? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yeah. So all of the sales this year will be around the current generation of Ryzen, and so, that gets us to the mid-single-digit share. 7-nanometer Zen 2 based product we'll sample later this year to customers and that will be in production in 2019, and we do believe that the adoption rate of the second-generation could potentially be higher than the adoption rate of the first-generation, mostly because customers will be more familiar with our systems and our products. And so, we'll see how it goes, but we certainly – our overall goals are ambitious in the server space. And so, this year, it's first-generation Ryzen; next year, we'll mix in the 7-nanometer second-generation – I'm sorry, first-generation EPYC, and next year, we'll mix in the second-generation of the EPYC products.

Srini Pajjuri
Analyst, Macquarie Capital (USA), Inc.
Q

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Thanks, Srini.

Operator: Thank you. Our next question today is coming from Toshiya Hari from Goldman Sachs. Your line is now live. Perhaps your phone is on mute. Toshiya Hari, you're line is live. Perhaps your phone is on mute on your end.

Charles Long
Analyst, Goldman Sachs & Co. LLC
Q

Charles calling in for Toshiya. Hello.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Go ahead, Charles.

Charles Long
Analyst, Goldman Sachs & Co. LLC
Q

Hello. Yes, sorry about that. Thanks for taking the time. I had a – my first question is on the competitive landscape in the AI space. So just wondering how you're thinking about your positioning, relative to not only your biggest competitor there in NVIDIA, but also new entrants that could potentially be working on custom solutions. And then, I have a follow-up.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Sure. So the AI market is certainly growing very, very fast relative to the competitive landscape, we are a new entrant. I think our GPU Compute hardware is very good. I think we have a strong roadmap that we are putting in place for that. I think on the software side, we have more work to do, and we are making significant investments in some of the machine learning frameworks, such as TensorFlow and Caffe, and some of these key frameworks to ensure that we make it easier to adopt our solutions.

But we see this as a multi-year, really, opportunity for us. So GPU Compute will continue to be a focus area for us. We think we can be very competitive and we're going to continue to invest in this area.

As it relates to, let's call it, non-GPU solutions, I think there will – the landscape says there will be some ASIC solutions in the marketplace, but I view that as complementary to the GPU solutions. And from that standpoint, I think we have CPUs, we have GPUs, and then, we have the ability to connect heterogeneously to these other elements. So from our standpoint again, we see this as a market that very much fits our capability and we will continue to invest in it.

Charles Long
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you. And then, my follow-up's on the upcoming shareholder meeting. I know one of the proposals is to increase the authorized share authorization by about 700 million shares. Obviously, my understanding is that that wouldn't be dilutive initially. But just wondering how you're thinking about potential uses of that share is.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. So you're correct. There is a proposal at the shareholder meeting. It is not going to be dilutive to begin with, and it's really good housekeeping. We don't have any particular plans at this point.

Charles Long
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Charles. Next question.

Operator: Certainly. Our next question is coming from Ambrish Srivastava from BMO Capital Markets. Your line is now live.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Hi. Thank you very much. I had two questions. One was just a follow-up to what Lisa you were talking about on the machine learning side. When do we see – so just give us an update of where you are in traction and should we expect any meaningful revenues on that front from AMD in this year?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. So I think last year, we announced a partnership with Baidu to do software optimizations for machine learning. And we have several other partnerships with others in this area. So there's a lot of interest. I think the time for meaningful revenue – we will see some revenue in the second half of the year that's part of the growth in the margin expansion story. And I think into 2019 and 2020, this will continue to be an area of growth for us.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. And then, for my follow-up, just getting back to the discrete graphics in the quarter reported, the channel was really dry heading into the first quarter. So where are we on the channel inventory? And is there any way for you to help us understand how much of the growth was driven by the buildup in the channel in the March quarter? Thank you.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes. So the channel inventory was at very, very low levels going into the quarter, and frankly, it was hard to get the GPU. It was hard to get GPUs. I think if you look now on typical retailer and e-tailer sites, the channel inventory is good. And I think there was an element of channel replenishment, but from what we see at the inventory levels today, they're, I would say, normal.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

And what is the normal level, Lisa, in terms of weeks?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Maybe somewhere between four and five weeks.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. Thank you very much.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. Our next question today is coming from Hans Mosesmann from Rosenblatt Securities. Please proceed with your question.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thank you. Lisa, a couple of questions. Can you comment qualitatively about the competitive dynamic that you're seeing in microprocessors? And as a second question, can you give us an update on Spectre, in terms of the impact it's had on the business going forward? Thanks.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Sure, Hans. So on the microprocessor side, I think the competitive landscape, as we see it, Ryzen and EPYC are very competitive. And we've seen that in head-to-head design opportunities. I think from a CPU standpoint, we're very pleased with that. I think second-generation Ryzen in 12-nanometer actually improves the overall performance, and so, we like how that positions us on the PC side.

I think as we look forward, and I think this is important, we believe that the 7-nanometer capability of the foundry ecosystem is very good, and that puts us in a good competitive spot from a manufacturing standpoint. And then, on the design side, obviously, we have things that we're planning. And so, I see the competitive environment as one that is as good and we're going to work very hard to make sure that it gets better over time. Obviously, we take the competition very seriously.

Oh, yes, and the second question, sorry about that, Hans, on Spectre. We have spent a good amount of time with our customer set to make sure that they're fully protected on Spectre. We've actually released a number of software mitigations already to our OEM customers and to our partners. They're in their process of deploying. So I think it took a lot of energy. Certainly, we spent a lot of time on it and our customers had to spend time on it. But we don't see any long-term effects. It's more that we want to make sure to get the work done quickly, and that's been our focus.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.
A

Thanks, Lisa. Thanks, Hans. Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Blayne Curtis from Barclays. Your line is now live.

Blayne Curtis
Analyst, Barclays Capital, Inc.
Q

Thanks for taking my question. I wanted to ask you, I think you mentioned double-digit sequential growth in the CPU business. I was just kind of curious what stage you're on in terms of channel fill for the Ryzen mobile business? And then, I've one more follow-up.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

Yes. So we did, as I mentioned, have some mobile product shipped ahead of OEM system launches in the second quarter. But we see this really as the beginning of the Ryzen ramp. So my expectation is that the client or the Ryzen portion of our business will be up in the second quarter, and it will be up in the second half. And so, it's the beginning of the notebook ramp.

Blayne Curtis
Analyst, Barclays Capital, Inc.
Q

And then, I wanted to ask some of the OpEx side, Devinder, just in terms of licensing gains that have been in OpEx offset, do you expect any of those gains this year?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

I think there could be, but it's hard to tell, because it's kind of dependent upon the milestones that come into play. That was the OpEx offset last year that got reversed, but we'll see when it happens from a milestone standpoint.

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.
A

I think, Blayne, just as a point of clarification on this point, from an IP standpoint, we're not forecasting IP either here in the second quarter or into the second half. I think, as Devinder said, we do have some IP arrangements that we're working on, and depending on when those milestones complete, we will then sort of forecast it into the business.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Blayne.

Operator: Thank you. Our final question today is coming from Gus Richard from Northland. Your line is now live.

Auguste Richard
Managing Director, Senior Research Analyst, Northland Securities

Q

Yes. Thanks for taking the question. Real, real quickly, can you just tell me if the 12-nanometer is a dye shrink or just performance improvement?

Lisa T. Su
President and Chief Executive Officer, Director, Advanced Micro Devices, Inc.

A

Yes, Gus, it is primarily performance improvement, and it is some design improvements. So you see some of the latency improvements and so on. It is not a dye shrink.

Auguste Richard
Managing Director, Senior Research Analyst, Northland Securities

Q

Got it. Thanks.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back for any further or closing comments.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

That's it for our call for today. We thank you very much for joining us. Look forward to seeing you at the Morgan Stanley Conference and at the Cowen Conference. And as always, we thank you for your support of AMD.

Operator: Thank you, ladies and gentlemen. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2018 Earnings Call for 25-April-2018 5:30 PM ET
Monday, April 16, 2018 08:58:02 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2018 Earnings Call for 25-April-2018 5:30 PM ET.
US Live Call Phone Number: 877-407-3980

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Advanced Micro Devices, Inc. (AMD)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Advanced Micro Devices' Fourth Quarter 2017 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

It is now my pleasure to introduce your host, Laura Graves. Please go ahead, Laura.

Laura Graves

Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

Thank you very much, and welcome to AMD's Fourth Quarter and Fiscal Year 2017 Conference Call. By now you should have had the opportunity to review a copy of our earnings release and the CFO Commentary and Slides. If you have not reviewed these documents, they can be found on the Investor Relations page of AMD's website, www.amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on our website.

I would like to highlight a couple of important dates for you. Dr. Lisa Su will present at the Morgan Stanley Technology Media & Telecom Conference on February 26. And our first quarter quiet time will begin at the close of business on Friday, March 16, 2018.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally, please note that we will be referring to non-GAAP financials during this call, except for revenue and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release and CFO Commentary, again, both posted on our website.

Please refer to the cautionary statements in today's earnings press release and CFO Commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC, and in particular, AMD's quarterly report on Form 10-Q for the quarter ended September 30, 2017.

Now with that, I will hand the call over to Lisa. Lisa?

Dr. Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today.

Three years ago we set out a strategic plan to reshape AMD to become a high-performance computing leader through great products, deep customer relationships and a simplified and focused business strategy. 2017 marked a key product and financial inflection point for AMD. Our newest wave of high performance products and consistent execution created significant momentum for our business over the last year.

Fourth quarter revenue of $1.48 billion grew 34% from the year-ago period, and we significantly expanded our gross margin and improved profitability. For the full year, we increased annual revenue by over $1 billion, resulting in 25% annual revenue growth. We expanded gross margin and achieved full year profitability.

Looking at our Computing and Graphics segment in the quarter, we delivered very strong Q4 results as we continued the ramp of our Ryzen CPU and Radeon Vega GPU products. Computing and Graphics segment revenue increased 60%, and we significantly improved operating income from a year ago. Client Computing revenue increased both year over year and sequentially. We outperformed seasonality in Q4, driving strong double-digit sequential revenue and unit growth based on very strong sell-out of Ryzen processors throughout the holiday season.

We expanded our Ryzen CPU family further into the consumer market with the introduction of the AMD Ryzen Mobile processor with Radeon Vega graphics, combining the power of our Zen CPU and Vega GPU architectures into the fastest processor in the industry for ultrathin notebooks. Ryzen Mobile-based notebooks are currently available from Acer, HP and Lenovo with multiple new systems expected from all top five PC manufacturers in the first half of this year.

In Graphics, we delivered our second straight quarter of record GPU revenue with significantly improved ASP and increased unit sales from a year ago, driven by strength across our entire Graphics product portfolio. We saw a strong demand for our Polaris products across both the gaming and blockchain markets, and Radeon Vega GPU revenue more than doubled from the prior quarter, driven by strong gaming demand in the add-in-board channel, as well as strength with strategic OEMs.

Apple launched the new iMac Pro, the most powerful Mac ever made, featuring AMD's Radeon Pro Vega product in the quarter. We also began shipments of a new semi-custom GPU that is integrated into an Intel multi-chip processor package. This semi-custom product opens up a complementary market for our high-performance graphics products and extends the power of Radeon graphics to more gamers and premium PC buyers.

Our Professional Graphics business had its best quarter ever based on growing data center sales highlighted by strong Radeon Instinct MI25 sales to a major cloud provider. For the full year, Computing and Graphics segment revenue increased 54% over the prior year as we launched more than 40 new high performance CPUs and GPUs.

Turning to our Enterprise Embedded and Semi-Custom segment, revenue increased 3% from a year ago driven by the ramp of our EPYC processors. Q4 server revenue and unit shipments increased sequentially and from a year ago as the market continues to qualify and deploy our family of high-performance EPYC processors. We closed dozens of new server deals in the quarter, securing key design wins with education, financial services and hosting companies.

We also had several key announcements in the quarter as we continued to see a steady drum beat of adoption. Microsoft Azure became the first public cloud instance powered by AMD with their L-Series of virtual machines for storage optimized workloads. Hewlett-Packard Enterprise began volume shipments of the EPYC-based ProLiant DL385 Gen10 server, which recently set world records for floating point performance. Baidu deployed AMD EPYC single-socket platforms into their data centers to power AI, big data, and cloud computing services. And Dell EMC has completed the qualification phase for their EPYC-based systems, and we'll be sharing more on launch plans shortly.

Our reentry into the server market remains on track with a steady ramp of new platforms and deployments across our OEM and hyperscale data center customers. Our Semi-Custom business performed as expected in the quarter, as unit shipments declined from a year ago as we completed the fifth year of the current game console cycle.

Before I close, I'd like to address the recent important security issues facing our industry. Security is and always has been a fundamental focus for AMD across all our products. We are vigilant about security in both our product design and throughout the product life cycle. As new exploits arise like we have seen with Spectre and Meltdown, we are dedicated to responding with speed and focus to keep our customers and partners informed and protected. As a reminder, we believe Meltdown is not apropos to AMD processors.

For Spectre Variant 1, we continue actively working with our ecosystem partners on mitigations, including operating system patches that have begun to roll out. We continue to believe that Variant 2 of Spectre is difficult to exploit on AMD processors. However, we are deploying CPU microcode patches that, in combination with OS updates, provide additional mitigation steps.

Longer term, we have included changes in our future processor cores, starting with our Zen 2 design to further address potential Spectre-like exploits. We continue to collaborate closely with the industry on these vulnerabilities and are committed to protecting AMD users from these and other security threats as they arise.

In summary, we are very pleased with our quarterly and full-year results. We made significant progress in 2017 as we completely reshaped AMD's product portfolio and launched a highly competitive set of new products. In 2018, we expect to increase our momentum with the next wave of premium products and expanded go-to-market activities to increase our market penetration.

In the client market, we will expand our Ryzen portfolio with new product launches, including AMD Ryzen desktop processor with Radeon Vega graphics, which is expected to deliver the industry's highest-performance graphics engine in a desktop processor; our second-generation Ryzen desktop CPU, based on our higher-performance 12-nanometer Zen+ architecture; and for business notebooks, our AMD Ryzen PRO mobile processors with Radeon Vega graphics. We are also expanding our go-to-market activities with our OEM and retail partners, and we expect to launch more than 60 new Ryzen OEM systems throughout 2018.

In graphics, the launch of Radeon Vega Mobile products will expand our Radeon Vega lineup into high-end notebooks. Later this year, we plan to sample our first 7-nanometer Vega GPU optimized for machine learning. In addition, we will continue increasing our software investments around machine learning to address the growing demand for an open ecosystem in the GPU compute space.

In the server market, we will continue to work closely with major cloud vendors and OEMs to ramp their first-generation EPYC-based systems, while also completing key development milestones on our next-generation Zen 2-based server platforms. Our Zen 2 design is now complete and we will be sampling to our customers later this year. 2018 is clearly a defining year for the ramp of our server business, and we remain focused on our goal of achieving double-digit market share in this important market segment.

2017 laid a solid foundation with strong financial results and significant progress towards achieving our long-term goals. I am even more excited about 2018 as we continue our journey to position AMD as one of the premier long-term growth companies in the tech industry.

Now, I'd like to turn the call over to Devinder to provide some additional color on our fourth quarter financial performance. Devinder?

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone.

2017 was a pivotal year for AMD. We grew annual revenue 25% over 2016, with revenue growth increasing every quarter on a year-over-year basis, culminating in growth of 34% in the fourth quarter of 2017. In addition, we expanded gross margin by 3 percentage points and achieved GAAP profitability for the year.

Computing and Graphics annual revenue grew 54% in 2017, while Enterprise, Embedded and Semi-Custom annual revenue was flat. Both segments posted operating profits for the year and it is particularly noteworthy that the Computing and Graphics segment was profitable for the first time in six years. Based on the overall strength of the business and our new high-performance products, we have set a strong foundation for achieving our long-term financial model.

Now let me turn to our results for the fourth quarter of 2017. Total revenue of $1.48 billion grew 34% year-over-year, driven by strong Radeon and Ryzen product demand. On a sequential basis, revenue declined 10%, better than expected, driven by seasonally lower Semi-Custom sales and partially offset by strong demand for new CPU and GPU products. Gross margin was 35%, expanding 3 percentage points year-over-year, primarily due to a larger portion of revenue coming from Computing and Graphics, driven by our new high-performance products.

Operating expenses were $412 million compared to $357 million a year ago. The increase was driven primarily by R&D and new product go-to-market investments, partially offset by an R&D credit related to a technology development agreement. Operating income was $103 million, up significantly from $26 million a year ago, and operating margin was 7%, up from 2% a year ago.

AMD received a one-time tax credit of $18 million as a result of U.S. corporate tax reform, which resulted in a net tax benefit of $8 million in the quarter. Net income was $88 million or diluted earnings per share of $0.08 as compared to a net loss of $8 million or $0.01 per share in the year-ago period. Adjusted EBITDA was $142 million compared to $60 million a year ago, and adjusted EBITDA for 2017 was $445 million.

Now turning to fourth quarter business segment results. Computing and Graphics segment revenue was $958 million, up 60% year-over-year, due to strong sales of our Radeon graphics and Ryzen desktop processors. Computing and Graphics segment operating income was $85 million, compared to a loss of $21 million a year ago. The strong improvement was due to higher revenue.

Enterprise, Embedded and Semi-Custom revenue was $522 million, up 3% year-over-year, driven by server revenue. Operating income was $19 million, down from $47 million a year ago, primarily due to the absence of a licensing gain and ongoing R&D investments, partially offset by the benefit from a richer product mix.

Turning to the balance sheet. Our cash and cash equivalents totaled $1.18 billion at the end of the quarter, up from $879 million in Q3, due to significantly higher cash flow from operations. Inventory was $739 million, down slightly from the prior year and down 7% from the prior quarter. Total principal debt, including our secured revolving line of credit, was $1.7 billion. In the fourth quarter, we deployed cash to repurchase $38 million of long-term principal debt, resulting in a total reduction of long-term debt of $138 million in 2017. Our gross leverage ratio has improved from 10 times in 2016 to 3.8 times at the end of 2017.

Free cash flow was $339 million, up sharply from $32 million in the prior quarter. Q4 is typically our strongest cash-flow quarter, and for the year, free cash flow was $45 million negative due to increased working capital in support of higher revenue.

Before we turn to guidance, I want to highlight that we are adopting the new revenue recognition accounting standard effective 2018. We are adopting this standard under the full retrospective method, which we believe is most helpful to our investors. For the full year 2017, the impact of the accounting change to revenue was immaterial, and we expect the impact to be immaterial on 2018 annual revenue.

For the first quarter 2018, AMD expects revenue to be approximately $1.55 billion plus or minus $50 million, an increase of 32% year-over-year, primarily driven by the strength of the ramp of Ryzen, GPU and EPYC products. For comparative purposes, under the new accounting method, Q1 2017 restated revenue was $1.18 billion and Q4 2017 restated revenue was $1.34 billion.

In addition, for Q1 2018, we expect non-GAAP gross margin to be approximately 36%, non-GAAP operating expenses to be approximately $435 million or approximately 28% of revenue. Non-GAAP interest expense, taxes and other to be approximately $30 million and inventory to be up sequentially in support of higher revenue.

For 2018, we expect double-digit percentage growth in annual revenue, greater than 36% non-GAAP gross margin; non-GAAP operating expenses to be approximately 28% of revenue. In addition, we expect a tax rate of approximately 10% of pre-tax income for 2018.

In summary, we made significant progress in 2017. We are pleased with the momentum in our business and delivered outstanding top line revenue growth, margin expansion and achieved profitability for the year. We continue to make strong progress towards our long-term target financial model, and our goal in 2018 is to deliver significant revenue growth and increased profitability as we continue to invest in our multi-generational, high performance product roadmaps.

With that, I'll turn it back to Laura for the question-and-answer session. Laura?

Laura Graves

Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first question.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Hans Mosesmann from Rosenblatt Securities. Please proceed with your question.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.
Q

Thank you. Congrats on the quarter and guide, guys. Can you please give us the puts and takes for the Q1 guide? There's lots of moving parts, and so I think that would be helpful. Thanks.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, absolutely, Hans. Thanks for the question. So our Q1 revenue guidance was up 32% year-on-year, and if you take a look at that, it's actually significantly better than our typical seasonality. Primarily that's due to the new product strength. So we see GPUs, Ryzen and EPYC all up in Q1 and that's contributing to the strong guidance. We do expect that the Semi-Custom business will be down in Q1 relative to the first quarter of 2017, just due to the fact that we're in the sixth year of the cycle. So if you actually take the new product strength, the guidance is actually over 32% year-on-year.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.
Q

Okay. And the seasonality of the Semi-Custom will continue to be weaker on a year-over-year basis for the rest of the year? Is that the way to model that?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah. So what you should expect with Semi-Custom is on a full-year basis the revenue will be likely down compared to 2017 just due to where we are in the cycle, and units will be down. There will be a bit of an adjustment to the seasonality as we move over to the new accounting regulations with ASC 606, and so we'll see, let's call it, a bit more revenue in the first half and a bit less revenue in the second half. So for the year, it is very similar and then we'll see a little bit of shift in the quarterly profile. But again, back to your question, your initial question on the Q1 revenue guidance, it is really driven by new product strength.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.
Q

Okay, great. Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Hans.

Operator: Thank you. Our next question is coming from David Wong from Wells Fargo. Your line is now live.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. Following on from your answer to Hans' question, Lisa, can you give us some feel for the revenue, the new product momentum in terms of sales in the fourth quarter 2017 and in particular, any numbers on Ryzen, EPYC or Vega, absolute sales dollars or sequential growth in Q4 would be helpful.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, absolutely, David. So we had a very strong Q4. If you look at the overall business, it was up 34% year-on-year. If you look underneath that, the Computing and Graphics business was very strong. So we saw 17% sequential growth, significantly better than seasonality. That was up on client, particularly Ryzen desktop, had a very strong holiday. We also started initial shipments on Ryzen Mobile.

And then on the Graphics side, we saw strength in all product lines. So we saw strength in the channel for both gaming as well as blockchain. We saw strength in OEMs as we ramped Apple with our Vega processors. We also saw strength in professional graphics as we launched some GPU compute into the data center. So overall, those were the puts and takes. Semi-Custom was down sequentially. Again, that's as expected given the typical seasonality of the Semi-Custom business.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. And, Devinder, it might have been nested in what your prepared remarks, but do you expect your net debt will grow in the seasonally weak first half of 2018? And if so, how much might net debt go up?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Net debt, when you say net debt, just explain that, David. What do you mean by that?

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Well, debt minus cash. Well, do your cash balances fall during the first half of the year?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

The debt levels came down in 2017 because we did repurchase some of the long-term principal debt to the tune of $134 million. And in the guidance we provided we said that 2018 would be free cash flow positive. So if anything, I guess the net debt as you look at it would come down as we get to the second half of 2018.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

But any help in the first half? What happens to the net debt in the first half?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Typically, we invest in the business. As you saw in the guidance, I expect inventory to be up in Q1, and obviously with the strength of the business momentum that Lisa just talked about, we're prepared to go ahead and purchase product or wafers to go ahead and fund the business.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks very much.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, David.

Operator: Thank you. Our next question is coming from Mark Lipacis from Jeffries. Your line is now live.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thanks for taking my question. Lisa, I was hoping you could give us a little more color on EPYC. Are we starting to get past pilot programs now and getting deployed into production environments? And can you give us a sense of the take of EPYC in the cloud versus enterprise? Thanks.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Mark. So, look, we are pleased with where we are with EPYC. We think we've made very nice progress in the fourth quarter. We announced that the large OEMs are now qualified and starting to ship to end customers. And so we have seen very nice design wins in sales at some marquee end customers. If you look across education, financial services and the hosting business, those are looking good.

On the cloud side, we have publicly talked about Microsoft Azure as well as Baidu adopting EPYC in their cloud environments. We are working with a number of the other cloud players to adopt EPYC, and we're working on some of the optimizations required there. So, overall, we're very pleased with the momentum. I think we always knew that there was a qualification cycle to go through, but we've gotten through some of the major qualifications here in the fourth quarter. And especially, as we look in December, we actually closed a number of new deals with the platforms being available for sale.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thanks. That's helpful. And then, on the C&G side, very impressive growth. Can you give us a sense of to what extent that growth was driven by Ryzen products versus Radeon? And then, on the Radeon side, can you give us a sense of what blockchain was to the contribution and how you're viewing the sustainability of that? It seems like it's getting consistently strong. So appreciate any updates on your view on that segment. Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Mark. So, look, on the Computing and Graphics segment, we grew about $140 million sequentially. And if I look at that growth, it was across Ryzen and Radeon. If you look at blockchain, in particular, our estimates are that it was about 1/3 of the growth, 1/3 of the $140 million. And then the rest of the 2/3 are around the GPUs – the other segments of GPUs and Ryzen.

When I look going forward, clearly, blockchain is a little bit of a fluid and dynamic market. We did see some strength as we went into December. We see strength as we're going into the first quarter. I'm sure many of you have seen that the graphics channel is very low, and we're certainly working to replenish that channel environment. So we think that graphics in general is going to be strong into the first half and that's some of what's contributing to our strong Q1 guidance. But overall, my comments are we're seeing nice momentum across Ryzen and all of the GPU segments, which is important for us as we go into 2018.

Mark Lipacis
Analyst, Jefferies LLC Q

Very helpful. Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

Hi, guys. Thanks for taking my questions. My first is on gross margin. Can you give us a feeling – do you expect Q1 to be the trough for gross margins through the year, given you're guiding in line to maybe a little above for the year where you're guiding Q1? And can you give us some feeling on the puts and takes of gross margins as we go through the year, particularly around things like business mix, lower seasonality and lower growth in Semi-Custom versus some of the new products, for example?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc. A

Yeah, Stacy, I can take that and then, Lisa maybe can add. As we start the year, as Lisa said, we do see momentum from the new products, the Ryzen, the GPUs and EPYC, and margin is up on a sequential basis. We're starting off the year at 36%. We previously said that for 2018 we expect margin to be greater than 36%. So it is a good start for the year, starting off well with the 36% guide. Obviously, the new products are having benefit then. And then the one thing I will add from what Lisa said earlier, in particular, with the Semi-Custom business timing is there is some incremental Semi-Custom revenue that gets recognized in Q1 as compared to the past from a timing in the year standpoint. But overall, I think the 36% is where we are starting off in Q1 and very pleased with that.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yeah, Stacy the-

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

So you do believe you – okay, I'm sorry.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Go ahead.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

I was just saying, so you do believe Q1 is probably a trough in terms of gross margins?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Clearly, Stacy, the first half of the year is usually the weaker half of our business because we are a consumer-led business. So starting off with 36% margin in Q1 is a good start. And we do expect that the new products will continue to ramp as we go through 2018. So I think that's how we view the puts and takes going forward.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you. For my follow-up, I know your competitor saw some unusual strength in the enterprise market and enterprise spending in Q4. I understand your exposure at this point to those enterprise wins is certainly less, but what are you seeing in terms of enterprise ramp? Are you seeing anything unusual or more or less sustainable in terms of strength versus what you'd ordinarily expect to see this time of the year?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Stacy, I think your question is about the market, and our market share is still relatively low. So our exposure with EPYC is there's a lot of activity. There's a significant amount of activity with customers, both – in all segments, cloud and enterprise, although I wouldn't say that that's necessarily a market trend. I would say that's more sort of where we are with our EPYC qualifications and ramp. And so we don't see – for example, we don't see that Q4 was especially strong and there will be a drop-off in Q1. In fact, we expect that EPYC should grow as we go through Q1 and the rest of 2018.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you, guys.

Operator: Thank you. Our next question is come coming from Vivek Arya from Bank of America Merrill Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question and congratulations on the strong growth outlook. For my first one, just a clarification. I know it's been asked a few times, but what would your Q1 sales and gross margin outlook have been under the older accounting methodology?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Vivek, we're adopting the new revenue accounting standard under what is the full retrospective method because we believe this is most helpful to the investors, and for good measure we have provided the Q1 2017 and Q4 2017 on a restated – we have restated the revenue, and obviously the Q1 2018 guidance under ASC 606. We will publish the restated numbers as part of our Form 10-K. And from a Q1 2018 standpoint, if you look at the numbers, let's say if you compare to Q4 2017 on a sequential basis, the revenue is up quarter on quarter and largely that's the strength of the new products in Q1 2018.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right. I ask that you're starting the year at a very strong 30%-plus base and you're saying double-digit growth for the year and double-digit is a very, very wide range. So, Lisa, could you help us at least get some level set of what double-digit growth means for the year?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So we are starting the year strong, Vivek. I think maybe to give you a little bit more color on your question as it relates to the Q1 guidance, we are – as Devinder said, we are giving all guidance and forward-looking comments on ASC 606. However, the largest impact, particularly as it relates to revenue, is really sort of the Semi-Custom business. As you know, our Custom business is a little unique because it's a singular customer. And so, under the new revenue recognition rules, we would actually take revenue with non-cancelable POs.

So that impact in the first quarter sort of guidance would have been about, let's call it $100 million or about – thereabouts. And so that might help you calibrate where we are. I think any way you look at it, the new product strength is the most important factor, but we also want to be clearer on what the accounting rule impact would be. Does that help you, Vivek?

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Yeah, Lisa, very helpful. And for my follow-up, traditionally there has been a very large price delta between your and Intel product; sometimes 50%, 60% plus in PCs and servers. As you look ahead with the new products, are you starting to see some of that price converge? Like are you being positioned in segments where you had not been previously so you can get the benefit of much better ASPs than you've had historically?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Vivek, absolutely. So, if we look in 2017 full year and look at our ASPs in the Client business, the Graphics business and the Server business, albeit it's early, we are definitely seeing a significant ASP expansion as a result of the fact that our products are now covering the higher end of the market. So we're competing very well in the higher end of the market. I expect that there's still a delta, but that delta is converging, given our product coverage.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Good afternoon, guys. Congratulations on the strong results, and thanks for letting me ask a question. Lisa, while the year-over-year gross margin improvement has been strong, both in the calendar sort of third quarter, fourth quarter and now on the guide in the first quarter, the sequential gross margin leverage is perhaps a little bit less than I would have thought, especially as you move into Q4 and Q1, and Semi-Custom comes down.

Now I know there's been sort of a lag effect as Ryzen grows as a percent of the mix. But maybe you can help me understand where we are as far as Ryzen as a percent of the mix being a positive influence on gross margin. And then just relative to your long-term gross margin target of 40% to 44%, how far does Ryzen get you before you become more dependent on EPYC ramps later this year into 2019 and beyond?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So a lot of different questions there, John. Let me try to unpack it there. So let's talk about sort of Ryzen and sort of the margin, both Q4 and Q1. On the Ryzen, to give you sort of a flavor of where we are in terms of the new product ramp, Ryzen Q4 was probably in the high 40 percentage of our overall Client business, and we expect that that will be over 50% starting in the first quarter of 2018. And so that ramp definitely helps, and it's part of our sequential 100 basis point improvement from Q4 to Q1.

I think in terms of overall new product revenues, if you take Ryzen, EPYC, and then our new Graphics products in totality, in Q4 they were about 33% of our revenue, and we expect that to ramp nicely as we go into 2018. So I think we are getting the margin leverage. The margin leverage certainly from Q4 to Q1 is due to the fact that we have strong products.

And the thing that's a little bit different this quarter is because we are guiding under ASC 606, and as a result of that, Semi-Custom, which is typically seasonally down Q4 to Q1, in this case it's actually up a little bit Q4 to Q1. And so that's a headwind on the margin, but overall, we're still up 100 basis points. Does that kind of get to the gist of your question?

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

No, that's helpful, Lisa. And then maybe a second question, just on the OpEx. Revenue for the calendar first quarter significantly above where the Street was expecting, but so was OpEx. And I'm curious, is there any sort of unusual expenses around Spectre or Meltdown that's going on? And then to continue that, for the full year you're guiding OpEx about in line with your long-term target, so is there opportunity that your long-term target can come down and maybe 28% of revenue on OpEx comes down over time? Or how should we think about that leverage?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, look, so relative to OpEx, I think our long-term guidance was 26% to 30%. Calendar year 2017 we were roughly approximately 30% if you look at it for the full year basis. We're guiding 2018 to approximately 28%. So we're starting to see some of that leverage. Granted, we're starting off in Q1 which is usually a low quarter for us. And then as we go forward, we're certainly looking at more leverage in the model, but we are investing in sort of the key new products. We are investing in software. And I think that's absolutely the right thing for us to do.

As it relates to any unusual expenses with Spectre and Meltdown, there are no particular unusual expenses related to that. I think what we are doing is we're investing in the business. We believe strongly in the product roadmap that we have, and given the significant revenue growth, we believe we can afford to invest in the business.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect. Thanks, guys.

Operator: Thank you. Our next question is coming from Joe Moore from Morgan Stanley. Your line is now live.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. I wonder if you could talk a little about the product that you announced with Intel over the course of Q4, the Semi-Custom Graphics product. I guess interesting to see the two companies working together. Can you put that product into context for us? Are there things that you could do going forward? And then is that going to be in the Semi-Custom part of revenues or in the Compute part? Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Joe. So, the product that we announced with Intel was a Semi-Custom Graphics product. So what we're doing is we're selling silicon to them and then they're packaging it in a multichip module, and they're marketing it and selling to end customers.

From my standpoint, this is an excellent way to get more Radeon GPUs in as many applications as possible, and so our strategy is we'll build our own standard products, we will build custom products for customers. And then look for how do we get Radeon in as many places as possible.

For this Graphics revenue because it's very similar to discrete graphics, we're actually reporting it in the Computing and Graphics segment, and we did see some initial revenue from that in Q4. But it is, as I said, it's a Semi-Custom chip that is sold to them with their – to be packaged with their products.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you. Next question?

Operator: Thank you. Certainly. Our next question is coming from Ross Seymore from Deutsche Bank. Your line is now live.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. Lisa, one for you back on the crypto side of things. It was great to see the incremental color that you gave, but is there any way you could give an absolute dollar amount whether it be in the fourth quarter or just full year 2017, and how much you believe crypto contributed to your revenues?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Ross. So it is hard to estimate. I think we said before it's hard to estimate just given some of the crypto sort of GPUs are sold through the same channels as our gaming channel. I previously said we thought it was about mid-single digits percentage of our annual revenue. It may be a little bit higher than that, let's call it a point or so, but it's – really a lot of our growth is outside of the blockchain market.

What we see in the market, though, is – because I know there's a lot of conversation about this out in the market, it is an important market. I mean, we're now seeing it from the standpoint of there is a lot of dynamic movement in the market. But it is consuming a lot of GPUs. It's a good part of our business, and we intend to sort of work with the large players to better forecast that business going forward.

But I don't want that to take away from the fact that we had significant growth in the GPU business outside of blockchain as we really ramp our Vega product line, as we ramp our GPU compute product line, as we ramp Apple. And so those are all important pieces of our GPU story.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Perfect. That's helpful. As my follow-up I wanted to go back to a statement you said in answering a prior question about the Semi-Custom business being up sequentially, and then saying it was about $100 million benefit. Is that up sequentially you're talking about relative to the fourth quarter pre or post the ASC adjustment? Just trying to tie this all together and kind of get the moving parts behind your guidance because it is much higher than I think where many of us expected it to be.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So let me try and Devinder may keep me – make sure that we're clear here. So the $100 million that I referenced was relative to the Q1 2017 adjustment, which was approximately $200 million or so. If you look at it on a sequential basis, it won't be up $100 million, it will be up somewhat less than that. But typically we're quite – we're down quite a bit in Semi-Custom, and so it is a different seasonal pattern than we would normally see.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from Brett Simpson from Arete Research. Your line is now live.

Brett Simpson
Analyst, Arete Research Services LLP

Q

Yeah. Thanks very much. I just had a question on crypto. I mean, if I look at the amount of hash compute being added to Ethereum in January, I mean, it's more than the whole of Q4. So we've seen a big start to the Q1. So I'm just wondering what's the balance or the sort of mix in your C&G division between GPU and CPU sort of looking at Q4 and how it changes into Q1. And is there any sort of acute shortages here? I mean, can you foundry partners – do they have the capacity to support you with the ramp of GPUs at the moment? And is there enough HBM2 DRAM to source as well? Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, right. So in relation to your question about Client and Graphics, look, both the Client business and the Graphics business grew sequentially in Q4, so both of them were strong businesses for us. And as I said, there are – crypto was one driver, but there were numerous other drivers as well.

Relative to just where we are in the market today, for sure, the GPU channel is lower than we would like it to be, so we are ramping up production. At this point, we're not limited by silicon per se, so our foundry partners are supplying us. There are shortages in memory and I think that is true across the board, whether you're talking about GDDR5 or you're talking about High-Bandwidth Memory. We continue to work through that with our memory partners, and that will be certainly one of the key factors as we go through 2018.

Brett Simpson
Analyst, Arete Research Services LLP
Q

Okay. Thanks very much. And just to follow up on 7-nanometer, I mean, a lot being talked about at 7-nanometer with TSMC ramping fairly shortly, and also Intel being perhaps a little delayed on 10-nanometer. Can you talk about what your plans are for 7-nanometer in 2018? Can you ship a CPU platform based on 7 nanometer this year or are you also seeing some delays in 7-nanometer with your foundry partners?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

So relative to 7-nanometer, 7-nanometer is a very important node for us. We're doing very active development to the 7-nanometer across our GPU and our CPU portfolio. Relative to shipment dates, I'll wait until we get closer to production before we talk about that. But what we have said is that we will sample a GPU here in 2018 targeted at machine learning and that will be in 7-nanometer technology. And we are also actively working on CPU products in the 7-nanometer technology as well.

Brett Simpson
Analyst, Arete Research Services LLP
Q

Okay. Thanks very much.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.
A

Thank you, Brett.

Operator: Thank you. Our next question is coming from Tristan Gerra from Baird. Your line is now live.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.
Q

Hi. Good afternoon. You've mentioned that you expect very strong demand from blockchain in the first half. How aggressive are you in terms of embedding that type of trend in your Q1 guidance? Just trying to get a sense of the contribution from that segment in your Q1 guidance. And also, is the margin profile any different than the rest of your GPU business?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So I think as we said on the Q1 guidance, it is really strength across our new products, so it's not just the blockchain or crypto conversation. That's one factor. But we do see strength across the rest of our GPU business, as well as our CPU business with Ryzen and EPYC. So, of course, we take into account what we believe the demand will be here in the first quarter, and we think we're fairly balanced with that. And overall, given the current lead times, I think we have good visibility into what the order pattern is and so on and so forth.

So I think the key point is crypto is strong right now, but we do believe that it is a very dynamic environment and so we have to watch that very closely. And there are numerous other product drivers in our Q1 guidance, including the CPU business, which is an important driver.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And as a quick follow-up, in terms of the ramp of EPYC, should we look at a kind of linear ramp throughout this year? Or is there more of an inflection point at any given time that you would expect – or any given quarter that you will expect this year?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I do expect a steady ramp of EPYC as we go through the year. Our target is to be at mid-single digit unit share by the end of 2018. And so there would be significant revenue from EPYC as we are in the second half of 2018. But certainly, I would expect a steady ramp throughout the year.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thanks, Tristan. Operator, we have time for a couple more questions, please.

Operator: Certainly. Our next question is coming from Srini Pajjuri from Macquarie. Your line is now live.

Srini Pajjuri
Analyst, Macquarie Capital (USA), Inc.

Q

Thank you for squeezing me in. Just a couple of clarifications. First, I guess, Devinder, the accounting change, you kind of gave us an explanation how the seasonality works for Q1. I'm just curious as to how your seasonality changes as we go into Q2, Q3 and Q4. Because historically, you were down in Q1 and kind of flattish in Q2, and then up in Q3 and Q4. So just trying to understand how the accounting change impacts that seasonality.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. I think the most significant change is from our Semi-Custom business where you're going to see acceleration of revenue in the first half as opposed to where it used to be weighted towards the second half of the year. And that's just a timing issue within the year. Annually, there's not much impact. It's pretty immaterial from that standpoint. But timing-wise, you will see recognition of revenue earlier in Q1 and Q2; and then, obviously, we still have it in Q3 and Q4. So seasonality for the Semi-Custom business changes, as Lisa said earlier, typically Q4 to Q1 is down, and now Q4 to Q1 is up.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yeah. But I would add, though, just for that seasonality question, I think what you'll see is perhaps a little bit of a flatter profile. We used to have a very high peak in Q3, and now I think you'll see a little bit of a flatter profile with sort of second quarter still be higher than first quarter, third quarter higher than second quarter, and then fourth quarter we would expect to be down.

Srini Pajjuri
Analyst, Macquarie Capital (USA), Inc. Q

Great. And then, Lisa, just another clarification on Ryzen. Obviously, you're seeing very strong ramps. I would have expected you to see a little bit of ASP benefit in Q4, but it looks like ASPs came in flattish. I'm just curious as to why they're only flat, not up sequentially.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yeah, sure. So I think when you look at the ASPs, it's very dependent on the actual mix. And so underneath the client ASPs, we actually saw desktop a little bit lower, and that's because the desktop sales in the holiday season were a little bit more weighted to Ryzen 3, which has a lower ASP than some of the Ryzen 5 and Ryzen 7. But we actually saw mobile ASPs up because we saw the beginning of the shipments of Ryzen Mobile, which pulled ASPs up. So it's just the detailed mix of the business. But overall, I think we saw very strong growth.

Srini Pajjuri
Analyst, Macquarie Capital (USA), Inc. Q

Great. Thank you.

Operator: Thank you. Our final question today is coming from Ambrish Srivastava from BMO. Your line is now live.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States) Q

Hi. Thank you very much, Devinder. I just had a question on free cash flow since I pestered you so much on that. Good to see a solid quarter on that front. But my question really is, how should – you've guided for an increase in free cash flow for next year. Should we expect the same kind of dynamic that you've had this year seasonality in Q4? And then also, you had to build up working capital and inventory specifically because of the dynamics on memory and the tightness earlier in the year. So what are some of the puts and takes there, if you could please help us with that? Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc. A

Yeah. I think you rightly observed. I mean, our strong quarter from an overall standpoint where cash is concerned and cash from operations are very strong in Q4 and free cash flow was $339 million, ending at the $1.18 billion. There is typically pressure on cash in the first half of the year just given the fact that the revenue is there, and we buy the wafers to support the business and then it gets better in the second of the year.

As far as working capital is concerned, it's a little bit early to tell. I think it depends upon how the revenue unfolds. Obviously, we have managed it pretty well, but supporting the higher revenue from the strength of the business is going to be the key from that standpoint. But to your point, I do feel very good as to where the cash ended up. I do feel very good with how we have done from our managing the balance sheet for working capital and the debt levels, and 2018 we are guiding to free cash flow being positive for the year.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. And a quick follow-up for you, Lisa. If you look at the double-digit growth for this year, what are the absolute dollar drivers in terms of which product categories do you expect within EPYC, GPUs for machine learning, or for Ryzen, if you were to rank order those in terms of absolute dollar impact this year?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So if I were to rank order those, I would say that both EPYC and Ryzen as we deploy Ryzen more into the notebook form factor, which is a very significant OE ramp, are very key for that. I think GPUs and machine learning are also a strong growth driver for us, but just given sort of where we are from the base that we're starting with, I think the other two are just more significant.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. Thank you very much.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

Thank you, Lisa. Thank you, Devinder. And to everyone who joined our call today, we appreciate you joining the fourth quarter conference call. We look forward to speaking with you again soon.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2017 Earnings Call for 30-January-2018 5:00 PM ET
Tuesday, January 09, 2018 09:24:03 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2017 Earnings Call for 30-January-2018 5:00 PM ET.

Press Release URL: http://quarterlyearnings.amd.com/static-files/8d0e0026-3042-49b0-8d56-a4e4a99eb48a
Live WebCast URL: https://edge.media-server.com/m6/p/mjsqz7is
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Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to Advanced Micro Devices Third Quarter 2017 Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host Laura Graves. Please go ahead.

Laura Graves

Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's third quarter 2017 conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com. Participants on today's call our Dr. Lisa Su, President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a couple of important dates for you. Lisa Su will present at the Credit Suisse 21st Annual Technology Media and Telecom Conference on Tuesday, November 28, and our fourth quarter quiet time will begin at the close of business on Friday, December 15, 2017.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such, involve risks and uncertainties that could cause actual results to differ materially from our expectations.

Additionally, please note that we will be referring to non-GAAP financials during this call, except for revenue and segment operational results, which are on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary posted on our website at quarterlyearnings.amd.com. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC, and in particular, AMD's quarterly report on Form 10-Q for the quarter ended July 1, 2017.

With that, I will hand the call to Lisa. Lisa?

Dr. Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. Q3 was a strong quarter for us, demonstrating the significant growth potential of AMD, driven by our strong high-performance products, leadership IP, and long-term strategy. Revenue increased 26% from a year ago to $1.64 billion. Gross margin also improved significantly year-over-year as we achieved profitability and generated positive free cash flow in the quarter.

Looking at our Computing and Graphics segment, we made excellent progress in the Q3, as the continued success of our Ryzen family of CPUs, combined with significant graphics growth, resulted in a 74% increase in Computing and Graphics segment revenue year-over-year. Client computing revenue increased by a strong double-digit percentage from a year ago, as we expanded our Ryzen processor family and saw increased demand in the desktop market. Ryzen 5 and Ryzen 7 processors have ramped well in the desktop channel market, reaching 40% to 50% desktop market share at strategic e-tailers worldwide. In addition, OEM adoption is accelerating as customers ramp shipments in advance of the holiday sales cycle.

In the quarter, we launched additional Ryzen CPUs, including Ryzen 3, expanding our reach in the mainstream and value market segments, Ryzen Threadripper processors, returning AMD to the high-end desktop market, and Ryzen PRO-based offerings, which have been adopted by all major commercial PC providers, including Dell, Lenovo, and HP, expanding our presence in the commercial space.

Also, in the quarter, we qualified and began early shipments of our Ryzen mobile processors combining our Zen CPU cores and Vega GPU cores in a high-performance APU designed to power ultra-thin and two-in-one notebooks. Acer, HP, and Lenovo plan to launch their initial Ryzen mobile-based systems in the coming weeks and we expect an expanded assortment of premium notebooks to launch in Q1 2018.

In graphics, we achieved record GPU revenue in the quarter based on significantly improved ASPs and higher unit shipments from a year ago. These financial improvements were driven by the launch of our Vega-based GPUs and had strong demand for Polaris products across both gaming and blockchain markets.

In the quarter, we expanded further into premium portions of the graphics market with new consumer and professional GPU solutions. Our Radeon RX Vega family of GPUs launched in the channel targeted at the enthusiast-class gaming segment. Revenue from initial shipments of these products is significantly outpacing previous premium Radeon GPUs.

Radeon Instinct MI25, our GPU compute solution, also began shipping in volume to mega-cloud datacenter customers. And Radeon Pro WX 9100 professional graphics cards, targeting the high-end professional content creation market, started shipping late in the quarter.

In addition, we saw expanded AMD Radeon adoption with cloud customers in the quarter, driven by our investments in GPU compute. Amazon Web Services announced that they have deployed AMD Radeon Pro technology to power Amazon AppStream 2.0, driving GPU-accelerated cloud delivery of virtual applications. We also announced a collaboration with Baidu to build more flexible and powerful AI computing platforms based on the deployment of our Radeon Instinct GPUs in their datacenters.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue was approximately flat year-over-year and increased 46% sequentially. Sequential growth was based on a seasonal increase in semi-custom revenue, as well as growth in server revenue from our EPYC datacenter processors. Our semi-custom business continues to perform as expected for the year and we anticipate seasonal demand to remain healthy as our customers enter the holiday sales cycle with Sony's PlayStation 4 Pro and Microsoft's Xbox One X.

In our server business, server revenue increased from a year ago as we began ramping sales of our EPYC datacenter processors to key cloud and OEM customers. Customer engagement with our EPYC processors is growing as the true performance and features of the platform are tested and implemented with Tencent and JD.com joining the list of datacenter customers planning to deploy EPYC processors.

In a short period, three of the super seven mega datacenter providers have publicly announced plans to deploy EPYC-based products into their hyperscale environments, including Baidu, Microsoft Azure and Tencent. And we have strong engagements with other major cloud providers. In addition, HP Enterprise and Dell are in the process of bringing their first EPYC-based platforms to market in Q4, and we are actively engaged with them to accelerate testing and validation of EPYC-based systems in datacenters across a broad number of large and medium enterprise customers.

We remain confident and focused on the steady expansion of our datacenter presence over the coming quarters based on the high-performance and rich feature set of the EPYC product. In addition, as a part of our ongoing strategy to monetize our differentiated IP, we successfully closed a patent licensing transaction in the quarter.

In closing, we are very pleased with our third quarter results. Throughout 2017, we have delivered significant year-on-year revenue growth and margin expansion as we achieved multiple major product, customer and market milestones. As we head into the final quarter of the year, we look forward to continuing to accelerate our business. 2017 annual revenue growth is now tracking above our previous estimates and we remain confident in our ability to make AMD one of the premier long-term growth companies in the tech industry.

Now I'd like to turn the call over to Devinder to provide some additional color on our third quarter financial performance.

Devinder Kumar

Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon everyone. I am pleased with our performance for the third quarter of 2017. We increased revenue 26% year-over-year, expanded gross margin and achieved both operating and net income with net income of $110 million and diluted earnings of $0.10 per share. We are executing well with our strongest portfolio of products in many years including our Ryzen, EPYC and Radeon Vega offerings.

Let me provide some specifics for the third quarter. Revenue of $1.64 billion grew 26% year-over-year and 34% sequentially. This is our highest quarterly revenue since the fourth quarter of 2011. Year-over-year growth was primarily due to our Computing and Graphics segment, while sequential growth was driven by the Enterprise, Embedded and Semi-Custom segment revenue seasonality, as well as higher Computing and Graphics segment revenue. We also took another step in our IP monetization efforts by closing a patent licensing agreement that had a positive impact on both our segments.

Gross margin was 35%, up 4 percentage points year-over-year, primarily driven by the benefit of IP-related revenue and a richer mix from the Computing and Graphics segment, which were partially offset by costs associated with our global foundries wafer supply agreement for wafers purchased at another foundry. We continue to make good progress on the ramp of our new high-performance products, which had a positive impact on our gross margins.

Operating expenses of $419 million compared to $353 million a year ago. The increase was primarily due to higher R&D-related investments and expenses related to annual employee incentive programs, driven by our better financial performance. Operating income was $155 million in the third quarter of 2017, a solid improvement on $70 million a year ago.

Third quarter net interest expense, taxes and other was $45 million, up slightly from $43 million a year ago. Lower interest expense from a year ago was largely offset by withholding taxes for licensing revenue.

Net income was $110 million or diluted earnings of $0.10 per share as compared to $27 million, or $0.03 per share a year ago. The diluted earnings per share calculation for the third quarter of 2017 was based on 1.143 million shares, which includes 100.6 million shares related to our 2026 convertible notes. Adjusted EBITDA was $191 million compared to $103 million a year ago.

Now turning to the business segments. Computing and Graphics segment revenue was $890 million, up 74% year-over-year, primarily due to strong sales of our Radeon graphics and Ryzen desktop processors. Computing and Graphics segment operating income was $70 million compared to a loss of $66 million a year ago. The solid improvement was primarily due to higher revenue.

Enterprise, Embedded and Semi-Custom revenue was $824 million, approximately flat year-over-year due to lower semi-custom SoC sales, partially offset by IP-related revenue. Additionally, server revenue increased from a year ago, driven by the increased sales of EPYC products. As you heard earlier from Lisa, customer interest and deployment plans are strong. Operating income was $84 million, down $52 million from $136 million a year ago, primarily due to higher costs.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities total $879 million at the end of the quarter, up from $844 million in the prior quarter, primarily due to higher revenue. Inventory at the end of the quarter was $794 million, down 5% from $833 million in the prior quarter.

Long-term debt on the balance sheet was $1.36 billion. Total principal debt, including our secured revolving line of credit, was $1.74 billion. In the third quarter, we used $28 million from our lower interest secured revolving line of credit to pay down long-term debt, which has a higher interest rate. Free cash flow was $32 million compared to $20 million in the year-ago period.

Before turning to our outlook for the fourth quarter of 2017, which is a 13-week quarter, let me remind you, for comparative purposes, that the fourth quarter of 2016 was a 14-week quarter. For the fourth quarter of 2017, we expect revenue to decrease approximately 15% sequentially, plus or minus 3%. At the midpoint, this equates to revenue growth of approximately 26% year-over-year.

Non-GAAP gross margin to be approximately 35%, non-GAAP operating expenses to be approximately $410 million, non-GAAP interest expense, taxes, and other to be approximately $30 million, and inventory to be down sequentially. We now expect 2017 annual revenue to increase by greater than 20% over 2016 compared to the prior guidance of mid to high-teens percentage growth. We do not anticipate significant changes to the diluted share count in the fourth quarter and you can find additional information regarding the share count in the CFO commentary, which is posted online.

In closing, the third quarter was a strong quarter and we are pleased with the momentum of our new premium products. We are making solid progress towards our growth and margin expansion objectives; and as our financial performance improves, we remain committed to investing in our multi-generational road maps and achieving our long-term financial targets.

With that, I'll turn it back to Laura for Q&A session. Laura?

Laura Graves

Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready for our first question, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is coming from Vivek Arya from Bank of America Merrill Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question. For the first one, I was wondering if you could help quantify the benefit of your IP license in the two different segments, and is this a one-off? Or do you see ongoing benefits in Q4 and beyond?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Vivek. Hey, thanks for the question. We did close a IP-related transaction. It was a patent licensing transaction. The revenue and benefit was spread over both segments. When we look at it going forward, we have a pipeline of IP deals and we're constantly looking at them. And from our standpoint, we're working several deals in progress. So we believe that IP-related revenue will be a factor as we go forward, but our primary focus is on the product-related revenue and the product-related growth.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, so, Vivek, just to remind you, in line – you've heard us talk about our IP monetization efforts, and this is very much in line with that. And as Lisa said, the benefit is spread over both the segments.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And then, for my follow-up, Lisa, when I look at your Q4 outlook, it's sort of in line with seasonality, perhaps somewhat better. Can you give us more color around the adoption of the new Ryzen mobile portfolio, but more importantly, your EPYC products, when will we start to see a more tangible contribution from your EPYC product sales? Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Vivek. So look, we are very pleased with how the revenue ramp is going in general on our new products. When you look at the Q4 guidance, year-over-year, we'll be up 26%. So we're really accelerating the business as we go into the second half of the year. As you know, our business is typically seasonal. And so Q3 is the peak and then we're down seasonally from Q3 to Q4 due to some of the semi-custom revenue. But what we see going into the fourth quarter is we see a strong ramp of new products. We see Ryzen continuing to ramp. We will ship volume of Ryzen mobile in Q4 and then more in the first half of the year. We will see a ramp of EPYC and we will also see an OEM ramp of Vega.

In terms of the headwinds, we have the semi-custom seasonality and we're also predicting that there will be some leveling-off of some of the cryptocurrency demand. As we look at it, it continues to be a factor, but we've seen restocking in the channels and stuff like that. So we're being a little bit conservative on the cryptocurrency side of the equation.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right. Thank you.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Next question, please?

Operator: Our next question is coming from David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. Can you give us some idea of whether you have any semi-custom wins that might bring in new revenue streams in 2018? Specifically, are you in any discussions with potential customers for semi-custom designs in autonomous driving or datacenter processor and accelerator applications?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, sure, David. So, look, the semi-custom business continues to be a business that's performing well for us. So we are – as we go into 2018, we are expanding the customer set beyond our traditional Sony and Microsoft game consoles. Actually, this past quarter, we announced that Atari will be adopting a customized processor for their next-generation. We also have a number of new opportunities that we continue to work. And they are in markets outside of game console, including some of the markets that you mentioned. So overall, we do expect there will be some puts and takes in the semi-custom business as we go into 2018 and there will be some new product revenue that will ramp particularly in the second half of 2018.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, David.

Operator: Thank you. Our next question is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. First one on the gross margin outlook for Q4, it looks like it's flattish versus Q3. And I guess, I might have expected the sequential increase given that you will likely have a better mix. So I'm hoping you can reconcile that. I'm wondering if licensing had an impact on that, or it's just fixed cost absorption?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Let me start, Mark, and then maybe Devinder will add. So, look, we have multiple puts and takes in the business as we look at gross margin. When we look at gross margin in Q3, we were pleased with the gross margin progress, and yeah, that came from both the virtue of mix of our Computing and Graphics revenue year-over-year as well as some benefit from the IP-related transaction. As we go into Q4, we have new products continuing to ramp.

So you'll see Ryzen, Vega and EPYC ramp. And the primary driver for the Q4 gross margin is the product revenue. And we do have sort of the headwind of not having the benefit of the IP revenue in Q3. So those are the puts and takes. But the main point is the new product revenue is ramping and the gross margins are accretive. And that's contributing to our Q4 gross margin outlook.

Mark Lipacis
Analyst, Jefferies LLC

Q

Okay.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Hi, Mark. If I can just add, if you look at the margin trend compared to 2016, 2016 we had 31% gross margin. And we expect to be at 34% this year. And that's primarily based on the strength of the new product that Lisa referenced. And from a long-term model standpoint, we are on track with what we laid out in the financial Analyst Day of going from 31% to 34%, and then expecting to be greater than 36% in 2018 on the strength of the new premium products that are ramping into 2018.

Mark Lipacis
Analyst, Jefferies LLC

Q

That's helpful. Thank you. And a follow-up, if I may. On the EPYC server side, can you help us understand to what extent you're shipping to customers who are going through testing right now versus shipping into customers who are actually deploying EPYC in live datacenter applications. Thank you

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Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, absolutely, Mark. So, look, we're pleased with how things are going with the EPYC ramp overall. So we have been shipping to both cloud as well as non-cloud customers in Q3 mostly early platform-type testing. In Q4, we expect to see some level of deployment again both in cloud and non-cloud applications. With the new platforms coming in from HP Enterprise and Dell, what we're saying is actually a ramp of new seating opportunities, particularly, in medium and large enterprise customers. So overall, the EPYC ramp is going well and we expect more deployments as we go into Q4 and into next year.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you. Very helpful.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Mark. Operator, next question, please?

Operator: Certainly. Our next question is coming from Ambrish Srivastava from BMO. Please proceed with your question.

Kulin Patel
Analyst, BMO Capital Markets (United States) Q

Hi. This is Kulin Patel, calling in for Ambrish. Thanks for taking my questions. You highlighted in your PR that you had a GM headwind related to buying wafers at another foundry. Do you expect any meaningful external purchases in Q4, or going forward in 2018 that could be a headwind to gross margins?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc. A

I think the way I look at that is if you look at Q3 from a volume standpoint and the volume is pretty high, and that's why it's highlighted from a viewpoint of the calls, but the way you want to look at it going forward Q4 and beyond is all of the costs related with the WSA that's referenced in the scripts is contemplated in our guidance and our long-term models.

Kulin Patel
Analyst, BMO Capital Markets (United States) Q

Okay. Thank you. And I had a question on – you launched the Radeon Instinct MI25 maybe last quarter. Can you discuss the traction you're seeing in that product? Are you seeing any meaningful revenues in 3Q and in your 4Q outlook?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yes. So the Radeon Instinct MI25 is Vega for the cloud datacenters. We did actually start shipping volume in Q3 to multiple customers. We do see a very high interest in the product portfolio. And so we expect that to continue to ramp into Q4. And there's a lot of focus on increasing the software usability and the software flexibility. And so we continue to invest in those areas. But, overall, I'm actually very pleased with the interest in MI25 and it's coming from multiple customers in a number of markets.

Kulin Patel
Analyst, BMO Capital Markets (United States) Q

Thanks.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc. A

Thank you. Next question, please?

Operator: Our next question is coming from Joe Moore from Morgan Stanley. Please proceed with your question.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC Q

Great. Thank you. I was interested in your comments that the sequential growth in the Computing and Graphics business was driven primarily by graphics. How literally should we take that? And I guess, if graphics is up close to $150 million sequentially, is that business now on par with the CPU business? Can you just give us a general sense of the size of the two businesses there in that segment?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So overall, the growth in Computing and Graphics, when you look over the past few quarters has been very strong. And we've seen growth both on the Ryzen side, particularly in the desktop side of the business as well as on the graphics side. So in terms of size of the business, again, I think we stated in the prepared remarks that the GPU business had a record quarter for us and we're seeing very strong growth.

We're seeing strong growth as a result of the new product launches. So the Vega product actually did very well for us in the quarter as well as overall Polaris in both gaming and blockchain markets. But yes, we're pleased with the graphics performance. But I'll also say Ryzen did very well in the quarter. We look at the progress that we're making in the desktop channel when you look across retailers and e-tailers across the world. And in the Ryzen 5 and Ryzen 7 segment, we're seeing significant share gain in those parts of the business. So I think both parts of the Computing and Graphics business are doing well. And we continue to expect growth as we go forward.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

And is it possible to size the blockchain portion of that?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think the blockchain tends to be, again, it's hard to separate because it goes through some of the same channels as gaming does. I will say that blockchain sort of behaved as we expected in Q3. So we didn't see anything that we didn't expect. We did see some benefit of channel restocking. So if you look at our channel inventories today compared to July, we had healthier channel inventory levels. And we expect that consumer blockchain will level off a bit as we go into Q4. But there's also commercial blockchain component that we believe is interesting and likely to continue into the medium term. As we look into Q4, though, we also see growth from just the OEM side of the GPU business as we start ramping Vega into OEMs.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Thank you very much.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Next question, please.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. Good afternoon, Lisa. Apologize, I'm kind of juggling a couple calls like everyone else. I apologize if this is a repeat. But I'm just wondering, just given the qualitative success of Ryzen and the accretive ASPs and gross margins, I'm wondering if you could just help us understand on a more quantitative basis how much of your PC unit business is now Ryzen. And I guess, more importantly, how do we think about that progressing over the next several quarters? And kind of where is the tipping point where you think we'll start to see some significant leverage relative to the accretive ASPs and the accretive gross margins?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. **A**

Yeah. Absolutely, John. So look, we are really pleased with how Ryzen is performing competitively in the market. It's fair to say though that we're still at the early stages of the Ryzen ramp. So primarily in Q2 and Q3, Ryzen has been a desktop channel phenomenon. So most of the sales have been in the desktop channel. We have started ramping OEMs in the desktop space. And we will continue ramping OEMs as we go into Q4. But it's nowhere near the majority of the client revenue.

You should expect that Ryzen will continue to ramp for us through the first half of next year, because we're adding more and more platforms as we speak, both on the consumer and also on the commercial front. And so we see again, it's ramping well. The ASPs are good. So actually, we saw some ASP increase in Ryzen as we went from Q2 to Q3, and we launched the high-end desktop version as well as Ryzen 3 and will continue to ramp into Q4 and first half of next year.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC **Q**

And then, Lisa, just as my follow-on, Kind of a similar question around EPYC, and just I know you guys have kind of talked about potentially exiting the end of next year at about a 2% share. I'm just kind of curious how you think about the ramp of EPYC. And if you can differentiate between sort of your hyperscale customers who might take it a little bit sooner versus the more traditional OEM channel, how should we be thinking about that on EPYC?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. **A**

Yeah. So, John, I'm not sure we ever said 2% by the end of next year. But what I would say is that we expect EPYC to be a sizable portion of our revenue in 2018. So the second half this year, we're doing early pilots and we're doing some early deployments. The hyperscale guys are aggressive and they are first. We will start seeing some enterprise revenue here in Q4 as the early platforms launch. But I expect more of the enterprise to fill in as we go into 2018. And I think the important point is as we look at the product, as we look at the competition and where we're positioned, the product positioning is strong. And so the customer engagements are growing. And we're seeing significant interest from enterprise customers ramp now as some of the OEM platforms are becoming available and starting their seating. So overall, EPYC will continue to ramp into 2018 and should be a sizable – we expect it to be a sizable portion of our revenue in 2018.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC **Q**

Thanks.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. **A**

Thanks, John.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for letting me ask the question. I wanted to go back to the mix of the business, and specifically, in the Computing and Graphics segment. The client ASPs were down sequentially and you highlighted that being because of mobile. Somewhat similar to John's question, Lisa, when do you expect to see the ASPs in that segment of your business start to turn to be a positive driver as opposed to a bit of a headwind?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So definitely, desktop ASPs are up; mobile ASPs are down. I think we will see – again, there will be a initial ramp of Ryzen mobile in Q4, but I think in the first half of the year, you should see a significant amount of the volume that we ship into notebook be with Ryzen mobile. When I look at sort of the rate and pace of the ramp, I think it's going as we expect with desktop channels first, then desktop OEMs, and then commercial desktop, and then, say, consumer notebook starting in Q4 ramping into Q1. And then, we'll see commercial platforms in the first half of 2018 as well.

So I think there should be a steady ramp of ASPs as we go forward. We're also taking some opportunity, as you can imagine, to clean up some excess inventory as we transition to the new product. And so that's part of what we're doing to just ensure that we have a strong launch as we go into the new product portfolio. But overall, behaving as we expected, and in some sense, we're very pleased with how we're positioned competitively with the product.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And I guess, as my follow-up, switching to one for Devinder on the OpEx side of things, OpEx was a little higher in the third quarter, dropping sequentially into the fourth quarter. You've talked in the past about a 31% OpEx to revenue guide range for this year. You're probably not going to guide for 2018 with that much precision tonight. But is there any sort of puts and takes we can think of as far as how you guys are considering your investment philosophy as we move into 2018?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think the first thing I'll say is we do want to invest in the business, especially with the growth opportunities we have and primarily targeting the OpEx investments towards R&D. They are, in the current moment, with a lot of products ramping, just in the last few months, you heard about the Ryzen ramp, you heard about EPYC, we talk about Vega, and obviously, their go-to-market cost will ramp up new products. But as far as 2017 guidance is concerned, I had said previously 31% as the potential of revenue, but I think right now, where the numbers are coming out especially with the strength on the revenue side of the equation, we think we end up at about 30% on an expense to revenue ratio in 2017, which, as you probably recall, is at the upper end of what we had said our long-term target model which is 26% to 30%.

So actually, I'm pretty pleased because if everything works out in the Q4 guidance that we gave, and in 2016 would have been a 32% of revenue; in 2017, approximately 30%; and then obviously, we'll see where we get into 2018. We're very pleased from a viewpoint of being able to make the investments in the business to support the product road map, the go-to-market cost for the ramp of new products, and at the same time, bring down the percentage of OpEx over revenue.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you.

Operator: Thank you. Our next question is coming from Matt Ramsay from Canaccord Genuity. Please proceed with your question.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.
Q

Thank you very much. Good afternoon. Lisa, I wanted to ask a little bit about the forward roadmap, particularly, in the processor group. I know that you guys have talked quite a bit about taking the roadmap down to 7-nanometer next year. And I think Mark gave some public comments about doing some stuff on 12-nanometer with GF. So I think it'd be helpful if you could talk to the extent that you can about some of the future road map and things that might be follow on to the products that are ramping currently. Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, absolutely, Matt. So 7-nanometer, we've talked about is a very important node for us and it's an important node for the industry. It's a major node. So we have a lot of engineering resources on that. And you should expect that that will be across all of our businesses. And we're actively working on those products now. We do see an opportunity with 12-nanometer. 12-nanometer is a relatively small engineering lift. And I would view it as a performance enhancement to our current road map.

And so we are working on taking some of our products, I would say, a subset of our products into 12-nanometer in 2018 to augment the performance of our client and graphics road map. But I see – the significant resources are on 7-nanometer, and that's progressing well. We're overall pleased with how the performance on that is looking. And then, we will opportunistically look at some products to go into 12-nanometer as it makes sense for the road map.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.
Q

Got it. Thank you. And, Devinder, I wanted to press a little bit harder on the gross margin impacts of a few things that you called out. Particularly, is there any way that you can quantify for us at all the impact of the IP revenue on gross margin, either in the third quarter or comparatively into Q4? And second, I think a lot of us are aware of the forward charges you'll get for using wafers from other foundries. But I assume that that applies also to the gaming console business that comes out of TSMC currently. If you could clarify those two things that would be great. Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.
A

Yeah. I think if you look at it from an overall standpoint, if you look at the cost impact, it's all within our guidance. I think if you look at IP from that standpoint, we have several IP deals in the pipeline for Q3. Basically, we thought it was likely that we would be able to close on IP-related deal in the quarter, and that's how it turned out. And you see the benefit across both the segments. And from a go-forward standpoint, despite the cost of being there, we look at it overall from a viewpoint of the trend of the margin. Major provider of the gross margin uplift is the premium new products that we are launching. And then, obviously, there's opportunities from an IP standpoint to benefit the P&L if we go ahead and put that in the equation.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.
Q

Okay. Got it. Thank you.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.
A

Next question, please.

Operator: Our next question is coming from Blayne Curtis from Barclays. Please proceed with your question.

Blayne Curtis
Analyst, Barclays Capital, Inc.
Q

Hey. Thanks for taking my question. Just wanted to better understand the December guidance a bit. Maybe if you could talk about it between the two segments. The embedded business last year was down 40%. It's been tracking down slightly year-over-year. So is that the right way to think about that segment this December? And then, maybe you can talk about on the graphics side, I just want to understand the commentary. You said that crypto or blockchain was kind of flattening out and that you were kind of getting some restocking. Just kind of understand when you look at growth in that segment, what are the moving pieces? Thanks.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah. So, Blayne, let me answer that question. So overall, I think our business does have the seasonal pattern where the Q3 is the peak and we're down in Q4, primarily due to the semi-custom business. I believe those dynamics are the same. We've looked at sort of how the business will perform on a year-over-year basis. We believe that semi-custom revenue will be down a little bit on a year-over-year basis, and that's expected. We're in the fifth year of the cycle and you would expect that units to be down, although we have some positive mix because of the new launch of the Microsoft Xbox One X console, which is a higher ASP product for us.

When you look at the graphics business, again, overall, we see the business as quite strong. We see Vega ramping as we go into Q4. We see that from an OEM ramp standpoint. We see that from a GPU compute standpoint. And that's offset with a little bit of leveling-off of the blockchain demand. But overall, I think we see sort of Computing and Graphics continuing to grow as we go into Q4.

Blayne Curtis
Analyst, Barclays Capital, Inc.
Q

Thanks. And then, just maybe a second question, following up on some of the questions on process node. You had high reuse with the server product this time. How do you think about the R&D cost in terms of if you were doing a core at TSMC versus doing one at GloFlo, a dual track, as you look into 2018, how should you think about the OpEx required to do that?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So it's part of our engineering model. So we've sort of engineered a model where we can use our IP at multiple foundries. And that will continue as we go into 7-nanometer. So if you look at this year, we have multiple products in 16-nanometer and 14-nanometer. As we go into 2018 and beyond, it's the same thing. So there are no additional costs related to our dual sourcing strategy.

I think from an overall R&D standpoint, as Devinder said, we will look to ramp our spending in line with revenue. And primarily it's around continuing to invest in our new market opportunities, continuing to invest on the GPU side and what we're doing in the compute markets, continuing to strengthen our sales and marketing as we go to market with these broad new products. But there's no particular OpEx impact of using multiple foundries.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Thanks, Lisa.

Operator: Thank you. Our next question today is coming from Hans Mosesmann from Rosenblatt Securities. Please proceed with your question.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thanks. Hey, Lisa, can you give us in terms of timing 7-nanometer for next year and what products would be the focus initially for that node?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Hans. So I'm not going to comment directly on timing of products because obviously there's a lot of R&D yet to be done. But I would say that our product portfolio in general will take advantage of 7-nanometer. So you should expect our server portfolio, our graphics portfolio and our client portfolio to all take advantage of 7-nanometer at some point in time. And we like the performance as well as the power and the density shrink that we get from it. And so again, we think it will really help to improve our competitive positioning as we move forward.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

All right. And then as a follow-up, if you can answer this and maybe it was already answered so forgive me. On the IP front in Q3, did you indicate what end market or what type of application or what geographic location the IP relationship is all about?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So we did say that the IP transaction was a patent licensing related transaction. So that's different from the technology licensing, for example, that we did with THATIC. This was a straight patent licensing. And the great thing about our patent portfolio is beyond sort of our core markets, it has applicability across a broad range of markets. And so this was a patent transaction and not a technology licensing transaction.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.
Q

Okay. Thank you. Very helpful. Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Hans.

Operator: Thank you. Our next question today is coming from Vijay Rakesh from Mizuho. Please proceed with your question.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.
Q

Yeah. Hi, Lisa. So I was just wondering on the datacenter side, when you look at – you mentioned EPYC was strong. I was wondering if you can break out how much revenue came out of the datacenter sector from EPYC, and how it grew sequentially and have you see it going into the December quarter as well?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Okay. Yeah. You broke up a little bit there, Vijay, but I think I got the question. So the question was sort of the strength of EPYC and where do we see it going in Q4. Look, I think EPYC had a good quarter. Obviously it's growing off of a small base since we had a small base for the server revenue, but we certainly saw growth in unit shipments and revenue into Q3. We will see more growth or we expect to see more growth into Q4, especially as some of these trial runs turn into more deployment activity. And as more OEMs ramp our platforms, the platforms will be more available in the industry. And we're seeing growing interest from a number of enterprise customers as well. But we should think about EPYC as a long-term growth driver. So yes, we will see growth into Q4, but it will be a sizable portion of our revenue as we go into 2018.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.
Q

Got it. And do you see – and then you would start breaking out that enterprise, datacenter out of semi-custom like your peers are doing [indiscernible] (45:55-46:04).

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.
A

I think the question was whether we would begin breaking out enterprise separately as a segment, and I don't know that we've made any decisions to do that. And then the second question was very hard to hear, Vijay. We'll ask you to repeat it, please.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.
Q

Yeah. Just channel inventory in GPUs. How do you see channel inventory on the GPU side?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. Okay. So for your first question, I think as Laura said, we haven't made any determinations about different segment reporting. But we will give you markers on how the business is growing. And I think it will be clear just given the accretive nature of EPYC, as we start ramping that product, you'll see more impact of the product-related revenue. The second question is as it relates to channel inventory in graphics. I believe that channel inventory is healthier in graphics here in October than it was in July. We've certainly restocked some of the channel both for Polaris as well as the Vega products. I would still say that channel inventory might be a little bit light. It's not fully restocked yet, but it's certainly healthier than it was in the July timeframe.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Great. Thanks a lot. Very helpful.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Thank you. Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Chris Danely from Citigroup. Your line is now live.

Wayne Loeb
Analyst, Citigroup Global Markets, Inc.

Q

Hello. This is Wayne Loeb for Chris Danely. Thank you for taking my question. Can I ask you how you feel you did share-wise in CPU and GPU in Q3?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. So we will have to wait until obviously the share results come in. I think when we look at the CPU side of the business, we feel really good about how Ryzen is doing in the desktop channel. So we think we definitely made progress there. As you look overall, we'd have to see how the overall results come in. And on the GPU side, again, we ship a significant volume that was a record quarter for us and we saw strength across our new products as well as our current products and we saw significant ASP growth, which is important for us. But, again, I would wait until the overall results come out in a few weeks.

Wayne Loeb
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Could you also give your view on the overall PC industry? Was it better? Worse? The same? As expected?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think – that's a good question. I think the overall PC industry is about what we expected. Maybe a tad bit better. But I would say about what we expected. We see good geographical sort of – the geographies are doing well particularly North America and Europe. There's a little bit of softness in China particularly at the low-end of the market. And I think there's some change in dynamics in China. But, overall, I think the PC market was about what is expected and that's a good thing.

Wayne Loeb
Analyst, Citigroup Global Markets, Inc.

Q

Thank you very much.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Wayne.

Operator: Thank you.

Laura Graves
Investor Relations, Advanced Micro Devices, Inc.

A

Operator?

Operator: Certainly. Our final question today is coming from Tristan Gerra from Baird. Please proceed with your question.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Q

Hi. Good afternoon. You've announced some design-wins for EPYC. Have you seen the number of design-wins increase in the quarter? And is what you have enough to reach that longer-term target of 10% market share? Or do you need to line up more design-wins to get there?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. That's a very good question. So we have seen design-wins and customer engagements increase in the quarter. We've seen customers who started with one platform now looking at multiple platforms with EPYC. And then, in terms of design-win coverage, we believe we have design-win and platform coverage to meet or exceed our share goal targets. So it's not a design win statement. It's really a conversion of design-wins to revenue as we help our customers ramp in the coming quarters. So very happy with the customer progress; very happy with the number of platforms that we have and we continue to expand those platforms in the customer base over time.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then, my quick follow-up will be how do you see the opportunities of selling EPYC and Vega in – notably in enterprise platforms? Is that a setting factor to customers value this as a system solution versus just one architecture?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. We have seen a good interest from both OEMs as well as end customers on looking at EPYC and/or MI25 product together. We actually have a working machine, the P47 petaflop machine that we announced at

SIGGRAPH. And we have actually a number of customers using that to trial their software and their application. And so, yes, I do think it's a selling point. I do believe that customers do want some integrated system solutions, but as we always say, the products operate very well standalone and they work with other products as well, but we will continue to work on those system-level solutions for customers.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Laura Graves

Investor Relations, Advanced Micro Devices, Inc.

Thank you. Thank you operator, and thank you ladies and gentlemen, everyone, for joining us today. We appreciate you joining our call. We're proud of these results and appreciate your support of AMD.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2017 Earnings Call for 24-October-2017 5:00 PM ET
Monday, October 09, 2017 10:02:04 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2017 Earnings Call for 24-October-2017 5:00 PM ET.

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Live WebCast URL: https://edge.media-server.com/m6/p/a3brneys
Replay WebCast URL: https://edge.media-server.com/m6/p/a3brneys
Slides Link :
http://phx.corporate-ir.net/External.File?t=1&item=VHlwZT0yfFBhcmVudElEPTUyNjQzNzB8Q2hpbGRJRD02ODIzNzM=

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Advanced Micro Devices, Inc. (AMD)

Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Advanced Micro Devices Second Quarter 2017 Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Graves, Vice President of Investor Relations. Please go ahead.

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's second quarter conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO Commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's call are Dr. Lisa Su, our President and Chief Executive Officer, and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a few key dates for you. Mark Papermaster, Senior Vice President and Chief Technology Officer, will present at the Canaccord Genuity Global Growth Conference on August 9. Raja Koduri, Senior Vice President and Chief Architect of Radeon Technologies Group, will present at the Jefferies Semiconductors, Hardware and Communications Infrastructure Summit on August 30. Forrest Norrod, Senior Vice President and General Manager of our Enterprise, Embedded, and Semi-Custom Business Group, will present at the Deutsche Bank Technology Conference on September 12. And our third quarter quiet time will begin at the close of business on Friday, September 15, 2017.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally, please note that we will be referring to non-GAAP financials during this call, except for revenue and segment operating income or loss, which is on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release and CFO Commentary, posted on our website at quarterlyearnings.amd.com.

Please refer to the cautionary statement in today's earnings press release and CFO Commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC, and in particular, AMD's quarterly report on Form 10-Q for the quarter ended April 1, 2017.

Now, with that, I will hand the call over to Lisa. Lisa?

Dr. Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all those listening in today. Q2 was a strong quarter for us as we continued to ramp our high-performance product portfolio. Second quarter revenue increased 19% to $1.22 billion, and gross margin improved year-over-year. Importantly, we returned to non-GAAP net income profitability in the quarter, driven by strong growth in our Computing and Graphics segment.

Looking at our Computing and Graphics segment, we made excellent progress in the quarter and reported operating profitability for the first time in three years based on our leadership Ryzen processor and GPU product offerings.

The expansion and growing adoption of our Ryzen CPUs, combined with our sixth consecutive quarter of double-digit year-over-year Graphics revenue growth, resulted in a 51% increase in Computing and Graphics segment sales year-over-year.

Client computing revenue increased by strong double-digit percentage from a year ago, driven by a significant ramp and strong sell-through of our Ryzen CPUs in the first full quarter of sales. Our Ryzen family of processors drove a richer mix of shipments and client ASPs improved significantly from a year ago.

All major PC OEMs have announced premium Ryzen-based desktop systems, with widespread availability expected for the back-to-school and holiday seasons. As we move into the second half of 2017, we are on track to complete the full family of Ryzen processors, including Ryzen 3 processors targeting the mainstream and value market segments with on-Shop availability later this week; Ryzen Threadripper products for the high-end desktop markets with global component channel availability in early August; Ryzen PRO-based offerings targeting the commercial client segments with availability in Q3; and Ryzen Mobile APUs, which will be available for the consumer market later this year.

In Graphics, GPU revenue increased by a strong double-digit percentage from year ago, with higher unit shipments and ASPs driving growth across our desktop and mobile GPU products. Demand for Radeon RX GPUs was strong in the quarter, driven by gaming and cryptocurrency mining.

In June, we began the introduction of our Vega GPU architecture with the launch of the Radeon Vega Frontier Edition, delivering a powerful professional workstation graphics card designed to tackle demanding design, rendering and machine intelligence workloads.

Apple announced that our Radeon Pro Vega product will power the new iMac Pro, a workstation-class product line designed for creators running the most demanding workflows. In addition, Apple also announced expanded iMac offerings, which are powered by the Radeon Pro 500 Series.

We will launch additional Radeon Vega products at SIGGRAPH next week, expanding further in the premium portions of the consumer and professional GPU markets. Our investments in GPU compute and Radeon Instinct are continuing to build momentum. We introduced our first Vega-based Radeon Instinct datacenter products in June. These new GPU accelerators will significantly increase performance, efficiency and ease of implementation for machine learning and high-performance computing workloads.

We also showcased a server powered by AMD's EPYC SoC and four Radeon Instinct MI25 accelerators working together to deliver groundbreaking performance of 100 teraFLOPS. Interest and excitement are high as we recently started shipments of our Radeon Instinct MI25 accelerators to strategic datacenter customers.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue declined 5% year-over-year and increased 44% sequentially. The sequential revenue gains were primarily based on higher Semi-Custom product shipments due to seasonality. In addition, we reached an important milestone in the quarter, delivering initial EPYC server revenue.

In our semi-custom business, unit shipments were up sequentially and down year-over-year as we enter the fifth year of the current game console sales cycle. This console cycle continues to outpace previous cycles as Sony recently passed a milestone of 60 million PlayStation 4 consoles shipped.

Last month, Microsoft announced the new Xbox One X with availability in November. This system will be Microsoft's smallest and most powerful Xbox ever made and will be based on the combination of high-performance CPU and GPU IP that only AMD can provide. As we look at the remainder of the year and given the maturity of the current game console cycle, we expect semi-custom revenue to be down for the full year.

In our server business, last month, we launched our EPYC family of high-performance datacenter processors, reentering the incredibly important $16 billion datacenter market and setting several new industry performance records. With up to 32 high-performance Zen cores and an unparalleled feature set, our EPYC family of processors deliver greater competitive performance at every price point across a full range of integer, floating point, memory bandwidth and I/O benchmarks and workloads. Our two-socket and one-socket EPYC CPUs are designed to deliver industry-leading performance on critical enterprise, cloud and machine intelligence workloads and provide a substantial TCO advantage.

At our EPYC launch event, we were joined by more than 20 leading server manufacturers and global ecosystem partners who showcased optimized support and EPYC-optimized platforms. We received compelling endorsements from OEM, cloud providers and mega datacenter operators, including HP Enterprise, Dell, Baidu, and Microsoft Azure, with more than 20 EPYC-based platforms announced at launch. And we expect an additional 20 EPYC platforms to be available in the second half of 2017. With the strong global ecosystem and customer interest we have built around our EPYC processor family, we are on track to reenter the datacenter market in a major way.

In closing, we are very pleased with the trend of our quarterly results and how our products are positioned heading into the back half of the year. Our business foundation and growth opportunities are strong, based on our high-performance product portfolio and our expanding customer traction.

Given our first half 2017 performance and our visibility into the third quarter, we are happy to report we are progressing ahead of our annual revenue guidance and we look forward to a strong year overall.

Now I'd like to turn the call over to Devinder to provide some additional color on our second quarter financial performance. Devinder?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon everyone. For the second quarter of 2017, AMD revenue grew 19% and gross margin expanded on a year-over-year basis, driven by a 51% year-over-year revenue increase in our Computing and Graphics segment. We achieved non-GAAP profitability on both an operating and net basis with net income of $19 million and diluted earnings per share of $0.02. Let me provide more specifics for the quarter.

Gross margin was 33%, up 2 percentage points year-over-year due to a richer product mix and a higher percentage of revenue from our Computing and Graphics segment, driven by the first full quarter of Ryzen processor sales. Operating expenses were $381 million compared to $342 million a year ago. The increase was due primarily to higher graphics and datacenter R&D related investments.

Net licensing gain from our server JV with THATIC was $25 million compared to $26 million a year ago, and we have recognized a total of approximately $140 million of net licensing gain to-date. The remaining payments are related to production milestones and are expected to occur in 2018 and beyond.

Operating income was $49 million in the second quarter of 2017, a significant improvement from an operating income of $3 million a year ago.

Second quarter net interest expense, taxes and other was $30 million, down from $43 million a year ago, primarily due to a lower overall interest rate and a lower debt balance. Net income was $19 million, or diluted earnings per share of $0.02, as compared to a net loss of $40 million, or loss per share of $0.05 a year ago. Adjusted EBITDA was $84 million compared to $36 million a year ago and $28 million in the prior quarter.

Now turning to the business segments. Computing and Graphics segment revenue was $659 million, up 51% year-over-year and up 11% sequentially. The year-over-year increase was driven by demand for our Ryzen desktop processors and graphics processors. Computing and Graphics segment operating income was $7 million, the first quarterly operating profit in three years, compared to a loss of $81 million a year ago. The significant improvement was primarily due to higher revenue and an improved product mix.

Enterprise, Embedded and Semi-Custom revenue was $563 million, down 5% year-over-year, primarily due to lower semi-custom SoC sales. Revenue was up 44% sequentially due to the seasonal semi-custom ramp. Additionally in the quarter, we reached an important milestone and recognized initial revenue from EPYC datacenter processor shipments. Operating income was $42 million, down from $84 million a year ago, due primarily to lower revenue and higher datacenter related R&D investments.

Turning to the balance sheet, our cash, cash equivalents and marketable securities totaled $844 million at the end of the quarter compared to $943 million at the end of the prior quarter, due primarily to changes in working capital, largely driven by wafer purchases in anticipation of stronger revenue growth in the third quarter.

Inventory at the end of the quarter was $833 million, down slightly from the prior quarter of $839 million. Long-term debt on the balance sheet was $1.38 billion. Total principal debt, including our secured revolving line of credit, was $1.74 billion. In Q2, we repurchased $40 million of term debt, utilizing our lower-cost secured revolving line of credit. Free cash flow was negative $94 million, due primarily to changes in working capital, largely driven by wafer purchases.

Turning to our outlook for the third quarter of 2017, which is a 13-week quarter, we expect revenue to increase approximately 23% sequentially, plus or minus 3%. At the midpoint, this equates to revenue growth of approximately 15% year-over-year. We now expect: annual 2017 revenue to increase a mid- to high-teens percentage year-over-year compared to our prior guidance of low double-digit growth; non-GAAP gross margin to be approximately 34%; non-GAAP operating expenses to be approximately $400 million; non-GAAP interest expense, taxes and other to be approximately $28 million; and inventory to be down sequentially.

Third quarter diluted share count for modeling non-GAAP EPS is expected to be approximately 1.14 billion. This includes shares related to our 2026 Convertible Senior Notes and the warrant held by Mubadala entity. Additional information regarding diluted share count calculation can be found in the CFO Commentary.

In closing, Q2 was a strong quarter, and our financial performance continues to improve. As Lisa shared in her remarks, our business continues to strengthen as we ramp new high-performance products and expand our presence in premium markets. We are pleased with the strong growth in revenue, coupled with improving gross margin on the back of focused execution, financial discipline and ongoing strategic investments in the business.

With that, I'll turn it back to Laura. Laura?

Laura Graves

Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you. Thank you, Devinder. And, Operator, we're ready for our first question to begin Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis

Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question, and congrats on getting back into the black on C&G. The question is on EPYC, and I'm hoping that you can provide us some more color about how the reception is going and how we should think about milestones going forward. And I'm wondering if you can tell us about the number of different trials or where you're seeing the most traction? And when you would expect this to ship into production environment in the Super 7 cloud guys? Thank you.

Dr. Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Mark. Thanks for your questions. So we are very pleased with the reception to EPYC. The launch that we did in June was very well-received. We had a number of customers as well as partners, OEM providers, ODM guys, as well as cloud providers who participated in that. The general reception has been very positive. I would say that interest level is very high. In fact, we're adding additional customer support to really ensure that we help customers get their platforms up and running.

In terms of what to expect in the revenue ramp, we started shipping early volume in the second half of June. We would expect that we continue to ramp that revenue through the second half of the year. We would expect some additional customer announcements in the second half of the year.

And then as we stated with both cloud and the enterprise accounts, depending on their qualification cycles, it can take anywhere up to four quarters to qualify the parts. But so far so good. I think very good traction, and we continue to lean in hard on the datacenter opportunities.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you. That's very helpful. And a follow-up, if I may. You mentioned crypto as helping the GPU side. That can be a dual-edged sword. And I was wondering if you can help, perhaps, quantify like what that did to the upside? And is there any way to manage the risk of the minors breaking down their systems and putting it to the secondary market when the currency comes back down? Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Mark. So certainly the overall quarter for Graphics was strong. Q2 tends to be seasonally down, and we were up in the quarter. So it was better than seasonal. I would say the better performance was due to two things. First of all, we did launch our RX 580 and RX 570 gaming cards in April. And those cards are very, very well-positioned in the market, so they're doing well with gamers.

Relative to cryptocurrency, we have seen some elevated demand. If you look at GPUs across the world, the inventory in the channel is actually quite lean. And so we're working on replenishing that inventory.

Our priority, though, really is on our core market, which is the gaming market. And so a couple of things that we are certainly doing are we're prioritizing supply towards the gaming market. So you'll see system integrators, as well as on some of the major e-tailers we have bundles with Ryzen and Radeon.

And then some of our partners are also offering mining specific cards that have a different feature set, such that we're really segmenting the market between gaming and mining. But it's important to say we didn't have cryptocurrency in our forecast, and we're not looking at it as a long-term growth driver. But we'll certainly continue to watch the developments around the blockchain technologies as they go forward.

Mark Lipacis
Analyst, Jefferies LLC

Q

Very helpful. Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Mark.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Operator, Next question, please.

Operator: Our next question today is coming from Matt Ramsay from Canaccord Genuity. Please proceed with your question.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Thank you very much. Good afternoon. Lisa, I wanted to ask a little bit about the longer-term road map in your businesses across the CPU and GPU side. It occurs to me and there are some of the conversations we've had, particularly in the enterprise markets of high-end desktop and server that some of the purchasing decisions made by your customers might be sort of dictated by how confident they are in the long-term road map that you guys are putting together as you move to 7-nanometer versus just the products that you've launched so far. So maybe you could talk a little bit about the road maps, how they're developing, and the progress that the team is seeing on the 7-nanometer front. Thanks.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Matt. So, look, I think the overall road map execution has been very good, very solid. I think our customers see that Ryzen performance, the EPYC performance on the CPU side, and then certainly the Vega performance on the GPU side have met our commitments.

And the important thing, particularly in the enterprise market, as well as the commercial market, having a road map – a strong road map with multiple generations is important. We stated at our Financial Analyst Day that we're already investing heavily in 7-nanometer. The 7-nanometer will be key for us on both the CPU and the GPU side. And I would say that development is progressing well. We're working with multiple foundries on that. We have multiple design teams that are working, and we expect that that will give us a strong competitive road map for the next several generations.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

All right. Thank you for that, Lisa. And a couple questions quickly for Devinder. I guess the first one is on share count. There was obviously some movement higher in the share count due to the in the money converts. Maybe you could talk us through if you were modeling maybe your business on a long term from an earnings power perspective, how would you think about modeling that share count?

And then secondly, on the operating expense line, there's plenty to invest in here. But how should we think about that as we move through the year and into next year? Thanks.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. Thank you, Matt. I think on the share count, basically, beyond the basic shares, the dilutive impact comes from three components. You have the employee equity grants. You have the 75 million share warrant that we issued to Mubadala in 2016. And you have the 101 million shares underlying our $805 million convertible note.

The good news is that you start making money and you get beyond inflection points. All of that gets included in diluted share count. So I think given what we have laid out as guidance, in particular in the Financial Analyst Day, the assumption should be as you model profitability in the company, those shares get included. We have provided color in the commentary. And for Q3, we're estimating that the total share count is about $1.14 billion (sic) [1.14 billion shares].

As far as the OpEx is concerned, we are obviously with the strength in the business performing stronger. We are making targeted investments, particularly in R&D. We have included and invested in targeted R&D areas. And also in 2017, I think there are some employee-related performance incentives that are included in our current guidance given the fact that the business is performing stronger than anticipated. Lisa, anything you want to add?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. No, I think you covered it, Devinder. On the investment front, Matt, just to give you a little bit more color on that, I think we see tremendous opportunity in the datacenter around both CPU and GPU compute. And so we're taking the opportunity with some of the strength in the business to make sure we lean in to those resources and fully pay off the product investments.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.
Q

Thank you very much.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Thanks for letting me ask a question. Lisa, one for you first on the client ASPs. I know the Ryzen side, the mix had to go up, and those carry much better ASPs, but the client category as a whole the ASPs went down. So if you just think about going forward, when do the size of the buckets work, the Ryzen contribution will be big enough to offset whatever was the headwind against that in the second quarter?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah. Good question, Ross. When you take a look at our client business, think of it as desktop and mobile. And then within the desktop segment, it's channel and OEM. So Ryzen performed very well. I think the ASP contribution is very evident on the desktop line item. But when we look at where we are in the progression of the Ryzen rollout, we're still in the early innings. So we had our first full quarter of Ryzen Desktop in the channel. The OEMs launch their desktop products in about mid-June, and so they just started selling at the end of June. And that will flow through into the second half of the year.

And the mobile products are still our legacy products. So you saw the mobile ASPs were down slightly as we went from Q1 to Q2, and that was just a mix on some of the legacy business. But the desktop ASPs were quite strong. And we should expect that as we go into the second half of the year and we have Ryzen really take off in the OEM sectors as well as once we introduce Ryzen Mobile towards the second half of the year is when you'll see sort of more of the full portfolio over to Ryzen. Does that help?

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

It does. And a related follow-up on that is just transitioning those ASP and mix commentaries over to the actual gross margin. The full-year revenue guidance is increased again. Just recently you guys did it at the Analyst Meeting. Now you're doing it again. So that's clearly a positive. It seems like the C&G side of things is what's driving that, given your commentary in the game console side being down. So given everything you just said about the mix improving in the back half of the year and the revenues now being higher, I'm a little surprised the gross margin guidance didn't change for the year. So if we translate everything you just said, Lisa, to a gross margin dynamic, can you help us kind of make all of that make sense as well?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes. So I think you summarized the revenue guidance well. I think we see the Computing and Graphics business accelerating on the strength of the new products. We do have a bit of a year-over-year headwind when we compare game consoles. When you look at our Q3 margin guidance, we are certainly up year-over-year 3 points, and so I think that's the strength of the product portfolio. I think as we get into the Q4 guidance, we'll talk more about the margin progression. But what we expected in terms of margin expansion with the premium products is certainly playing out, and that's helping the Q3 guide.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question today is coming from David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. Can you give us some idea of whether your September guidance assumes any meaningful contribution from Vega sales for gaming in the September quarter?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, David. We will be launching Vega, actually, in a week at SIGGRAPH. And yes, Vega will be shipping into gaming, into professional workstations, as well as into the GPU compute segment in the third quarter.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

And can you update us on your expectations for launch timing of Ryzen notebook chips and if you expect there to be revenues from Ryzen notebook in December?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. So Ryzen notebook is on track to launch for the holiday platform sales, and so you should see OEMs launching Ryzen Mobile for the holiday period. So yes, we will see revenue in the second half of the year.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, David.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, David. Next question, please.

Operator: Our next question today is coming from Ambrish Srivastava from BMO Capital Markets. Please proceed with your question.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

My question, first one, was on free cash flow. It's negative again, and for the first half, minus $420 million if my math is right. So, Devinder, when does free cash flow turn positive? And then I had a follow-up, please.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, I think 2016, if you go back and look at the full year, because of the seasonality of our business, we were positive. From a viewpoint of midpoint of 2017, we do see strength in the business. You are right, cash is down with the changes in working capital, and it's largely driven by wafer purchases in support of the stronger second half and, in particular, the stronger business that we are seeing. We expect cash to be up for the quarter this quarter and to be free cash flow positive for the year.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. And then my follow-up is, Lisa, on the crypto question that Mark had asked earlier, I'm not sure you gave an answer to, or maybe Mark didn't ask that, are you seeing follow-on strength from that in the current quarter? And we realize it's not a core part of your business, but why or why not is it not similar to what happened in 2014? Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Ambrish. So I think from an overall standpoint, we see strong demand in graphics for the third quarter. I think that's a mix of a couple things. That's a mix of gaming being seasonally stronger in the third quarter. That's a mix of inventories being very low in the channel. And there is a crypto – probably, a cryptocurrency component as well relative to overall demand.

When we look at it as a whole, though, we think that the growth in the business is really on the strength of the products and how the design wins, both OEM and as well as system integrators are improving.

Now, how is it different than sort of a couple of years ago? I think we understand the market much better from the standpoint of the products are significantly stronger. And so if you look at the product portfolio, not just the current sort of Polaris or RX 5 Series products, but the Vega product coming in, really opens up a larger TAM for us.

And we are working with our add-in board partners to segment the markets in terms of the feature set that go into the cards, as well as prioritizing some of the gamer ecosystems. So in terms of system integrator supply as well as bundling and OEM supply. So I think we are doing quite a bit to make sure that we protect against any downside as it relates to cryptocurrency. But overall, I would view it as GPUs are strong, and we see GPUs continuing to be strong, and so it's a great market to be in.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. Thank you.

Operator: Thank you. Our next question today is coming from Kevin Cassidy from Stifel. Please proceed with your question.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks for taking my question. And maybe just as a follow-up to that, inventories being down going into this quarter and with all your new product ramps, is it down mainly just because of GPUs, or is there something else?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think it's – if you look at the inventory, in fact, if you look at it from my standpoint, the strength of the business, there's revenue growth, we're obviously buying wafers in support of the stronger revenue. Some of the ramp in new products does have an impact on the inventory, want to support all of the new product ramps. It's down marginally in the quarter, but I expect that in Q3 it will go down. And then we have previously guided down year over year, so I expect when we end the year, it'll be down in 2017 compared to 2016, while fully supporting the needs of the business.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And I guess for the server side, how are you building inventory for that? Or is that a longer design cycle so that you don't really start building inventory?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think the server side...

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

For the EPYC.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, it's a smaller portion. I mean, the ramp in EPYC, as you probably heard us say, is slower than in other businesses, so from – if you look at it, total inventory, the server portion of inventory is not that huge.

Kevin Edward Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, great. Thank you.

Operator: Thank you. Our next question today is coming from Vivek Arya from Bank of America Merrill Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question and congratulations on the good sales growth. Lisa, for my first question, if I go back in history, at one point, AMD had a 20% plus share in server CPUs, and I appreciate we are far off from that point right now, but I just want to know conceptually, what are you doing or can do to recreate those conditions? Or do you think the environment is very different this time around?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Vivek, I think we are actually very pleased with sort of the conditions around the server market for us. I mean, it all starts as a good product or a great product. And so I think the EPYC product performance is very important.

But I think the other conditions that are different and perhaps even more favorable than in the past is the fact that the cloud datacenter guys are making up such a large piece of the market and they tend to move faster in their qualification cycles given the fact that they have more control of their own software environment. So I think our differentiation is strong. I think we have – we put out a product that is not only strong on basic CPU performance, but also offers much more flexibility in terms of what you can do with memory and I/O. I think that value proposition is recognized by the customer set. So we certainly are looking to ramp the revenue as fast as possible.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And for my follow-up, as you are starting to become more competitive against Intel and NVIDIA, are you seeing a competitive response from them in terms of pricing or features or go-to-market strategy that you might need to respond to?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Obviously, we continue to watch the competitive market. It's been an exciting market. Some would say from a product standpoint there has been a bit of back-and-forth already. We feel good about how our products are positioned not just today, but how they will be positioned over the next 18 to 24 months. And so we're going to be very focused on ensuring that we lead with the product message. Of course, there's a go-to-market element and all of that around that, but I think the competitive environment right now is very focused on product competitiveness.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

And maybe a quick follow-up on that, Lisa, if I might. When Ryzen initially rolled out, I think some of the benchmarks were not up to par. Have you seen an improvement in that? And especially as you roll out EPYC, are you seeing the ecosystem come and work around your product, so those benchmarks are not going to be an issue this time around?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So I think, Vivek, you're referring to when we initially launched Ryzen 7, there were some games, particularly in 1080p resolution, that were not as good as some of the higher resolutions. I believe we've worked around a lot of that. We've seen game developers, content developers really sort of support the Ryzen ecosystem.

I've actually been very happy with how they've jumped on the support of it. We have been continuing to improve the ecosystem, so if you look at the motherboards and if you look at the memory capability, they've significantly improved just in last three or four months. I think you'll see as we go through Threadripper launch, which is coming up very shortly, that the Ryzen ecosystem is strong.

And as it relates to EPYC, I think very similar comments. I think the ecosystem has been very supportive of the EPYC processor family, and so I don't see that as an issue.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, Vivek. Next question, please.

Operator: Our next question is coming from Joe Moore from Morgan Stanley. Please proceed with your question.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Hi, Joe.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Great. Thank you. I wonder if you could talk a little bit about, as we think about EPYC for next year, how do you think we should frame that opportunity? Is it mostly a cloud sort of top-tier cloud customer that's going to drive that revenue? Is it sort of next level down cloud customer going to drive significant revenue and then enterprise next year? I mean, how would you sort of bucket those three things in terms of where the EPYC potential lies?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. I would say, Joe, we have a broad set of customers that we're engaging with. So, definitely we see top-tier cloud guys very engaged with EPYC and talking about a number of different instances. Microsoft Azure was at our launch event, and Baidu was at our launch event, and we're working with a number of other cloud vendors as well.

But we also have a very strong OEM support base as well. So with HPE and Dell putting out a number of platforms with EPYC, I think that will ramp enterprise customers in 2018 as well. So I view it as really both sides of the equation are important for 2018. I think we will see cloud be a little lumpier, so certainly they tend to buy in stages. So they may be a little bit lumpier, but I think overall we are very focused on both cloud and enterprise accounts.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you for that. And then circling back quickly to the inventory issues that you talked about in graphics, it seems like they're quite lean and in some cases in shortage. Is that completely a function of demand? Were there any supply issues in the quarter? And how quickly – do you perceive that as an issue? And if so like how quickly do you fix it?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Joe, it was completely a function of demand, demand within lead time. I think from a supply standpoint we've had a very strong supply chain across the board, across both CPU and GPUs. We are, as I said, in the process of catching up to demand, and so we're certainly increasing some of the production, and that was Devinder's comment about some of the working capital and some of the inventory comments.

Overall, though, I think we're going into a stronger second half of the year. So it's not unexpected for us to ramp up production. It's just demand was quite strong, particularly in the April, May timeframe is when we saw a spike, and it takes some time to react to those signals.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Operator: Thank you. Our next question is coming from Hans Mosesmann from Rosenblatt Securities. Please proceed with your question.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thanks. Hey, Lisa, can you give us a sense of how EPYC is doing in virtualized environments? There might be some issues regarding compatibility with the other x86 suppliers and how you would go through that process over the next several quarters. Thank you.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Again, Hans, I think we have been working closely with a number of different customers, including in virtualized environments. We see no particular issues, other than just getting their platforms up and running. And so I think we continue to believe EPYC will do very well in those environments.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then as a follow-up, can you give us a sense now that EPYC is out, what the feedback is from your customers, cloud or OEM, regarding your packaging approach in terms of using a multi-chip module type approach versus a monolithic silicon approach?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. Hans, actually, the feedback has been actually quite good. And I think, what we are able to do – obviously, it's a decision to make, right? We could've built one big monolithic chip, or we decided very strategically to build a modular approach, because it just gives us so much flexibility when we talk about the combination of CPU cores and I/O. So, so far so good. I think there is some work to do to make sure that the latencies are appropriately taken care of, and the customers are working with us on that. I think the flexibility is really, really appreciated, particularly when you look at what we can do with single-socket servers as well. So we feel very good about where EPYC is positioned. I think the customer feedback continues to be very strong, and our goal is to get as many platforms out as possible with EPYC this year.

Hans Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. Good afternoon, guys. Thanks for letting me ask the question, and congratulations on the strong results. Lisa, notwithstanding the possibility that you guys beat your revised guidance you just gave today, if you just go by the revised guidance it's kind of implying calendar fourth quarter revenue down about 10% sequentially, which is about in line with seasonal. Just kind of curious just given where you are in the product cycle for Ryzen and EPYC, why a seasonal quarter wouldn't be something that you could beat. And I guess, equally important, are you planning to stay profitable in the calendar fourth quarter if it is down seasonal, just given the trajectory of OpEx?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So yes, John. Let me answer that. When you look at our typical seasonality, as you said, we tend to be down in Q4. Now, semi-custom is still a large, large piece of our business, and semi-custom will peak in Q3 and it will come down in Q4. I also think that we want to be cognizant of the fact that some of the graphics demand that we see might be temporal. So we're not counting on that staying through the full year. We'll see what happens. Frankly, I think we'll see what happens with the whole mining stuff.

But I think when you look overall, I think that it shows that the business is strengthening. And so we like the growth very much. Ryzen will continue to grow through the second half. EPYC will continue to grow through the second half. Vega and our GPU business will continue to grow through the second half. And the only headwind that we have is sort of the game console business, just as part of normal seasonality. And then relative to the profit statement.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

I think it's hard to predict that right now, John. I think if you look at our guidance, as we said, revenue mid to high teens, which from our standpoint is 16%, 17-ish increase, and we'll get to Q4 when we get there.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

That's helpful. And then, Lisa, for my follow-up, R&D ticking up, which is absolutely the right thing to do for the longer term health of the business, but I'm just kind of curious if you could help me understand your sort of R&D priorities. To what extent is this uptick in R&D really to help bolster your position in existing markets versus sort of R&D dollars to go after new markets, whether that be acceleration, machine learning, or autonomous driving? How should I think about that?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So I think there are a couple points, John, that I want to make sure that we're clear about. Although OpEx is going up and R&D is going up, we're doing it in a very thoughtful fashion, and so staying within the confines of the business model is really important. And as Devinder said earlier, our model that we laid out at Financial Analyst Day for 2017 has us, let's call it at approximately 31% ER, and we're going to stay within that model for sure.

Now, relative to priorities in R&D, it is very much focused on sort of the new growth areas for us, very much focused on datacenter and very much focused on GPU compute, so around machine learning and sort of the entire compute space on the GPU side. It is fairly incremental in terms of adding things like customer support, field application engineering, software support, given that we're familiarizing people with our architecture. So I think it's good. We're happy that the business affords us the ability to increase R&D in this timeframe, and we're using it to accelerate our growth in these high-margin markets.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thanks, John. Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Vijay Rakesh from Mizuho. Please proceed with your question.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Yeah. Hi. Thanks. First, Lisa, when you look at the EPYC, I know you said 20 customers already and then 20 more in the second half. Do you think that gets to 5% of your revenues, just the EPYC side of your revenues as you look at the third quarter? And should we assume pretty incrementally about, I don't know, not the 50% margins on your EPYC product, especially as it goes in the datacenter side?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So, Vijay, without getting too granular about percentage of EPYC revenue, I think what we've said is our target for EPYC, we sort of have -- the midterm target is to get back to double-digit market share, so over 10%. We think that we have a product and a customer set in an environment that does support that. It will take longer than this year to get there, so I think this is the multiple-quarter ramp for us, but in terms of how we've laid out the business model, I mean, that's all contemplated sort of in our overall growth model for 2017. As it relates to margins, again, without being very specific, I would say the EPYC margins are highly accretive, even at our current sort of pricing, which offers, I would say, significant value to the customer. I think it also gives us significant credit for the capability of the product. And so the margins are accretive to our business model.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Got it. Very helpful. Just on the Radeon Instinct side, too, can you give us some similar commentary on how you see in terms of customer adoption and what their response has been similar to EPYC?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, yes. The Radeon Instinct, similarly, has a lot of interest from the marketplace. A number of different applications. We started shipping actually in July to some strategic datacenter customers. We see that interest continue to ramp. There I think it is – this is definitely a lumpy business, and so it goes – as a cloud guy puts on a new instance, you would see a larger buy. And that's the way it would work. But again, very good market. I think we're in the very early part of the growth trajectory for AMD in these markets. And we'll continue to invest and work closely with customers to ramp those platforms.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Thanks.

Laura Graves
Corporate Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Thank you, Vijay.

Operator: Thank you. Our final question today is coming from Blayne Curtis from Barclays. Please proceed with your question.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for squeezing me in. Lisa, just want to follow up on your comments on the cryptocurrency market. Just curious, what's your visibility into whether someone – obviously, they buy a dedicated card. It'd be easier to track. Just your visibility on the back-end as to where the strength in the overall GPU market is coming from. You mentioned as the third factor I think in September, but then mentioned it may impact December. And if you can just talk about in that full-year guide, are you factoring in any contribution in December?

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We're being conservative in our estimates for what will happen as we get in the fourth quarter. I think the visibility is it's not – it's anyone's guess at this moment. However, I think what we are doing very clearly is prioritizing sort of the core customer set so that we're segmenting the market. You can never segment it perfectly, but I think we are segmenting it well. And we continue to be very closely in tune with our partners and how this develops. And my expectation is that there will be a leveling off of the demand at some point. And as we fill the channels, that will become clear what the level-off point is. But right now, as we said, the channel inventories are very low. And so it's hard to call the absolute demand, and we're ensuring that we're not over-calling the demand.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Thanks. And then just a question for Devinder. The OpEx stepped up in September, it's hard to tell from the full-year guide, 31% can round a bunch of different ways. Just curious if you expect any follow through in that increase in R&D into the December quarter?

And then if you could just mention also timing of the JV payments? Obviously, you're not getting any in the back half of this year. Maybe you can talk about the milestones into next year and when those would come back as assets?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, let me take the JV one first. I mean, as we said in the commentary in my prepared remarks, $140 million licensing gained on the THATIC server JV today. We got $52 million this year, and there's nothing more this year. The remaining payments are based on some production-related milestones, and those are in 2018 and beyond. And we'll update that as we get closer.

As far as the OpEx is concerned, I think we've said a lot and we stand by what we said. We'll manage it in our guidance of expense to revenue ratio of approximately 31% for the year.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Dr. Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Great. Thank you very much, Operator. We appreciate everyone being with us today. We look forward to spending more time with you in the coming quarter and thank you for your time.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2017 Earnings Call for 25-July-2017 5:00 PM ET
Monday, July 10, 2017 08:28:03 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2017 Earnings Call for 25-July-2017 5:00 PM ET.

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Advanced Micro Devices, Inc. (AMD)

Q1 2017 Earnings Call

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Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Devinder Kumar
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OTHER PARTICIPANTS

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David M. Wong
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Christopher Rolland
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Advanced Micro Devices first quarter 2017 earnings conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to Laura Graves, Corporate Vice President of Investor Relations. Please go ahead.

Laura Graves

Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's first quarter 2017 conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO Commentary and Slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Dr. Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer, and Treasurer. This is a live call and will be replayed via webcast on amd.com.

Before we begin, I'd like to highlight a few dates for you. We will host our Financial Analyst Day on Tuesday, May 16, at our headquarters in Sunnyvale, California. Lisa Su will present at the JPMorgan, Global Technology, Media & Telecom Conference on May 22. Jim Anderson, our Senior Vice President and General Manager of Computing and Graphics, will present at the Stifel Nicolaus Conference on June 5. Mark Papermaster, Chief Technology Officer, will present at the BofA Merrill Lynch Global Technology Conference on June 6. And our second quarter quiet time will begin at the close of business on Friday, June 16, 2017.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally, please note that we will be referring to non-GAAP financials during this call, except for revenue and segment operating income or loss, which is on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measures in the press release and CFO Commentary posted on our website at quarterlyearnings.amd.com.

Please refer to the cautionary statements in today's earnings press release and CFO Commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's Annual Report on Form 10-K for the year ended December 31, 2016.

Now with that, I'll hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all of those listening in today. First quarter revenue increased 18% from a year ago to $984 million based on growth across both of our business segments. Gross margin also improved driven largely by the success of our recently launched Ryzen CPUs.

I am pleased with our first quarter product execution and improved year-over-year financial results, which demonstrate the revenue growth and gross margin expansion potential with our strong set of new products.

Looking at our Computing and Graphics segment. We delivered our fourth straight quarter of double-digit percentage year-on-year revenue growth. Strong demand for Ryzen CPUs and improved GPU sales resulted in CG revenue increasing 29% from the year ago period.

CG revenue declined 1% sequentially, which was better than normal seasonality, as significant growth in desktop processor sales driven by the first month of Ryzen CPU sales largely offset seasonal declines in GPU and notebook APU sales.

Solid demand for our family of premium Ryzen 7 processors, including our flagship Ryzen 7 1800X offering, which is the industry's highest performance 8-core CPU drove our highest desktop processor revenue in more than two years. Ryzen CPUs have been consistently ranked among the top-selling processors at global etailers and retailers, and press reviews and end-user sentiments have highlighted the strong performance and value proposition.

In early April, we launched our enthusiast-class Ryzen 5 processors and received overwhelmingly positive reviews that demonstrate our multi-threaded leadership and unmatched value proposition. The Ryzen CPU partner ecosystem also continues to strengthen.

We have seated more than 300 software developers to support their work optimizing for Ryzen CPUs and have already seen double-digit performance gains across a number of top-tier gaming titles. Last week, the first Ryzen-based OEM gaming desktops were announced, and we continue the rapid rollout of Ryzen-powered systems with additional launches planned for major OEMs later this quarter.

In Graphics, GPU sales increased by a strong double-digit percentage from a year ago based on growth across all of our product lines. The ramp of Polaris-based notebook design wins drove increased mobile GPU sales, while our desktop growth was led by improved channel sales.

In early Q2, we launched four new Radeon RX 500 GPUs, featuring our Polaris architecture that deliver improved performance. These new mainstream GPUs provide a compelling solution for the millions of gamers looking to upgrade their PCs to support advanced display technologies and deliver optimal gaming experiences.

We also saw higher professional graphics revenue from a year ago, driven by expanding channel sales and growing data center wins as we continue to increase our GPU compute footprint with leading cloud service providers.

We remain on track to launch the first products from our next-generation Radeon Vega family later this quarter. Vega is a forward-looking architecture that combines a revolutionary memory subsystem, next-generation compute engine, advanced pixel engine and new geometry pipeline to dramatically improve performance and energy efficiency for the next generation of GPU workloads. Customer excitement is building as we focus on bringing significant competition to the high-end GPU space across the PC gaming, professional design and GPU compute markets.

Turning to our Enterprise, Embedded and Semi-Custom segment. Revenue increased 5% from a year ago driven by the latest game console offerings from Sony and Microsoft and our third straight quarter delivering year-on-year embedded revenue growth. We see solid demand for our latest FinFET based semi-custom offerings in 2017, including the planned holiday launch of Microsoft's 4K-focused Project Scorpio console featuring a new AMD SoC.

On the data center front, in March we demonstrated that our upcoming Naples server CPU would offer more cores, I/O, and memory bandwidth when compared to the highest-end dual socket x86 server CPUs currently available, resulting in better performance across multiple workloads.

Naples platform development work continued to accelerate in the quarter. We are in the final stages of preparation in advance of launch and are very pleased with the status of our silicon and customer engagements. We have now seated thousands of Naples processors across an extensive set of OEMs, end users and partners, and remain on track for our first Naples products to launch this quarter.

In closing, we started 2017 delivering significant year-on-year revenue growth and margin expansion based on solid product execution and strong market and customer reception to our new leadership products.

Our focus in 2017 remains on launching our Naples server CPU with broad customer, partner and ecosystem support. Naples is the first step in our long-term plan to deliver a leadership data center product roadmap; complementing the success of our mainstream Polaris-based GPUs with our high-end Vega GPUs; extending our Zen core into the mainstream desktop and premium notebook markets with the launches of our Ryzen 3 CPUs and Ryzen mobile APUs in the second half of the year; and expanding our participation in the fast-growing market for GPU compute with the launch of Radeon Instinct Accelerators mid-year.

2017 is an important year for AMD, and we are well-positioned for solid revenue growth and margin expansion based on bringing performance, choice and innovation to an expanding set of markets. I look forward to discussing more about our long-term strategy at our Financial Analyst Day later this month.

Now, I'd like to turn the call over to Devinder to provide some additional color on our first quarter financial performance.

Devinder Kumar

Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone.

We had a good start to 2017, as we expanded gross margin, increased revenue 18% year over year to $984 million, and reduced losses year over year.

Computing and Graphics segment revenue increased 29% year over year, driven by the launch of our high-performance Ryzen desktop processors and our strengthened GPU product portfolio. Our Enterprise, Embedded, and Semi-Custom segment revenue increased 5% from a year ago.

Let me provide some specifics for the first quarter of 2017. Gross margin was 34%, up 2 percentage points year over year, driven by a higher overall mix of revenue from our Computing and Graphics segment and a richer product mix within that segment due to Ryzen desktop processor sales.

Operating expenses were $364 million compared to $332 million a year ago. The increase is due primarily to R&D investments in Graphics and our Server business. Net licensing gain from our server JV with THATIC was $27 million compared to $7 million a year ago.

Operating loss was $6 million in the first quarter of 2017, a significant improvement from a $55 million loss a year ago. First quarter net interest expense, taxes, and other was $32 million, down from $41 million year over year, primarily due to a lower overall interest rate and a lower debt balance.

Net loss was $38 million, or loss per share of $0.04, calculated using 939 million shares of common stock as compared to a net loss of $96 million or $0.12 a year ago. Adjusted EBITDA was $28 million compared to adjusted EBITDA of negative $22 million from a year ago.

Now turning to the business segments, Computing and Graphics revenue was $593 million, up 29% year over year and down 1% sequentially. The year-over-year increase was primarily due to higher Ryzen desktop CPU and graphics processor sales. The better than seasonal quarter-over-quarter decrease was due to lower mobile and graphics processor sales, largely offset by Ryzen desktop processor sales.

Computing and Graphics business segment operating loss was $15 million, a significant improvement on the loss of $70 million year over year, primarily due to higher revenue.

Enterprise, Embedded, and Semi-Custom revenue was $391 million, up 5% year over year, primarily due to higher semi-custom SoC sales. Operating income was $9 million, down from $16 million a year ago, due primarily to higher server-related R&D investments, largely offset by an increase in the THATIC JV licensing gain.

Turning to the balance sheet, our cash, cash equivalents, and marketable securities totaled $943 million at the end of the quarter compared to $1.26 billion at the end of 2016. The sequential decrease was driven primarily by the timing of sales and cash collections, debt interest payments, and increased inventory. Inventory ended at $839 million compared to $751 million at year end in support of the ramp of new products and increased semi-custom SoC sales in the second quarter.

Long-term debt on the balance sheet was $1.41 billion, down from $1.44 billion at year end, primarily due to debt reduction activities. The principal debt amount was $1.73 billion, down $34 million from the prior quarter as a result of debt reduction actions.

Turning to our outlook for the second quarter of 2017, which is a 13-week quarter, we expect revenue to increase 17% sequentially plus or minus 3%, non-GAAP gross margin to be approximately 33%, non-GAAP operating expenses to be approximately $370 million, licensing gain associated with our server JV to be approximately $20 million. Non-GAAP interest expense taxes and other to be approximately $30 million; and inventory to be down sequentially.

For 2017, we now expect revenue to increase low double-digit percentage on a year-over-year basis and CapEx to be approximately $140 million, including the capitalization of production mask sets beginning in Q1 2017. Additional 2017 guidance can be found in the CFO Commentary document.

In closing, we remain focused on continuing to improve our financial performance on the strength of new product introductions, continued financial discipline, and ongoing strategic investments in the business. I look forward to sharing further details on our longer-term prospects at our upcoming Financial Analyst Day on May 16.

With that, I'll turn it back to Laura. Laura?

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're ready to begin the Q&A portion of our cal.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is coming from Matt Ramsay from Canaccord Genuity. Please proceed with your question.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Good afternoon, thank you. Lisa, I wonder if you could spend a little bit more time talking about the Ryzen desktop launch, how you would characterize it's gone so far. Maybe any kind of quantification you could give on revenue for the one month you had in the first quarter and then for the second quarter guidance and then anything that might have limited sales in the quarter. We heard of things about shortages of motherboards from a few suppliers, et cetera. So any additional commentary around the Ryzen launch would be really helpful. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. Absolutely, Matt. So look, we're very pleased with how the Ryzen launch went. It was a big launch for us. We did Ryzen 7 first early March and then Ryzen 5 here in the middle of April. All of the feedback that we've gotten so far from both our customers and from end users has been very strong. I think the value proposition is very strong at both the Ryzen 7 eight-core devices, as well as the Ryzen 5 four and six-core devices.

Relative to how it performed in the quarter, actually, it performed as we expected. So with a global launch, we were reaching many distributors and many channel partners, and I think that's gone well. We did see some early shortages in terms of motherboards, and that was our motherboard partners ramping their supply in line with our CPU supply, but that was really dissipated after the first couple of weeks.

So nothing out of the ordinary there. So we feel really good about where it is. I think the important thing is as we go into the second quarter, we not only have the channel sales, but we also have the major OEMs that will be launching their systems in the second quarter. So I think that's the next piece of the Ryzen launch for us. But overall, I would say it went quite well.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Thank you for that. And just as my follow-up question, I wanted to ask a little bit about gross margin. Lisa, you talked in your prepared remarks about – as the new product roll out across the different parts of the company through the year that that margin should expand.

Yet with a full quarter of Ryzen, you're guiding gross margin down slightly sequentially. I know the new gaming console business starts to ramp for the upcoming season in that quarter as well. So any kind of puts and takes around that gross margin because for some reaction I got from investors tonight, that sequentially down gross margin surprised a couple of folks. So any clarification there would be helpful. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Absolutely, Matt. So if you look at our gross margin progression given the mix of our business, clearly, we made actually very nice progress year over year. So if you look at Q1 2017 compared to Q1 2016, we expanded margin by 2 points, and that was really on the strength of Ryzen.

When you look sequentially, because of the mix of our business, game consoles were at the lowest point in the first quarter. And there will be a ramp of game consoles going into the second quarter. So the relative mix of the business sees more gaming consoles in the second quarter relative to the first quarter. So that's the reason for the sequential guidance. But again, if you look year over year, Q2 2017 to Q2 2016, you'll see again a nice margin expansion as a result of the strength of the products.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Thank you very much.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Matt.

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

A

Thank you. Next question.

Operator: Thank you. Yes. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks for letting me ask a question. I want to follow on the Ryzen launch, and not only in the quarter, but also in the guide, and specifically, any color you could provide on the channel inventory, how that exited the quarter and what your plans are for adding or boiling down some of that inventory in 2Q?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Ross. So as we go into the second quarter, we certainly are adding both the Ryzen 5 in addition to the Ryzen 7. So if we look at the forward guidance, up 17% quarter-on-quarter, that is driven by additional Ryzen, as well as a semi-custom ramp that I just talked about. We are early in the ramp. Everything that we see is – we're getting positive reception throughout the ecosystem and we're going to continue with go-to-market activities, and as I mentioned, the OEM component of that will kick in in the second quarter.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And I guess as my follow-up, two quick ones for Devinder. The inventory went up sequentially by about 11% – 12% and you had an explanation for that, but if I recall right, you thought it would be flat. So I'm just wondering what changed there? And then with the share count, I think as you approach breakeven, the share count might change. So any color you could give us on the share count going forward will be helpful as well. Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

Sure, and you are right about the inventory. The ramp of new products and especially the ramp of the semi-custom product revenue that Lisa just talked about was the main reason for the high inventory. We also had the opportunity in the quarter to purchase wafers in Q1 ahead of Q2 sales and took advantage of the opportunity leading to the inventory at the $839 million.

On the share count, you're right. As we go ahead and look at the share count on a basic share basis, we have 939 million shares, but there are two parts to it. If we were profitable, the warrants that we issued to Mubadala last year as part of the WSA, those get converted depending on the stock price, and that would be in there depending on profitability.

And then the second thing is a convertible. Obviously, as you know how that works, is if converted, then obviously those would be included in the share count. Otherwise, it will depend upon dilution or not, depending on the EPS.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question today is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thanks for the opportunity to ask a question. Perhaps a question for Lisa, one for Devinder. Lisa, can you talk about the – whether or not you're getting the right capacity and expected yields from your foundry as Ryzen launches?

And for Devinder, as your customers take higher ASP processors in the game console business, I seem to remember when you originally launched, I thought that the – maybe the initial yields or maybe the initial margins were not as good, but the margins improved over time. And I'm wondering if, assuming I remembered properly, if that's something else that we should be thinking about as your customers take the higher ASP game console processors? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Mark. So on your first question, relative to the margins and how those look, I think they are – the yields are as expected. So both the 16-nanometer and the 14-nanometer have done really well. And so, in terms of the new product ramp, the yields are as expected and per our margin structure.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

On the Semi-Custom, Mark, as far as the margins are concerned, we are referring to the operating margins, I think we are pretty pleased where we are. And it's a mix for us in terms of transition on some of the products – for example, the Sony PlayStation Pro that we launched sometime last year. And obviously, the older game console that we launched in 2013. The ASPs do come down over time; although, we're able to manage the cost down, too; and therefore, offsetting the ASP decline.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, Mark, maybe just to finish off the comment, I think, to your question, I think, we feel pretty good about our cost structure. We're always going to continue to try to reduce the cost structure over time.

But in terms of the margin expansion story, as we go through the year, it's going to be about the mix of business. And as we get into the higher ASP, stronger product portfolio and that ramps to a larger piece of the business, that will be the margin expansion story.

Mark Lipacis
Analyst, Jefferies LLC

Q

Excellent, thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Mark.

Operator: Thank you. Our next question today is coming from David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. Can you give us some idea of where Vega is? Does it focus on the price point above Polaris, or does it provide a refresh also within the lower price points where currently you have Polaris?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Absolutely, David. So Vega is really a new architecture. So it is focused on the price points above Polaris. We expect Vega to be a broad product for us that will go across the gaming segment, the professional workstation segment, as well as GPUs in the data center. And we will be launching products across all of those segments with the Vega architecture in the next couple of months. So the Polaris refresh for us is the RX 500 series that we launched just a couple weeks ago. And that is what we would use in those mainstream price points in 2017.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. And could you give us any specifics on when in the second half you expect to launch notebook and desktop processors with Zen cores and integrated graphics?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So we are on track to launch the rest of the Ryzen portfolio in PCs. We'll launch Ryzen 3 earlier in the second half, and then we will launch Ryzen mobile towards the holiday cycle for the second half.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great, thanks.

Operator: Thank you. Our next question today is coming from Stacy Rasgon from Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my question. For the first one, I'm a little surprised, on the C&G business, you said sales were roughly flat sequentially give or take. You said Ryzen sales made up for seasonally lower GPUs and notebooks, which should have materially low margins. I'm just very surprised that the loss in the business barely got any better. Can you give us some indication for where Ryzen margins are today versus the products that they're replacing and give us a little bit of color on why the CPU margins didn't actually get much better given the ramp?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Stacy, maybe let me start and see if Devinder has some comments to add. I think certainly the Ryzen gross margins are substantially better than the legacy portfolio. So I think that is true. I think when you look at the sequential – there was 1% sequential decline, and there was a $7 million or $8 million sequential improvement in operating loss. There was also some additional R&D in that segment as we're ramping up both product expenses as well as some sales and marketing and go-to-market expenses in the quarter. So overall, it was as we expected. Maybe, Devinder, do you want to add to that?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

I think the other thing I would add, Stacy, is on the Ryzen piece of it. The ASPs are better. The margins are better. And as you can see from a segment standpoint, we made some pretty good progress year over year from a viewpoint of the operating loss getting better, the results getting better year over year from a segment standpoint.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. For my follow-up, I guess maybe it hints at the OpEx a little bit, but it looks like you're capitalizing your masks now. You took your CapEx guide up by $60 million for the year. You went from $80 million to $140 million. Is that all the mask? And if so, were those mask costs actually in OpEx before? And if that's the case, have you actually taken your OpEx guide effectively up by $60 million for the year?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

I think two parts to it. First of all, on the mask piece of it, you're right. The mask cost, as our product development becomes profitable and the mask costs have gone up, especially with the latest technology, we went ahead and decided to capitalize the production mask set costs. From a geographic standpoint, the mask costs, whereas they would have been in R&D previously, would be sitting on the COGS side of the P&L and therefore amortized in the COGS side related to the production of the units. And the difference in the CapEx guidance, $80 million to $140 million, is primarily the mask cost.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

Got it. So what does that mean for I guess how you guys are tackling gross margin now if they would have been directly in the COGS before and now they're being capitalized over time? Is that a margin – I guess effective margin boost even though it's not anything on the cash side? And if so, I guess the same question, then why are margins down this quarter?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc. A

I think margins, as Lisa said earlier, year on year we are pretty pleased with the progress, 2 percentage points up. Q2 is a mix of the business, and then as we get through the end of – to the second of the year, we'd see with the full impact of, not just the Ryzen product, but also launching the Naples product that's coming up at the tail end of Q2 and then again the second half of 2017.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Stacy, maybe I just want to clarify because I want to make sure that we were clear. So the masks were in OpEx and now they're going to be capitalized as they go into production, so they weren't in COGS before.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

So you have effectively taken your OpEx up then, because it doesn't look like your OpEx is coming down by the same amount, so you're spending more?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yeah. I think it really is a full-year statement, and I think it's a recognition of, as we transition from 14-nanometer to 7-nanometer, 7-nanometer masks are substantially more expensive than 14. So I don't think you can exactly put it the way you put it. But overall, I think what we're trying to do is basically as the mask sets become more sizable on the production level to capitalize them.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

Okay. Thank you, guys.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Thanks, Stacy.

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

A

Next question, please.

Operator: Thank you. Our next question today is coming from Ambrish Srivastava from BMO Capital Markets. Please proceed with your question.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

I actually wanted to just continue with the discussion on margins. So would the margin profile then as we exit the year, should we expect margins – gross margins to trend up for the second half versus what you reported, i.e., or what you're guiding to, i.e., would that be the lowest point for the year? And then I had a follow-up.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, Ambrish, I think you should expect that we will expand margins as we go through the year. We do have this mix effect between Semi-Custom and new product revenue. But certainly, our exit velocity, as we exit the year, we should see – when you compare year-on-year sort of Q4 2017 to Q4 2016, you should see the margin expansion.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. And then, for my follow-up, in your full year guide, on the top line, now, you're giving a – you're quantifying it versus what you had before. I just wanted to get a little bit more clarity or to the extent you guys can share on the assumptions that you have baked in there for the various segments. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So the full year guide is low double-digit revenue growth, 2017 to 2016. I think, given our product portfolio being very much influenced by the PC – the Ryzen and PCs, Vega for GPUs as well as Naples from a server standpoint, we expect that the Computing and Graphics segment will be – will grow more so than the EESC segment overall on a year-over-year basis, just given some of the consumer markets move faster than some of the data center and server markets.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay, thank you.

Operator: Thank you. Our next question today is coming from Hans Mosesmann from Rosenblatt Securities. Please proceed with your question.

Hans C. Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Thank you. Hey, Lisa, can you give us a sense of the introduction of Naples into the second half and next year? Is that going to reflect or be similar to what you're doing with Ryzen 7 and then 5 and then 3? And I have a follow-up.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So, look, we're really pleased with where we are with the Naples program right now. Overall, from a performance standpoint, the product and the customer engagements is going as we would expect. We will launch here in the second quarter. So we'll start some low volume of revenue shipments during the second quarter that will ramp gradually into the second half of the year.

And so, overall, I think, that is how the server outlook will be. I think I have said before and I would still say that the server market has a longer design win to revenue conversion cycle. And so we would expect it to take a couple of quarters for us to ramp the Naples product over time. But you should see a number of customers announcing what AMD platforms over the next couple of quarters.

Hans C. Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Great. And then, as a follow-up on the server side, what's the strategy in terms of positioning of the product? I think traditionally, in most cases, it's been more like a me-too product at the low end of the market. What's the strategy here if you can share that with us? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So we believe we're highly differentiated with Naples in the sense that we have more cores. We have more memory bandwidth. We have more I/O than our competition. So for certain workloads, I think, Naples is going to do very, very well, certainly, in the cloud as well as in certain HPC workloads and big data workloads that can use all of that memory and I/O bandwidth.

We will be talking more about the positioning of Naples and the key workloads, as we go through the next couple of months prior to launch. But, certainly, we feel that it's, again, like Ryzen, on the strength of the Zen core, we have a very, very strong foundational product. And now it's about making sure that we help our customers get to market.

Hans C. Mosesmann
Analyst, Rosenblatt Securities, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, guys. Can you hear me?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, John. Go ahead.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Lisa, can you hear me?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. Go ahead.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. Just quickly, Lisa, given that mix now is becoming quite important in trying to understand gross margin, I'd be kind of curious, what percent of your Compute business in the March quarter was based on Ryzen? And I guess, if you assume that all of the transitions to Ryzen eventually – had that occurred in the March quarter, can you give us an understanding of how much better gross margins would have been? And then I have a follow-up.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

All right, John, that might be hard for me to answer very specifically, but let me give you the high-level view. So we started selling Ryzen on March 2, and a good piece of it was – basically for us positioning into the distributors. We take revenue on a sell-out model and so you should think about – although, we shipped a number of Ryzens, we didn't necessarily revenue them all in the quarter just given that we're on a sellout model for our revenue recognition.

In terms of where we are in the transition, Ryzen, non-Ryzen, we still have a long ways to go. I mean, the way we should think about it is Ryzen 7 was at the very high-end. We're going to – Ryzen 5 has started. We have Ryzen 3 that will come next, and then we have the entire mobile portfolio as well.

So it will take us through this year to really transition the majority of the product over to Ryzen. I think everything that we've seen, the ASP uplifts are definitely very beneficial. And so, we're pleased with sort of the pricing that we're commanding for the product and the reception for the product. So I think it's just – it will take us a couple of quarters to transition the overall portfolio over to Ryzen.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Lisa, as a follow-up to that, I know you guys are coming up with an Analyst Day next month and some of these targets might change. But to the extent that your old gross margin target was sort of 36% to 40%, I'm just kind of curious. To what extent can you get to that 38% midpoint just by moving your current market share mix towards Ryzen? And to what extent does getting to 38% or above imply either market share gains in the Compute business on the desktop, notebook side or on the server side? How do I think about that dynamic?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So the long-term guidance, 36% to 40%, I think we have multiple ways of getting there. Certainly, on the PC side, it is not anticipating that we gain a significant amount of share over our historical numbers. So I think the idea on the PC side is, again, I think 2017, a large percentage of the margin story is around PCs.

I think as you go into 2018, you'll see a larger percentage of that be in servers. But to the fundamental question, I think we feel good that the mix dynamics are there, the product is strong enough to command the right ASPs that we can get to the long-term margin targets several different ways.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, John.

Operator: Thank you. Our next question today is coming from Vivek Arya from Bank of America Merrill Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Thanks for taking my question. Lisa, for my first one, back to Ryzen. When I look at your Q2 outlook, it's going up about $170 million or so sequentially. And when I look at the last few years, generally, Q1 to Q2, just the console side has gone up over $100 million or so. So is it fair to assume that Ryzen perhaps is contributing something in that $50 million, $60 million, $70 million? And if that is the case, how does that compare to your original expectations? Did they change throughout the quarter because of whatever pricing actions that you might have taken? Just that $50 million, $60 million, $70 million, if this is right, is this a run rate number for Ryzen or how should we put this in the context of what Ryzen can be as it becomes a bigger part of your portfolio?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Sure. So without commenting on the exact numbers between Semi-Custom and Ryzen, I think, it's fair to say that the Semi-Custom business will have a reasonable ramp in the second quarter as will Ryzen.

In terms of relative to our expectations, it's actually very close to our expectations of what we expected the ramp rate to be, as we're going into this new segment. As I think I've mentioned on one of the previous questions, we don't expect to be at peak run rate in the second quarter. I think we will be continuing to ramp Zen-based product in the PC business throughout the year, as we bring more and more SKUs online.

And so, I think, the second quarter will certainly be higher than the first quarter. And we expect the second half to be higher than what we're seeing in the second quarter, as we ramp more and more SKUs, as more OEM platforms come online.

As you guys know, the PC business tends to be a very back-half loaded business. So, as we get into back-to-school, the retail segments and holiday, you would expect that both channel and OEM PC sales to benefit from the stronger product portfolio.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Got it. And as my follow-up, how do you feel about the PC gaming market for this year? I know just near term there have been some concerns about excess GPU inventory in China. Are those concerns based on fact, or are they just perception? And have you seen anything abnormal in the demand or supply for PC GPU product in any region or any customer segment? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

On the GPU side, we actually haven't seen anything abnormal. We normally see the seasonality going from Q4 to Q1 that sales go down. We saw something very normal to that. From an inventory standpoint, we think it's normal to maybe even slightly lean because we were going through a transition from our 400 Series to 500 Series. So we see the gaming segment as healthy.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

And any comment for the full year? Last year – last actually couple of years have been quite strong in PC gaming. I know you probably may not quantify it. But just how do you feel about the overall PC gaming market? Do you think the trends persist in terms of both unit and pricing expansion this year?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

From what we see, I think we feel good about the gaming segment overall. Graphics continues to be a strong segment. For us, it's not just the channel business, but it's the ramp of our OEM business. So we have a number of new OEM systems that are also ramping here in the first half of the year.

As it relates to ASPs, we are excited with the launch of Vega that will see a significant improvement in our ASPs, just given our current presence in the high-end segment of the GPU market. So yes, overall, I think, we feel good about the market.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks.

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Thank you. Our next question today is coming from Blayne Curtis from Barclays. Please proceed with your question.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Hey, thanks for taking my question. Actually, it's two related ones. I just wanted to go back to the OpEx in terms of, not only is it up sequentially, but then you're getting extra from the move of the mask sets. Can you just talk about where the OpEx dollars are going? And if it's in fact servers, can you just talk about the spend required to get that to market?

And then just I wanted to clarify on the expense, it should hit gross margin, so can you just talk about 7-nanometer as a whole and timing as those would come through? Is the CapEx back-end loaded when you're doing the $140 million? And then can you just talk about the impact to the gross margin with the higher 7-nanometer spend not hitting gross margin?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Maybe let me start on the OpEx and then have Devinder comment on the second piece of the question. So on the OpEx, we are making targeted investments in several different areas. The key areas are in GPUs and server, and it's both on the R&D side as well as on some go-to-market. So from our standpoint, these are very strong products. We want to make sure that we have enough customer resources to help our customers ramp into production. So I think they're targeted investments, but as we've been in the past, we'll be very prudent with where the OpEx goes. And then relative to the...

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

I think the CapEx, you asked about the front and back end. I think it's pretty balanced. Maybe it's about 40/60 first half/second half, the $140 million, but it's pretty balanced.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Then just in terms of the impact to gross margin as the mask sets roll through?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

They're all contemplated. I think we've had a lot of discussion on the gross margin improvement year over year and sequentially, and Lisa had referenced about improving gross margin as we go through the year. And the move of the expenses from the OpEx side related to the mask cost capitalization to the COGS side of it, which impacts gross margin is all contemplated in that gross margin improvement.

Blayne Curtis
Analyst, Barclays Capital, Inc.

Q

Okay, thanks.

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

A

Thank you. Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Joseph Moore from Morgan Stanley. Please proceed with your question.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great, thank you. I wonder if you could talk about what the CPU mix looks like over the course of the year. And you've talked a lot about the Ryzen ramp, but what's happening to the older products? Do you see a long tail on that, or is there a coexistence between the two product portfolios? Or are you rotating everything to Ryzen on a faster basis?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So, Joe, the way to think about that is for the Ryzen 7 and a good portion of the Ryzen 5, we really didn't have a competing product in that segment, so it's really additive. We've actually added Sam [Samsung] to our CPU market coverage. The legacy products will continue in the market. They will certainly continue through this year, and that's all contemplated in the model. So we feel that they're very complementary products and different geographies moves at different rates. We have still a significant installed base of motherboards out there from our previous generation, so we'll keep supporting both products.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. That's helpful. And then as you've talked about getting better Ryzen penetration over the course of the year, how do you think about Intel's new products in the back half and they've talked about sort of a 15% performance per clock improvement on their new 14-nanometer product. Is that contemplated in your guidance and how are you thinking about the Ryzen products stacking up against that?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So we're very pleased with where the Ryzen product is positioned now. We think, from a value proposition standpoint, performance, performance per dollar, it's very strong. We obviously have other products we're going to be launching throughout the year to ensure that we have strong product positioning throughout the year.

And I think the more important thing, Joe, and we'll talk more about this at our Financial Analyst Day is we have a long-term roadmap, whether you're talking about PCs or GPUs or servers to ensure that we continue to refresh our product plans and our product roadmaps over time. So I think we feel good about where we are positioned today, and we're going to ensure that we continue to roll out products to strengthen that positioning over time.

Joseph L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Thank you. Our final question today is coming from Chris Rolland from Susquehanna. Please proceed with your question.

Christopher Rolland
Analyst, Susquehanna Financial Group LLLP

Q

Hey. Thanks for squeezing me in there. I wanted to ask about the staggered launch to the major PC OEMs. Was that like just a modest supply constraint on the rollout or, if not, then why not just launch to the enthusiasts and the major PC OEM market together? And do you plan to do the same on Ryzen 5 and 3?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, Chris. So there was no particular supply constraint. I think it's more of the ebb and flow of the market. When you think about the channel market or the DIY market, you can basically introduce your product any time during the year. The OEMs have a very set cycle. They typically launch new products in Q2 for the back-to-school season. And so that was just the timing of when the OEM platforms were ready.

And then, again, when you're launching so many different SKUs – I think, launching Ryzen 7 first, then Ryzen 5, then Ryzen 3 – was absolutely our plan to make sure that we hit all of the logistics and stuff on plan. But, overall, like I said, nothing different than what we expected. I think we're pleased with where the overall launch is, and we'll be rolling out many more products over the coming quarters.

Christopher Rolland
Analyst, Susquehanna Financial Group LLLP

Q

Great, thank you very much.

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

A

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks.

Laura Graves
Corporate Vice President-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Lisa. Thanks, everybody¸ and thank you to everyone on the call who joined us today. We look forward to speaking with you, again. As a reminder, our Financial Analyst Day will be Tuesday, May 16, at our corporate headquarters in Sunnyvale. We look forward to speaking with you then. Thank you.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2017 Earnings Call for 1-May-2017 5:00 PM ET
Monday, April 10, 2017 08:26:05 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2017 Earnings Call for 1-May-2017 5:00 PM ET.

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Replay WebCast URL: http://edge.media-server.com/m/p/xuzgrf2k/lan/en
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices Q4 and Full Year 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Graves, Corporate Vice President of Investor Relations. Please, go ahead.

Laura Graves

Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's fourth quarter and fiscal year end conference call. This is Laura Graves. I recently joined the AMD IR team as Corporate Vice President of Investor Relations and I am pleased to join you on today's call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you've not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com. Before we begin today's call, I'd like to share with you that first quarter quiet time will begin at the close of business on Friday, March 17, 2017. And that we will host our Financial Analyst Day on Tuesday, May 16, in California. Lastly, let me remind everyone that the fourth quarter of 2016 was a 14-week quarter and that first quarter 2017 will be a 13-week quarter.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Additionally, please note that we will be referring to non-GAAP figures during this call, except for revenue and segment operating income or loss, which is on a GAAP basis.

The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measures in the press release and CFO commentary, which is posted on our website at quarterlyearnings.amd.com. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC, and in particular AMD's quarterly report on Form 10-Q for the quarter ended September 24, 2016.

With that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Laura, and good afternoon to all of those listening in today. In 2016, we made meaningful progress across the company, strengthening our product offerings, regaining share in key markets, and creating a solid foundation for sustainable growth.

Fourth quarter revenue of $1.11 billion grew 15% from the year ago period, based on a substantial increase in Computing and Graphics segment revenue. Revenue decreased 15% sequentially, based on seasonally lower semi-custom SoC shipments, while we achieved our second straight quarter of Computing and Graphics segment revenue growth. For the full year, growth across both of our business segments resulted in a 7% increase in annual revenue, non-GAAP gross margin expansion, and positive free cash flow.

Looking at our Computing and Graphics segment, on a full year basis, CG annual revenue grew for the first time since 2011, as our focus on strengthening this key part of our business gained momentum. Fourth quarter revenue increased 28% from the year ago period, based on strong GPU and mobile APU sales growth. Our CG quarterly revenue was the highest in two years. Our client revenue was the highest in seven quarters, and we delivered our highest graphics processor revenue in 11 quarters.

Mobile APU shipments and revenue growth accelerated as strong adoption of our 7th generation notebook APUs drove notebook share gains in the quarter. Desktop processor sales increased sequentially and declined from a year ago, in advance of our Ryzen desktop processor launch this quarter. At CES, we highlighted broad design win in ecosystem momentum for Ryzen. 17 different system integrators unveiled Ryzen-based gaming and enthusiast systems and multiple ecosystem partners announced plans to offer a broad range of premium Ryzen motherboards. We have also secured a number of high-end design wins for Ryzen with our global OEMs. We remain on track to launch Ryzen in early March, with widespread system and channel availability expected on day one.

In graphics, strong sales increases across all of our product lines drove a double-digit increase in GPU processor revenue from a year ago. Desktop GPU shipments and revenue increased by double-digit percentages from a year ago, based on growing OEM and channel adoption of Polaris GPUs. Polaris processor sales were particularly strong in the performance and enthusiast portions of the market, resulting in our highest channel GPU sales in more than two years.

Mobile GPU sales growth outpaced desktop in the quarter, and we believe we gained further share in this part of the market as the first Polaris-based notebooks launched. We also launched Radeon Pro 400 mobile GPUs in the quarter. These ultrathin performance GPUs are ideal for mobile content creators, and are powering Apple's latest premium MacBook Pro notebooks.

And in professional graphics, we finished off a record year with record quarterly revenue and unit shipments. Traditional workstation GPU sales grew in the quarter as HP, Dell, and others began offering systems powered by our recently-launched Radeon Pro WX GPUs.

We also continued to make progress in the server GPU market with sales increasing significantly to support new mega datacenter deployments.

As a part of our strategy to drive Radeon GPUs into the datacenter, we announced our Radeon Instinct family of machine intelligence accelerators, and detailed our plans to expand the market for machine learning based on AMD's unique combination of high performance GPUs, CPUs, and open source software.

Turning to our Enterprise, Embedded, and Semi-Custom segment, revenue increased 4% from a year ago, driven by growing embedded processor sales and ongoing demand for AMD-powered Microsoft and Sony game consoles. As we expected, revenue declined sequentially following the annual sales peak in the third quarter. 2016 game console sales aligned with our expectations, resulting in new records for semi-custom annual unit shipments and sales.

Embedded processor sales grew by double-digit percentages sequentially and from the year ago period, based on adoption across our targeted vertical markets. And development of our next-generation server CPU, Naples, is on track as we continue to expand the breadth of our customer and partner engagements to enable broad platform ecosystem and software validation work in advance of launch.

Naples is meeting our performance targets and customer response to our competitiveness and differentiated feature set continues to be overwhelmingly positive. As a result, we expanded our design win momentum in both traditional and cloud servers as well as in the embedded infrastructure and communications markets.

As we look back on 2016, we successfully accomplished our key priorities, including growing discrete graphics share, led by Polaris GPU adoption, regaining client compute share, led by our 7th generation APUs, growing in adjacent markets with record annual semi-custom game console revenue and professional graphics, and strengthening the financial foundation of the company by achieving annual non-GAAP operating profitability, reducing debt, and increasing cash.

All of our work for the past two years has been designed to strengthen the technical, operational, and financial foundation of the company. We entered 2017 with strong revenue growth and margin expansion opportunities as we prepare to launch our Zen-based CPUs and Vega GPUs that can return AMD to the high performance markets, where we have not materially participated in recent years. The production ramp, customer adoption, and ecosystem support for our Zen-based desktop processor, Ryzen, are all mapping to our plans.

We also remain on track to expand Zen into the datacenter market in the second quarter, followed by the embedded and notebook markets in the second half of the year. Our Vega GPU development is also progressing to plan. Vega is designed to scale beyond the limitations of current GPUs to enable PC gaming, professional design, and machine intelligence experiences that traditional GPU architectures have not been able to effectively address.

We provided our first performance preview of Vega GPUs earlier in the quarter in advance of the launch planned for the second quarter of this year. Bringing all this together, based on our current market expectations and the strength of our upcoming products, we are confident we can grow annual revenue, expand gross margin, and deliver non-GAAP net income in 2017.

Now, I'd like to turn the call over to Devinder to provide some additional color on our fourth quarter financial performance.

Devinder Kumar

Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

Thank you, Lisa, and good afternoon, everyone. 2016 was a good year for AMD as we grew revenue, improved our financial performance, and strengthened the financial foundation of the company. AMD annual revenue grew 7% year-over-year, with growth in both business segments. We expanded gross margin, maintained essentially flat operating expenses, achieved operating profitability, and reduced net losses significantly. In addition, we improved our balance sheet with strategic capital market transactions that reduced and re-profiled debt and lowered interest expense. Finally, we generated positive free cash flow and ended the year with cash and cash equivalents of $1.26 billion.

Now, let me provide the specifics of the fourth quarter of 2016, together with quarterly year-over-year comparisons. Revenue was $1.1 billion, increasing 15% year-over-year, due primarily to higher GPU processor sales, and declining 15% sequentially, driven primarily by seasonally lower sales of our semi-custom SoCs, partially offset by higher sales in the Computing and Graphics segment. Gross margin was 32%, up two percentage points year-over-year and up one percentage point from the prior quarter, due to higher Computing and Graphics segment revenue. Operating expenses were $357 million compared to $323 million a year ago and $353 million in the prior quarter. Both increases were due to ongoing targeted investments in R&D to support our new products.

Net licensing gain associated with our server JV with THATIC was $31 million, up from $24 million in the prior quarter. Operating income was $26 million in the fourth quarter of 2016, compared to an operating loss of $39 million a year ago, and operating income of $70 million in the prior quarter. Operating income is down from the prior quarter due to lower revenue.

Fourth quarter net interest expense, taxes, and other was $34 million, down from $40 million a year ago, and $43 million in Q3 2016, primarily due to reduced interest expense. Net loss was $8 million, or a loss per share of $0.01 calculated using 931 million shares of common stock. This compares to a net loss of $79 million, or $0.10 a year ago, and net income of $27 million, or $0.03 in the prior quarter. Adjusted EBITDA was $60 million compared to adjusted EBITDA of minus $5 million a year ago, and adjusted EBITDA of $103 million in the third quarter of 2016.

Now, turning to the business segments. Computing and Graphics revenue was $600 million, up 28% year-over-year and up 27% sequentially, primarily due to higher GPU and client processor sales. Computing and Graphics business segment operating loss was $21 million, improving significantly from a loss of $99 million from a year ago, and a loss of $66 million in the prior quarter, primarily due to higher sales in the fourth quarter of 2016.

Enterprise, Embedded and Semi-Custom revenue was $506 million, up 4% year-over-year and down 39% from the prior quarter, primarily due to lower sales of our semi-custom SoCs. Operating income was $47 million, down from $59 million a year ago, and down from $136 million in the prior quarter. The year-over-year decrease was primarily driven by higher R&D investments in Q4 2016, partially offset by an IP monetization licensing gain.

Turning to the balance sheet, our cash and cash equivalents totaled $1.26 billion at the end of the quarter, compared to $785 million a year ago, and $1.26 billion in the prior quarter. Inventory was $751 million compared to $678 million a year ago, and $772 million in the prior quarter. Inventory levels were higher from one year ago, in support of product transitions and higher revenue in the first half of 2017.

Total wafer purchases from GLOBALFOUNDRIES in 2016 was $665 million and $239 million in the fourth quarter. Long-term debt on the balance sheet as of the end of the quarter was $1.44 billion, down from $1.63 billion in the prior quarter, primarily due to debt redemptions. The principal debt amount of $1.77 billion, down from $1.93 billion as of the end of the third quarter of 2016, is reflected on the balance sheet as a carrying value of debt after netting the unamortized discount of our convertible debt and issuance costs.

During the fourth quarter of 2016, we redeemed $268 million principal amount of debt. In addition, we issued $105 million principal amount of 2.125% convertible notes due 2026 as a result of the underwriters exercising the option to purchase an additional 15% of the original issuance, bringing the total principal balance of the convertible notes to $805 million.

Free cash flow in the fourth quarter was $167 million, a significant improvement from $27 million one year ago, and $20 million in the third quarter of 2016.

Turning to our outlook for the first quarter of 2017, which is a 13-week quarter, we expect revenue to decrease 11% sequentially, plus or minus 3%. The midpoint of guidance would result in Q1 2017 revenue increasing approximately 18% year-over-year, gross margin to be approximately 33%, non-GAAP operating expenses to be approximately $360 million, interest expense, taxes and other to be approximately $30 million, inventory to be approximately flat sequentially.

We look forward to sharing additional 2017 and long-term guidance parameters at our Financial Analyst Day in May.

In closing, we are pleased with the progress we made in 2016. As we begin 2017, we look forward to introducing several new leadership products and remain focused on further improving our financial and operational performance.

With that, I will turn it back to Laura. Laura?

Laura Graves

Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, with that, we are ready for our first question.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question today is coming from Mark Lipacis with Jefferies. Please proceed with your question.

Mark Lipacis

Analyst, Jefferies LLC

Q

Thanks for taking my question. Lisa, I'm hoping that you can help me understand the dynamic of desktop microprocessors ramping down in front of the Ryzen ramp. My understanding was that Ryzen was the higher end SKU that comped against the Core i5 or Core i7, which is above where the existing microprocessors competed in the stack. So, I'm wondering if we should think about Ryzen either cannibalizing the existing desktop microprocessors at a higher ASP or ramping down the lower end, or should we think about Ryzen layering on top of the existing lower end desktop microprocessors? Thanks.

Lisa T. Su

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, absolutely, Mark. Thanks for the question. So, look, you are absolutely right. Ryzen is really a high end desktop product and I think the comment was really around our overall channel inventories in desktops. So, we wanted to ensure a very smooth transition. No question that Ryzen will layer on top, competing well in the Core i7, Core i5 range, but we also will eventually see a full lineup of Ryzen throughout the desktop portfolio.

Mark Lipacis

Analyst, Jefferies LLC

Q

Okay. That's helpful. Thank you. And a follow-up if I may. Is it fair to assume that as Ryzen ramps into the enthusiast stack that you would expect to see attach rates of AMD graphics cards also kind of increase, I guess I would expect to see higher attach rate of AMD GPUs with the Ryzen. Is that fair?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, if you look at our product lineup in the first half of the year, I think we have Ryzen launching in early March and then we'll have Vega, our enthusiast GPU launching in the second quarter and so, as we go through the year, I think we're quite pleased with the performance that we are seeing on both of those products. And so, we should see Ryzen doing very well in the high end as well as Vega and by nature, since both of those high end markets are markets that we don't have significant presence today, there will be an opportunity to both gain share as well as increase attach rates in those markets.

Mark Lipacis
Analyst, Jefferies LLC

Q

All right. Very helpful. Thank you very much.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Mark.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thank you, Mark. Operator, next question, please.

Operator: Thank you. Our next question today is coming from Matt Ramsay from Canaccord Genuity. Please proceed with your question.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Thank you very much. Lisa, since we sort of understand that Ryzen launching here in March is going to lead into relatively the same core that feeds the server microprocessor that launches in the second quarter, maybe you could give us a little bit of update on timing, to the specifics that you can, on the server launch. And specifically, what segments of that market maybe in terms of, I don't know, application segments or percentage of the server TAMs that you might be going after in the first several quarters after you launch the server product. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. Absolutely, Matt. So, as you stated, Ryzen and Naples share the same core, the same CPU core, which is our Zen core. Our performance on that core has done very well. We have actually met or exceeded our expectations. So, Ryzen will launch in early March. Naples will launch in the second quarter. We have made very good progress, actually in the last few months with customers really testing the performance capability on their own software and their own application workload.

So, we feel good about where the product is positioned. We expect that the key workload – Naples really has brought applicability in the server market, but we are especially targeting workloads that will benefit from more threads, higher memory, as well as I/O-bound applications. So, we expect cloud, big data applications as well as traditional enterprise. And our focus is both with OEMs as well as ODMs to ensure that we have a strong ecosystem ready for that launch.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Great. Thank you. And then a couple of follow-ups for Devinder if I could.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Okay.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

I noticed that quite a big ramp year-over-year in growth in the Computing and Graphics segment, but it's still a slight operating loss on the P&L. Maybe you could talk us through maybe as the new product launches in the GPU and CPU segments for the year, how do you think about gross margin in that Computing and Graphics segment and getting that back to profitability? And then quickly, I think you guys guided to $50 million in THATIC IP revenue. Any help about how that is distributed through the year would be really helpful. Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

Yes, let me cover the second one first, on the THATIC IP licensing gain. We had $88 million of that in 2016 as you observed, we guided $50 million in 2017. It's really dependent upon milestone deliveries, but I can share with you that based on tracking to those milestones, we expect to recognize approximately half of that, call it $25 million in Q1 of 2017.

And then as far as the second question, on the segment, Computing and Graphics, yes, very good progress. I think year-over-year and quarter-over-quarter, we are very pleased with that. The segment loss has gone down significantly from Q4 2015, where we were about $100 million to about $20 million. And with the new products that are coming up, in particular the Ryzen product we just talked about, with better gross margins and other products in the graphics base, we expect to continue to make progress in that segment and reduce the losses and get back to profitability.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, Matt, and if I can just add to that. I think the key for the Computing and Graphics segment is our participation at the higher end of the market, for both CPUs and GPUs. And as we do that, the margin expansion as well as the revenue growth opportunity are critical to get that business to profitability.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

All right. Thank you.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thank you, Matt. Next question, please.

Operator: Thank you. Our next question today is coming from Vivek Arya from Bank of America Merrill Lynch. Please proceed with your question.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question and good job on the execution. My first question, Lisa, is on the gaming cycle. Because it seems like we have had a number of good years. So, what's your sense of where we are in that cycle, and just near-term, what is your perspective on GPU channel inventory and how you are making sure the channel is not overstocked as you go into your next generation product cycle?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, absolutely, Vivek. So, on the console market, I think you're right. I think the last few years have been very good from a console cycle standpoint. We finished 2016 with both units and revenue up. As we go into 2017, this is going to be the fifth year of the cycle, so normally, if you look at historicals, it would say that hardware sales might be down. This cycle is a bit different, with both the PlayStation 4 Pro that launched a couple of quarters ago and then the Scorpio, Microsoft Scorpio, that will launch later this year. So, we'll need to see how they do through the year. But, I think from our standpoint, the console business has been a strong business performer for us and we are pleased with that.

Relative to the GPU market, we were very pleased with the performance in Q4, and actually throughout 2016. We got both nice desktop channel as well as notebook acceleration as we went through the year. In terms of channel inventory levels, actually, they looked quite normal. I would say we drained a little bit of inventory in Q4. We would expect a seasonal slowdown as we go into Q1, ahead of our product launches, but nothing unusual in the channel inventory on the GPU side.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. Very helpful. And as my follow-up, if you compare AMD versus your top two competitors, Intel and NVIDIA, what are the biggest gaps? Because it seems like you're making good progress on the hardware side with a number of new product launches. What about software? How soon do you think you can close the gap there? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. So, in terms of our strategy, I think on both the CPU and the GPU side, we have been on a fairly deliberate path to ensure that we got to a very competitive roadmap. So, on the CPU side, with Ryzen and Naples, we believe we will be quite competitive. On the GPU side, as we launch Vega, we will have a full stack, sort of top to bottom with new hardware. We continue to invest in software, and our approach to software is really around open source and using the ecosystem and using the community and focused on sort of the new APIs. So in gaming, we are very focused on DX12 and Vulkan and on the professional graphics and on the GPU server side, really using our GPUOpen. So, we'll continue to invest in software. No question that that's really critical for the graphics market, but we feel we are making good progress.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thank you, Vivek.

Operator: Thank you. Our next question today is coming from Stacy Rasgon from Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys, thanks for taking my questions. First, on the gross margins, I was a little surprised, given the fairly powerful mix shift between Computing and EESC that you had, that they weren't higher. In fact, they came in about 20 basis points below guidance. I guess, could you elaborate on the drivers in the quarter and the drivers going forward into the next quarter, what we should expect?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

Yes. I think, Stacy, good question. It's basically the product mix within the quarter. Q4, if you look at Q4 in particular, we were at 31% gross margin Q2 and Q3 and Q4. It stepped up to 32%. And in Q1 we're guiding at 33%. But, really, it's a function of the product mix. And you've got to recall that if you're talking about Q4, this is ahead of launching the products we just talked about in terms of Ryzen, which we expect to be shipping in the early March timeframe.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thanks. For my follow-up, I know you talked about EESC being seasonally down and we're expecting it to be down, but how did it stack up, actually, versus your expectations overall? Why was there such a big deceleration year-over-year versus Q3 where you went from kind of up 31% year-over-year to up 4%?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, actually, Stacy, it was very much in line with our expectations. If you look at our Q3, our Q3 was actually very strong, and that was the quarter where there were significant builds ahead of the holiday launches. So, when you look at the console cycle, in general, they tend to build really for holiday. And so, July, August, September, October are big build months. November is like half a month, and then it decelerates in December. So, it was not unexpected and actually performed in line with our expectations.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

I guess, so why was the build so strong in Q3 than relative, was that – year-over-year, was that just like the PlayStation Pro or was there something else going on in Q3 that took it up so much year-over-year versus Q4?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, it was new product. And if you look, in addition to the PS4 Pro, they also, both console manufacturers had new systems that they launched in that timeframe, as well.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you, guys.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Stacy.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Next question, please.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for letting me ask a question. Lisa, one for you or Devinder. For the first quarter, and then perhaps more importantly, for the full year, can you just talk a little bit about the dynamics between your two segments? You guide down 11% for the first quarter, which is above or below that number. And then, how does mix change throughout the year, as you have a bunch of new products launching on one side of the equation, but perhaps not as many on the EESC side?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, sure, Ross. So, for Q1, I think if you look at the overall – the guidance sequentially down 11%, you would expect that the Semi-Custom business should be down more than that, and you've seen that in our numbers the past couple of years. So, it's behaving as it normally would. Sequentially, you would expect that the Computing and Graphics segment would be better than seasonal, given that we'll have one month of Ryzen in the market.

On a year-over-year basis, I would say the Computing and Graphics business is where you're seeing the majority of the growth as we go into Q1, with both GPU as well as Ryzen driving that growth. As we go forward in the year, I think the expectations are that the product launches tend to be faster in the CG segment. In other words, from launch to revenue ramp it's faster because it's more consumer-based. So, as we launch Ryzen in first quarter and Vega in second quarter and then the notebook and embedded in the second half, you would expect to see that reflected.

On the EESC side of the business, we do have our Microsoft Scorpio design win that will ramp in the year, and that's an important one from the Semi-Custom side. And we'll see Naples ramp, as well, albeit server will tend to be a little bit slower from design win to revenue ramp. We would expect some contribution in the second half of the year.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. And then for my follow-up, one perhaps for either of you, again. How do we think about the OpEx side of things as we go through the year? And I know you purposely didn't guide to it in your 2017 as a whole, but conceptually, when you're launching a bunch of new products, is it fair to assume that the SG&A side of things could support those launches' increases? Any sort of color you can give about your philosophy on OpEx would be helpful.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

Yes, I think our philosophy, first of all, is to be very disciplined about managing the OpEx. We did that, as you saw in the 2014-2015 timeframe. In 2016, we made some very targeted investments to products, which is, with the launches that are happening in 2017. I'd say they are going to pay off in terms of all the products we have on track to launch in 2017. We have invested in software. We have got, obviously, some go-to-market expenses as we get into 2017. But I would say that you see our guidance for Q1 2017 at $360 million.

So, you will see a trend of continuing investment in product roadmap, new product launches, software. R&D, if you look at it on a year-on-year basis, is up, actually close to $50 million and SG&A was down, even though we were essentially flat on OpEx 2015 to 2016. And, I think, as you look at 2017, we'll continue to stay lean in SG&A and prioritize investments in R&D for the go-forward execution of our plans going into future years.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question today is coming from Chris Rolland from Susquehanna International Group. Please proceed with your question.

Christopher Adam Jackson Rolland
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. On the server side, you guys talked about Naples and, Lisa, you mentioned more threads, higher memory, and I/O. With these products, do you anticipate taking more share in the cloud? Or how do you think you're going to fare versus kind of enterprise, storage, coms, high performance? Is it going to be a lot more kind of cloud-centric?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Chris, the great thing about Naples is it really is a general purpose product. So, we will play in all of those segments. I think the cloud tends to move a bit faster in terms of just, again, from design win to revenue. So, we certainly are very focused in the cloud, but I'm also quite enthusiastic about our opportunities in traditional enterprise as well as some of the storage and networking spaces.

Christopher Adam Jackson Rolland
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Great. And then, with, let's say, Summit Ridge and Vega and Naples all coming online here, can you guys talk about where these products, the gross margins are versus either your corporate average or a comparable product now? And if things ramp the way you expect them to, when might you hit the low end of your long-term gross margin range?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

So, maybe, Chris, I'll start and Devinder can add. Clearly, you mentioned some of the key products that are margin drivers for us. So, Ryzen in high end desktop, our server CPUs, server GPUs, professional graphics, are all north of the corporate average. We still have game consoles, which will be a significant piece of our business that will be less than corporate average. So, our expectation is that we will make progress with margins as we ramp these products. Relative to when we'll hit the long-term guidance, I think we'll defer that perhaps to our Analyst Day and note that the target is still to be within the 36% to 40% range on a long-term model.

Christopher Adam Jackson Rolland
Analyst, Susquehanna Financial Group LLLP
Q

Thanks so much and great quarter.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Chris.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Thank you. Our next question today is coming from Blayne Curtis from Barclays. Please proceed with your question.

Christopher Hemmelgarn
Analyst, Barclays Capital, Inc.
Q

Hey, this is Chris Hemmelgarn on for Blayne. Thanks very much for letting us on to ask a question and congrats on a good quarter and guidance. I guess first of all, a number of questions have touched on this, but with Ryzen launching and Vega in Q2, you presumably see some pretty big channel fill in Q1 and into Q2. Could you just talk about how you see that impacting seasonality through the rest of the year? Q3, Q4 normally bigger quarters for PC sales, but you got big product launches in the first half.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Well, we are certainly looking forward to those product launches and the way we view it is, yes, there's some bit of channel fill, but I think there is also some pent up demand for really great products in the gaming space. Both Ryzen and Vega are targeted at those enthusiast gamers. So, certainly we do expect normal seasonality, would say that the second half would be stronger. Note that on Ryzen, we are starting first in the channel and with system integrators and then OEMs will launch shortly thereafter. So, you'd expect a stage launch of our partners.

Christopher Hemmelgarn
Analyst, Barclays Capital, Inc.
Q

It's very helpful, Lisa, thanks. And then just as a follow-up, so, you've announced your first non-game console semi-custom win launching this year. As that business has matured, can you talk how you see further opportunities to grow outside of the core game console market there?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes, so, we have talked about three design wins and those are in progress now. In terms of ongoing engagements, we have a nice pipeline. We continue to view semi-custom as a strategic way for us to utilize our IP in our design capability. And so, we'll continue to view that as one of our go-to markets for the IP that we are developing. And we'll talk more about sort of the semi-custom opportunities as we go forward.

Christopher Hemmelgarn
Analyst, Barclays Capital, Inc.
Q

Thank you.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.
A

Thank you, Chris. Next question, please.

Operator: Thank you. Our next question is coming from Ambrish Srivastava – I'm sorry, our next question is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

Yes, good afternoon, guys. Lisa, congratulations on the strong results for 2016. I guess I wanted to go back with my first question to the OpEx line and if you just look at total dollars spent, you're spending well below your two main competitors. And I'm just kind of curious, as revenue growth starts to kind of reemerge in the model, how should you think about or how should we think about OpEx growth relative to revenue growth? Is there a target that you can give us that you'd like OpEx to grow half as fast as revenue, or are you at a point now where you see a lot of incremental investments that are worth doing that might have OpEx growth growing faster than that? Any guidance there would be helpful.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes, certainly, John. So, look, I think we have shown that we can be very disciplined with OpEx and I think we will ensure that – OpEx will certainly not grow faster than revenue. So that won't happen. I think the opportunity for leverage does exist longer-term in our model. But in the short-term, I'm very focused on ensuring that we execute our product roadmap really, really well. And so, this year, it's about our product launches making sure that we have the right software investments and go-to-market. We are going to see improvement in the financial performance as a result of the margin expansion and we'll look to find leverage on the OpEx line I think in the longer-term as we continue to make progress. But again, we will be very disciplined on the OpEx line.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC
Q

No. That's helpful, Lisa. And then I guess as my second question, just going back on the gross margin for Ryzen and Vega. I guess can you help me understand just given where in the stack those two parts will compete, why they shouldn't have gross margins that are more comparable to your two closest peers? Is that kind of the internal target, is that how we should be thinking about it? Or any guidance there would be awesome.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, so, I think for the high end parts, both Ryzen and Vega, and Naples frankly, we should expect that they are well above our corporate average in terms of margin. As it relates to our competitors, I think that's a harder question. But our goal is to make sure that we have very competitive product on a pure performance basis. And so, that's been the goal and that's certainly how we are viewing it. But we will also have some opportunity for price performance leverage as we gain share in the market. So, I think where we are positioning the products is the right place and the right balance between revenue growth and margin and we'll certainly look for every opportunity to improve our margins over time.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you, guys.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thanks, John.

Operator: Thank you. Our next question is coming from Joe Moore from Morgan Stanley. Please proceed with your question.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. I guess the question I get most frequently is sort of Zen looks pretty exciting in 2017, but you're competing with Intel who has got 10nm product coming. And how do we think about this on a multi-year basis, Zen as the springboard to compete with them and anything you can share in terms of the product roadmap and sort of the longer-term competitiveness of these products you're introducing now?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Joe. So, look, we do think Zen is very, very competitive for where we are. In terms of our longer-term roadmap, I think as with anything, for top OEM customers, especially server datacenter customers, they are investing in a roadmap. So, they are not just buying a point product and we have a multi-generational roadmap that we are working on, including sort of the Zen 2 and the Zen 3 follow on. From our standpoint process technology, we ramped 16nm and 14nm really well last year and into this year. We are actually in the process of developing now in 7nm and we think the 7nm foundry roadmaps that are available are very competitive and will ensure that we have a strong multi-generational roadmap.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Joe.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thank you, Joe.

Operator: Thank you. Our next question today is coming from Vijay Rakesh from Mizuho & Company. Please proceed with your question.

Vijay R. Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Yes, hi, thanks, guys. Sorry to beat up on this, but when you look at Radeon Instinct GPUs and the Vega architecture in 2Q 2017 and first half 2017 here. Are the gross margins more in the 40% to 60% range, I think going to datacenter versus what your existing margins are?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Vijay, I think it's fair to say that both professional graphics and our Radeon Instinct line are higher than the normal consumer GPU products in terms of margin, and we view the datacenter GPUs as a great growth opportunity for us and so it's a key area of focus.

Vijay R. Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Got it. And you mentioned GPUs seeing traction in multiple-threaded applications, and so with that strength there especially with [indiscernible] (44:15) what are your expectations for growth in that market? Obviously, you're going from zero, but incrementally what should that drive in revenues for AMD? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, so, again, we view GPU servers as a very good growth opportunity for us. We are starting from a small base, but we have had some really good engagements with cloud customers and we had some meaningful revenue in the second half of 2016 and we expect it to be a growth driver for us into 2017 and beyond.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Vijay R. Rakesh
Analyst, Mizuho Securities USA, Inc.

Q

Thanks.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

A

Operator, we have time for two more questions, please.

Operator: Certainly. Our next question is coming from Kevin Cassidy from Stifel. Please proceed with your question.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thanks for taking my question. On your Zen product lineup, you'll have an APU in the second half of the year? And what kind of GPU would that have on it?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes, Kevin, we will have an APU, we call it Raven Ridge, in the second half of the year off of the Zen Processor Core and we haven't announced details of the graphics just yet.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Will that be targeted for both desktop and notebook?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes, it will be, but it's a very strong notebook part when you think about sort of the high end notebooks, 2-in-1s, and those types of things. But yes, it can also be used in desktop.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Thank you.

Operator: Thank you. Our final question today is coming from Ambrish Srivastava from BMO. Please proceed with your question.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)
Q

Hi, thank you. I had a question on inventory, Devinder. You did give us a reason for why the inventory is higher, but what I'm trying to understand is why the delta between the guidance that you'd given which was supposed to be in the $660 million amount, which you guided to? Was there a change in what you were expecting for the roadmap? Was it uncertainty that you had guided to $660 million and now you came up to the number that you reported on the fourth quarter? Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.
A

Yes, I think it's fair to say that from the time I gave the guidance $660 million coming in at $750 million, there were some changes. But let me explain. First of all, it was higher than anticipated due to product ramps, product mix and also a higher expected revenue in the first half of 2017. We also had an opportunity to purchase some inventory in a tight PC supply environment at commercially favorable terms, and we took the opportunity to go ahead and purchase the inventory, given what we see from a revenue standpoint for the first half of 2017.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Okay. Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Laura Graves
Investor Relations & Communications Executive, Advanced Micro Devices, Inc.

Lisa? Anyone?

Lisa T. Su
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you very much. Thank you, operator. Thank you, everyone, for joining us on our call today. We look forward to speaking with you throughout the quarter. Thank you.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2016 Earnings Call for 31-January-2017 5:00 PM ET
Thursday, January 12, 2017 09:48:05 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2016 Earnings Call for 31-January-2017 5:00 PM ET.

Press Release URL: http://phx.corporate-ir.net/External.File?t=1&item=VHlwZT0yfFBhcmVudElEPTUyNDY0NDJ8Q2hpbGRJRD02NTc4OTQ=
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Advanced Micro Devices, Inc. (AMD)

Q3 2016 Earnings Call

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Mark Lipacis
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John William Pitzer
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David M. Wong
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices Third Quarter 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ruth Cotter, Chief Human Resources Officer and Senior Vice President of Corporate Communications and Investor Relations for Advanced Micro Devices. Ms. Cotter, you may begin.

Ruth Cotter

Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's third quarter conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you've not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I'd like to highlight a few dates for you this afternoon. Lisa Su will present at the Credit Suisse TMT Conference on November 30 in Arizona. I will present at the NASDAQ Investor Program on November 30 in the UK. Devinder Kumar will present at the Barclays Global Technology, Media and Telecommunications Conference in December in San Francisco. And our fourth quarter quiet time will begin at the close of business on Friday, December 16, 2016.

Before we begin, let me remind everyone that third quarter 2016 was a 13-week quarter and we expect to record our extra week in the fourth quarter of 2016.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally, please note that we will be referring to non-GAAP figures during the call, except for revenue which is on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measures in the press release and CFO commentary, posted on our website at quarterlyearnings.amd.com. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information.

You'll also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's Quarterly Report on Form 10-Q for the quarter ended June 25, 2016.

Now, with that, I would like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

Thank you, Ruth, and good afternoon to all of those listening in today. Our strong third quarter results highlight the progress we've made across AMD this past year, as we improve our financial performance by delivering great products. Third quarter revenue of $1.3 billion increased 27% sequentially and 23% from the year-ago period, driven by upside demand for our Graphics products and record Semi-Custom sales.

In addition to the significant revenue growth, we also achieved several financial and operational milestones in the quarter. We strengthened our balance sheet and improved our P&L through a series of capital markets transactions that re-profiled and reduced our debt. We also signed a strategic amendment to our Wafer Supply Agreement with GLOBALFOUNDRIES that provides sourcing flexibility and financial predictability.

Most importantly, we delivered non-GAAP net income in the quarter based on strong execution of our product roadmap and growing momentum across our business.

Looking at our Computing and Graphics segment, we had solid growth in the quarter. Revenue increased 9% sequentially and 11% from the year-ago period, driven by improved sales of mobile APUs and discrete GPUs. Mobile processor revenue and unit shipments increased for the fourth straight quarter, as 7th generation APU shipments continued ramping, highlighted by the launch of our new PRO Series APUs earlier this month with HP.

Customer and partner excitement for our Zen-based desktop product, Summit Ridge, is growing as we successfully passed several key engineering and design win milestones in the quarter. We provided our first competitive performance preview of Summit Ridge in the quarter and believe we will have a very competitive offering for the $4 billion high-performance desktop processor market. We're working closely with our infrastructure partners and customers in preparation for the launch in early 2017.

In Graphics, we had a very strong quarter with discrete GPU revenue and unit shipments growing by double-digit percentages sequentially and year-over-year. The launch of our expanded family of Polaris desktop GPUs and our first full quarter of RX 480 sales drove our highest quarterly channel GPU revenue in ASP since early 2014.

Radeon RX GPUs now account for more than 50% of our channel GPU revenue. Polaris GPUs continue to gain traction based on their leadership performance in VR and on the rapidly expanding number of software titles that feature the latest generation of APIs like DirectX 12 and Vulkan.

Our progress in the quarter was punctuated by Oculus announcing a limited-edition Oculus Ready PC powered by an AMD FX processor and Radeon RX 470 GPU that brings the cost of entry for a VR-ready system down to $500 for the first time. This is a meaningful milestone for consumers, and I am excited that AMD is enabling the ecosystem and driving broader adoption of VR by making premium experiences available at such an attractive price point.

We also delivered our fourth straight quarter of sequential revenue growth for our professional Graphics products. In addition to solid workstation sales growth, we expanded our presence in the server GPU market, as HP announced availability of multiple Radeon options across their traditional and blade server offerings. And just last week, we announced a collaboration with Alibaba Cloud, China's largest cloud provider, to deploy Radeon Pro server GPUs across their data centers to expand the scale and services of their global cloud offering.

We now have material server GPU engagements with multiple cloud datacenter providers, demonstrating that our strategy to grow our presence in this profitable market by delivering superior performance with Radeon Pro hardware in conjunction with industry-standard programming tools and APIs is beginning to pay off.

Now turning to our Enterprise, Embedded and Semi-Custom segments. Revenue increased 41% sequentially and 31% from the year-ago period, driven by record Semi-Custom sales, which included the ramp of three new FinFET-based products, powering the Xbox One S, updated PlayStation 4 and our new design win in the Sony PlayStation 4 Pro.

We are on track to grow Semi-Custom unit shipments and revenue for the third straight year, demonstrating our leadership in high-performance gaming technologies for the very successful game console markets. We expect fourth quarter revenue to be down seasonally as we transition from our annual Semi-Custom sales peak in the third quarter. Our Embedded product sales grew sequentially as our newer design wins reached production.

In Server, our Zen-based high-performance processor remains on track for introduction in the first half of 2017. We successfully passed several silicon and platform technical milestones in the quarter and have secured multiple new design wins across OEM, enterprise and cloud providers.

In closing, as I complete my second year as CEO of AMD, I am pleased with the solid progress we've made across the company on multiple operational, product and financial fronts. We are executing our long-term strategy and instead of near-term priorities that I believe provide AMD with significant opportunities over the next 18 months to 24 months, to drive top line revenue growth, operating margin expansion and free cash flow generation.

We have strengthened the core of the company by clearly defining the markets where we have technology and expertise to win; bringing a laser focus to our product execution around our Graphics and microprocessor road map; creating deeper, more lasting relationships with strategic customers; monetizing our assets and valuable IP with two joint ventures in China; and reengineering our balance sheet to increase our cash balance and reduce debt.

I want to thank the thousands of AMD-ers whose determination this past year has allowed us to put in place the financial and operational foundation to drive growth and profitability.

In 2017, with Zen and Vega, we're focused on delivering our strongest product portfolio in over a decade, capable of unlocking multiple growth pillars for our business across the datacenter, gaming, and high-performance Graphics and PC markets. I am proud of what we've accomplished, and I believe that the best is yet to come.

Now, I'd like to turn the call over to Devinder to provide some additional color on our third quarter financial performance.

Devinder Kumar

Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

Thank you, Lisa, and a very good afternoon to everyone. In the third quarter, we achieved another milestone in our progress as we returned to non-GAAP net income profitability. The third quarter financial performance was driven by strong demand for our Semi-Custom SoCs, higher Graphics revenue, and positive free cash flow.

We executed a series of capital markets transactions that have significantly improved our balance sheet and term debt profile and will reduce interest expense beginning in Q4. We also finalized a long-term strategic Wafer Supply Agreement with GLOBALFOUNDRIES.

Third quarter revenue was $1.3 billion, up 27% sequentially, driven by higher sales of our record Semi-Custom SoCs and higher Graphics processor sales. The year-over-year revenue increased 23%, driven by higher sales of our Semi-Custom SoCs, client mobile processors, and Graphics processors.

Non-GAAP gross margin was 31%, flat from the prior quarter, driven by a richer mix of PC and Graphics product, offsetting lower-margin Semi-Custom product. Non-GAAP operating expenses were $353 million, up $11 million from the prior quarter due to increased R&D investment. We recognized $24 million of net licensing gain associated with our server JV with THATIC. Non-GAAP operating income was $70 million this quarter, up $67 million from the prior quarter.

Third quarter other net expense was $63 million, mostly consisting of a $61 million loss related to debt retirement. The equity loss in the ATMP JV was $5 million based on our 15% JV ownership stake.

Non-GAAP net income was $27 million, with earnings per share of $0.03. Non-GAAP EPS was calculated using 865 million diluted shares of common stock, which includes 12 million shares associated with the equity offering that closed late in the third quarter.

Included in our GAAP operating loss and GAAP net loss is a $340 million charge associated with our Sixth Amendment to the WSA with GLOBALFOUNDRIES. Adjusted EBITDA was $103 million, compared to $36 million in the prior quarter.

Now, turning to the business segments. Computing and Graphics revenue was $472 million, up 9% from the prior quarter and up 11% year-over-year, primarily due to increased sales of GPUs and client mobile APUs. Computing and Graphics segment operating loss was $66 million, compared to $81 million in the prior quarter, primarily due to higher revenue.

Enterprise, Embedded and Semi-Custom revenue was $835 million, up 41% from the prior quarter and 31% higher year-over-year, driven by higher Semi-Custom SoC sales. Operating income of this segment was $136 million, up from $84 million in the prior quarter, primarily driven by higher revenue.

Turning to the balance sheet. Our cash and cash equivalents totaled $1.3 billion at the end of the quarter, up $301 million from the end of the prior quarter, including $274 million remaining from the proceeds of our capital markets transaction. Excluding this amount, the cash was $984 million, as compared to $957 million last quarter.

Free cash flow was a positive $20 million in the third quarter. Inventory was $772 million, up $29 million or 4% from the end of the prior quarter in support of holiday season GPU and Semi-Custom product-based expectation in the first part of the fourth quarter.

Total wafer purchases from GLOBALFOUNDRIES in the third quarter were $168 million. And we continue to expect overall wafer purchases of approximately $650 million in 2016, including $155 million purchased in early 2016 as part of the Fifth Amendment to the WSA.

Debt, as of the end of the quarter, was $1.6 billion, down from the prior quarter due to our significant debt reduction effort.

During the third quarter, we raised approximately $1.4 billion in cash as a result of issuing 690 million of common stock, which includes the exercise of an underwriter's option to purchase 15% or 90 million of additional common stock, and the issuance of 700 million in 2.125% convertible notes due in 2026. We used the majority of these funds to redeem outstanding term debt to cash tender offers, and we paid off the outstanding ABL balance of $226 million.

In addition, early in the fourth quarter, another $105 million of convertible notes were issued as part of the exercise of an underwriter's option, bringing the total principal amount of the 2026 convertible notes to $805 million. We also redeemed the remaining principal debt balance of $208 million of the 2020 senior notes, which was our most expensive debt. This debt has now been fully paid off.

The debt reductions and issuance of the new convertible notes due 2026 that occurred in the third quarter and early in the fourth quarter will result in approximately $55 million of annualized cash interest savings beginning in the fourth quarter. Please refer to today's CFO written commentary for further details of the capital markets transactions and debt on the balance sheet.

Free cash flow in the third quarter was a positive $20 million, compared to a negative $106 million in the second quarter of 2016, primarily due to increased revenue, improvements in working capital, and a reduction in capital expenditures.

Now, turning to our fourth quarter 2016 outlook, a 14 fiscal week quarter, as it has an extra week. We expect revenue to decrease 18% sequentially, plus or minus 3%, primarily driven by a seasonal decline in our Semi-Custom business and an improvement in our CG business; revenue at the midpoint of guidance would be up 12% year-over-year; non-GAAP gross margin to be approximately 32%; non-GAAP operating expenses to be approximately $350 million; IP monetization licensing gain to be approximately $25 million; to maintain non-GAAP operating profitability; non-GAAP interest expense, taxes and other to be approximately $32 million; cash and cash equivalents to be up, in line with our guidance of ending 2016 with positive free cash flow, excluding cash from capital markets transactions and the net proceeds from the ATMP JV; inventory to be down to approximately $660 million; basic share count to be approximately 930 million, including 115 million shares related to the third quarter equity issuance; and we now expect full year revenue growth to be up approximately 6% from 2015 based on the midpoint of fourth quarter revenue guidance.

In closing, we're very pleased with the progress we made in the third quarter. With focused execution, we continue to build a solid financial foundation for the company. In just the last three months alone, we achieved non-GAAP net income profitability, amended the WSA with GLOBALFOUNDRIES across multiple years, and de-leveraged and de-risked the balance sheet with our capital markets transactions such that over the next five years there is less than $200 million of term debt due. We look forward to continued execution and further improving our financial performance.

With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter

Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we would be pleased to poll the audience for questions, please.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] One moment, please, while we poll for questions. Our first question today is coming from Matt Ramsay from Canaccord Genuity. Please proceed with your question.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Thank you very much. Good afternoon. Obviously, a lot has gone on in the last quarter. I figured I would ask a couple of things about Zen, since that's been one of the things that's most topical in my conversations with investors. Lisa, you talked about in your prepared remarks there multiple OEM engagements and design wins for desktop and also the same on server. Maybe you could do a little bit to expand upon those, I guess the timing of launch of each and in particular in the server markets, the focus, whether that be enterprise or whether that be cloud-based? Thank you.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yeah. Absolutely. Matt, thanks for your question. And as you said, it's been a very busy quarter for us. As it relates to Zen, we are on track to launch in the first half of the year for both our desktops and our servers. The desktop launch will go first and it is on track for the first quarter; and then the server launch will go in the second quarter.

We've had a wide amount of sampling that's gone on in the third quarter. We have multiple customers on both the PC side, as well as the server side who have working hardware now in their labs. They're bringing up their platforms and software. And we're very pleased with how smoothly it's coming up, actually.

So you asked specifically about the server side. Our focus on servers is really across the OEM business, including enterprise, as well as the cloud datacenters. And I think the key for us is we're getting a lot of interest from our partners, and we continue to work with them to bring up their systems. But I think we are optimistic about where we are in the Zen bring-up and the Zen launch cycle.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

All right. Thank you for that. That's helpful. And then I guess as a follow-up there in the server market, I think obviously your GPU primary competitor has had some very stellar traction with server acceleration around GPUs and you highlighted in the prepared remarks some wins and engagements that you've had on Polaris and I assume on Vega for server acceleration.

Maybe you could expand upon that commentary a bit, what you're investing there, how the GPU Open or the OpenCL environment is developing relative to the CUDA environment in server acceleration? And just what proportion of your GPU business could be driven by that server opportunity in the long-term? Any commentary there would be great. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yes. So let's talk overall about our Graphics business. So when you look at our Graphics business, certainly we're very pleased with the progress that we've made on the consumer side with Polaris. But we've also mentioned that we've made good progress on the professional Graphics side, including both workstations, as well as server GPUs.

I think the market is certainly very receptive to growth in the server GPU area. I was just at the Alibaba Cloud Computing Conference last week, where we announced our collaboration with them. They're actually using parts that are pre-Polaris and pre-Vega. So we were demoing a GPU-based cloud server based on some of our FirePro technology using hardware-based virtualization.

And I think the main feedback that we've gotten from them, as well as multiple other cloud engagements, is the hardware looks very good. We're working with them on sort of the overall infrastructure and software to bring that up; and we believe that the products are very competitive in this market. And the market is nice because it's certainly margin accretive to the consumer side of the business.

So we do expect, as we bring out Vega in the first half of 2017, that that will certainly strengthen the product portfolio. But there is a lot of interest in the cloud space around what we're doing with Radeon Pro and on the server GPU side.

Matthew D. Ramsay
Analyst, Canaccord Genuity, Inc.
Q

All right. Thank you very much. I'll get back in the queue. Appreciate it.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.
A

Thanks, Matt.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question. Perhaps your phone is on mute, Mr. Seymore? Please unmute your phone. Mr. Seymore, your line is now live. Please pick up your handset if your phone is on mute.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations, Advanced Micro Devices, Inc.
A

We can go to the next caller, operator. Thank you.

Operator: Certainly. Our next question is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis
Analyst, Jefferies LLC
Q

Thanks taking my questions. I had two questions. First one, on the Alibaba deal. So this is not a new set of products you're developing, it's products you already have. And can you talk about to the extent this is like a cloud services offering versus like deep learning applications that they might be doing with your products. And I guess when I think about the architecture, I normally think about having an x86 processor sitting next to the GPU. I was wondering is it logical to assume that Zen is the natural x86 pairing with your GPUs in the Alibaba deployment?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Sure, Mark. So, again, I think on the Alibaba deployment, it is the beginning of what we expect to be a long-term collaboration. So the work today is being done on a pre-Polaris base, but we do expect that that will upgrade as we go forward. I think the key is there are many, many applications, but what we're starting from is a GPU-based cloud server application. So in virtualized environments you can imagine, cloud gaming or remote workstation type environments which need a lot of Graphics horsepower, as well as virtual desktop environments.

And I think as we go forward, certainly, we view the opportunity to expand that into a broader set of workloads, as well as obviously on the CPU side as well. So I think, overall, we think the cloud is a very important market for us to focus on, on both the GPU and the CPU side and we're ramping up our efforts there.

Mark Lipacis
Analyst, Jefferies LLC

Q

Great. And a follow-up, if I may. Last night, Tesla announced that it was using NVIDIA for their self-driving car. But on the conference call, Elon Musk, I think the expression he used was that it was a tight decision between NVIDIA and AMD, which suggests that you're farther along in solutions for deep learning and neural networking than most, including myself, thought. And so, I was wondering can you talk about your efforts in deep learning and artificial intelligence? How big is that business now? Do you have anything in that business now and how do you grow that going forward? Thank you.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Sure, Mark. So, look, there is a lot of interest in the deep learning space overall, and certainly our GPUs are very applicable to that space. So when we look at competitiveness and all that stuff, we think we can be very competitive there.

We will be talking more about our strategy in the coming quarters, so maybe let me refer to that, Mark. But I think suffice it to say, I think we looked at GPUs as overall secular growth, whether you're talking about consumer, professional workstation, server GPUs or any of this machine learning area. And so, we're going to continue to invest and lean in, in those areas.

Mark Lipacis
Analyst, Jefferies LLC

Q

Thank you.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Thanks, Mark.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah. Good afternoon, guys. Thanks for letting me ask on the call. And Lisa, Devinder, nice job on the quarter. I guess, Devinder, first just going to the December quarter guidance, you're kind of characterizing it as seasonal. I kind of didn't know the trappings of talking about normal seasonal, because there's so much variance around it. But it does seem like in prior quarters where you had a 14th week, that extra week actually did help revenue a little bit. So I'm just kind of curious within the context of the December quarter guidance, how you're thinking about that extra week both on the revenue line and on expenses?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

Yeah. I think if you look at the 14-week quarter, I think, John, you're right, it depends upon many factors. Our 14-week quarter is in the Q4 timeframe, which is this quarter we're in. On the revenue side, I will say, looking at it overall, there's not much of an impact as the extra week falls during the holiday season when a large portion of our operations or our customers are in shutdown mode. There is an impact on the expense side, but that's already contemplated within the guidance of OpEx that I gave of the $350 million due to the extra week.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

That's helpful. And then, Lisa, a little bit longer term. I mean over the last kind of several quarters, you've been somewhat forced to try to manage profitability level to that break-even line given the lack of revenue growth. But now that you're sort of on this path of more sustainable revenue growth, I'm just kind of curious, as you think about R&D specifically, how should we think about kind of your desire to want to invest at higher rates as revenue begins to grow from these levels? Because clearly, as Mark talked about on the last question, you've got a lot of potential new areas and opportunities to go after. Can you give us a sense as to what degree you think you've been under-investing in R&D and how we should think about R&D investments over the next several quarters as revenue growth kind of resumes?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yeah. Absolutely, John. So I think it's fair to say that we've been very prudent in how we've invested overall. If you look at our operating expenses 2016 to 2015, although we've been relatively flat overall, we've actually increased R&D relative to other elements of the P&L. But as we see revenue growth and as we've seen progress over the last couple of quarters, I think you've also seen us increase our R&D spend.

I think there are several areas that we see as very large opportunities; and we talked about some of the Graphics areas in the previous question with Mark. I also think in the datacenter, I mean there's a large opportunity for us on the CPU side as Zen fully comes to market.

So I think we have a opportunity to invest a bit more in R&D as our revenue grows, but we're still going to be very prudent with how we do that. And I think the key metrics there in terms of being net income profitable this quarter, ensuring that we get free cash flow positive from operations for the full year, those are all important metrics for us; and we're going to continue to manage very diligently.

John William Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

That's helpful. Thank you, guys. Congratulations.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc. A

Thanks, John.

Operator: Thank you. Our next question today is coming from David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Analyst, Wells Fargo Securities LLC Q

Thanks so much. Do you expect GPU sales will grow sequentially in the December quarter, and what about Computing revenues?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc. A

Yes. So, David, I think we would expect overall that the CG business or the Computing and Graphics business will grow in Q4. The EESC business will be down. And then within the Computing and Graphics business, I would expect growth on both the Graphics as, well as the Computing side.

David M. Wong
Analyst, Wells Fargo Securities LLC Q

Great. And do you have any new Semi-Custom wins you can tell us about or at least give us some idea of what the momentum is in the pipeline?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc. A

Yeah. I think on the Semi-Custom side, David, I will say that we've previously announced three, and that's the number that we'll talk about today. Two of them are now known and they're both in the game console area. One is outside of game console. I will say that we have some very good active discussions on future products and applications, and we'll update more as we get further along.

David M. Wong
Analyst, Wells Fargo Securities LLC Q

Great. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc. A

Thanks, David.

Operator: Thank you. Our next question is coming from Blayne Curtis from Barclays. Please proceed with your question.

Christopher Hemmelgarn
Analyst, Barclays Capital, Inc. Q

Thanks very much. And this is Chris Hemmelgarn on for Blayne. With Summit Ridge launching in Q1 of 2017, I guess how would you expect the channel to ramp that? I mean do you see it ramping pretty fully in the first couple of quarters of the year or are you looking for more normal PC seasonality?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

I would expect that there will be a relatively good initial demand for Summit Ridge that may be not quite at the seasonal patterns. From where we see, Summit Ridge is playing in a space in the high-end desktop that we currently aren't offering a product. So we believe we'll be competitive certainly with Core i5, as well as Core i7, and we will be launching in those areas.

Christopher Hemmelgarn
Analyst, Barclays Capital, Inc.

Q

Thanks very much. I guess then looking at the GPU side of things; you guys saw some pretty nice share gains in the first half of this year with the legacy portfolio. Just any metrics you can give to help frame how the business did in the first full quarter with Polaris? And any further color you can provide on how you see kind of the share situation progressing into the year-end?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yeah. Look, we're very happy with how Polaris ramped in Q3. The customer demand across all geographies was very strong. Q3 was primarily a channel-based quarter, so with our add-in-board partners. And as some of you noted, in the early part of Q3 we actually had some supply constraints given the customer demand. We did catch up towards the end of the quarter.

So very pleased with how that's ramped. I think it's a very competitive market. We've leaned into VR and we've leaned into sort of our work with DX12. And I think you can see in some of the benchmarks that we're doing very well there. As we go in to Q4, in addition to the channel partners continuing to ramp, you should expect some OEMs launching in Q4 more broadly. And so, yeah, Polaris is off to a very strong start.

Christopher Hemmelgarn
Analyst, Barclays Capital, Inc.

Q

Thanks very much, Lisa, and congrats on the strong quarter.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. Our next question is coming from Stacy Rasgon from Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. I first wanted to ask about the second sourcing ability embedded in the new Wafer Supply Agreement. So you've said that you were going to be doing some second sourcing, I guess, starting in 2017. I wonder did that push to actually seek out that supply diversification come from you or was it from specific requests from your customers. And given that, how do you guys make the decision on which products to manufacture at GLOBALFOUNDRIES versus manufacture somewhere else?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Sure, Stacy. So let me start with that. I think relative to our second sourcing or our supply sourcing flexibility, I think we make it on a product by product basis based on where we are in the business. So we will have multiple products in 14-nanometer and 16-nanometer that will be sourced across foundries. And similarly, when we talked about the Wafer Supply Agreement, we mentioned 7-nanometer as being a key target node for that.

Relative to how we make the decisions, I mean I think it's a combination of factors. It includes the complexity of the product; it includes the timing, customers, all kinds of things. So I think that's part of our product planning process.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. But did the customers themselves have a hand in driving you to make that push to second source?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

I think that's one element, but frankly I think what's more important to me is I need to commit a strong five-year product road map to the customers. And so, we want to make sure that we have all the flexibility to ensure nothing happens. I mean I'll give you just a little bit of context, Stacy, because I think you know our business well. In this past six months, I mean we've ramped five new FinFET products. I mean it's the fastest transition we've ever made in a process node and it's gone really, really well. And I think what's helped us with that is the fact that we've had two sources ramping at the same time.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. And for my follow-up, I just want to get some clarification on the timing of the Summit Ridge and Zen launches. So you said Summit Ridge launch is obviously in Q1 2017. You had said before that you were going to be shipping at least some product in Q4 of this year. Is that still true? And around the server launch in Q2, does that mean the volume is actually in Q3?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

So I think our expectation is we may ship some production samples in Q4, but the volume launch for desktop will be in Q1; and that's consistent with everything that we've planned into the business. And as it relates to server, I think it's a little early to tell. I mean I think we'll go through our process and our customers' processes, and then we'll have more color on that as we get into next year.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you, guys.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Thanks, Stacy.

Operator: Thank you. Our next question today is coming from Ambrish Srivastava from BMO Capital Markets. Please proceed with your question.

Kulin Patel
Analyst, BMO Capital Markets (United States)

Q

Hi. This is Kulin Patel calling in for Ambrish. Thanks for taking my question. In the prepared remarks you mentioned Semi-Custom to decline and Computing and Graphics to be up. So it implies that you'll have a pretty rich mix for Q4. And why is GM guided at only 1% given the really strong mix for 4Q?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

If you look at it from an overall standpoint, let's talk about Q2 to Q3, first of all. Q2 to Q3, we had a significant ramp in the Semi-Custom space, which led to significant revenue on the EESC side, and we were able to manage the margin flat quarter on quarter which we are pleased with. Going to Q4, essentially with the Computing and Graphics businesses, as what Lisa said, ramping and then the EESC business, in particular Semi-Custom coming down, the gross margin is up a percentage point primarily due to the mix in revenue between the two segments.

Kulin Patel
Analyst, BMO Capital Markets (United States)

Q

Okay. And for a follow-up, a question on the cash balance. It looks like you're guiding cash to be up in 4Q, and looks like you have some excess cash after the transactions you've done in the quarter, and looks like it might be up over your $1 billion target balance. How do you plan on using the excess cash or where would you reinvest that cash?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP, Advanced Micro Devices, Inc.

A

I think right now, as you observe, it's true, at the end of Q3 we did have some remaining net proceeds from the capital market transactions. After completing what we did in the early part of Q4, we have about $162 million of remaining net proceeds. What we plan to do with it, I think from a long-term strategy that hasn't changed. Our plan is continue to de-lever the balance sheet, reduce debt towards our longer term target of getting to the net debt, cash-neutral that I've talked about previously, and getting the leverage ratio down to about 2 times from a longer term standpoint.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations, Advanced Micro Devices, Inc.

A

Great. Operator, we'll take two more questions, please.

Operator: Certainly. Our next question today is coming from Joe Moore from Morgan Stanley. Please proceed with your question.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Lisa, you talked about a $4 billion performance desktop opportunity. I guess what's your thinking in terms of what you can eventually attain of that and just how are you thinking about your potential for market share? And can you give us some sense for when you have a chip like this, do you have enthusiasm about how quickly it can ramp into that segment? Thank you.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yeah. So I think if you look at our PC market share, as it's published by Mercury or so, I mean we're talking about somewhere around 10% plus or minus. I think we view that. Historically, we've been higher than that in the PC market and certainly the desktop market, especially the desktop channel market we're fairly well-known by that customer set. So we're enthusiastic about Summit. We think the performance is right on the mark with what we wanted to achieve. And we're hopeful that as we launch into the first quarter that there will be a good solid ramp in that business.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. And then how are you thinking about – as you think about bringing that chip to market, when will you make it available for third-party benchmarks and sort of get a broader marketing program beyond the launch that you've done? CES or before that?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yeah. I would expect – certainly, there are lot of confidential benchmarks at the moment. But in terms of third-party benchmarks, you would expect that in the first quarter.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Operator: Thank you. Our final question today is coming from Chris Rolland from Susquehanna International Group. Please proceed with your question.

Christopher Adam Jackson Rolland
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Congrats on a great quarter and nice to see it all coming together. We don't have September sell-through data yet and it's kind of hard to predict the holiday season and what it's going to look like for consoles. But perhaps the past two quarters growth in EESC might be outpacing kind of expectations for consoles. So I guess my question is, first of all, is that right? Is there something that's helping your guys' units here, like initial channel stocking for the PS4 Slim or the PS4 Pro? And how should we think about the size of the benefit that you're going to get from initial channel stocking there?

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Yeah. So, Chris, I think the game console shouldn't be really looked at on a quarterly level when you're looking at sell-in and sell-out, because it's so different from the other markets. I would say, on an annual basis, everything trues up. And the thought process is, in Q2 and Q3 there is a bit of build ahead as the customers are really building for the holiday season. And the customers do so much of their business in the last six weeks of the year. That's when all of the inventory is drained.

So my view is that if you look on an annual basis, the game console business is doing quite well. And so, we expect units to be up. We expect revenue for the business to be up for us and the quarterly transitions are less important. It's more we want to ensure that we're meeting our customers build cycle, so that they get to build everything that they want and get it into their channels. But from my standpoint, I think it's a very well-managed system.

Christopher Adam Jackson Rolland
Analyst, Susquehanna Financial Group LLLP

Q

Great. And congrats on the great quarter.

Lisa T. Su
President, CEO & Non-Independent Director, Advanced Micro Devices, Inc.

A

Thanks, Chris.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations, Advanced Micro Devices, Inc.

Operator, that concludes today's call. If you could wrap it up, please, that would be great.

Operator: Certainly. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We do thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2016 Earnings Call for 20-October-2016 5:00 PM ET
Thursday, October 06, 2016 08:48:07 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2016 Earnings Call for 20-October-2016 5:00 PM ET.

Press Release URL: http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzU1MTgzfENoaWxkSUQ9LTF8VHlwZT0z&t=1&cb=636125745189177282
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Advanced Micro Devices, Inc. (AMD)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Advanced Micro Devices Second Quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. [Operator Instructions]

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ruth Cotter, Chief Human Resources Officer and Senior Vice President of Corporate Communications and Investor Relations. Thank you. You may begin.

Ruth Cotter

Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

Thank you and welcome to AMD's second quarter conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If have you not reviewed these documents, they can be found on AMD's website at IR.AMD.com. Participants on today's conference are Lisa Su, our President and Chief Executive Officer and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on AMD.com.

I'd like to take the opportunity to highlight a few dates for you. Lisa Su will present at the Pacific Crest Global Technology Leadership Forum on the ninth of August, in Colorado. Raja Koduri, Senior Vice President and Chief Architect, Radeon Technologies Group, will attend the Jefferies Semiconductor Hardware and Communications Infrastructure Summit in Chicago on August 30. Mark Papermaster, Senior Vice President and Chief Technology Officer will present at the Deutsche Bank Technology Conference on September 13 in Las Vegas.

And our third quarter quiet time will begin at the close of business on Friday, September 16, 2016.

Before we begin, let me remind everyone that second quarter – that the second quarter 2016 was a 13-week quarter and we expect to record our extra week in the fourth quarter of 2016. Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally, please note we will be referring to non-GAAP figures during this call, except for revenue, which is on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary that we've posted on our website, at quarterlyearnings.AMD.com. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information. You'll also find detailed discussions about our risk factors and our filings with the SEC and in particular, AMD's quarterly report on Form 10-Q for the quarter ended March 26, 2016.

Now, with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, CEO & Non-Independent Director

Thank you, Ruth and good afternoon to all those listening in today. Our ongoing focus on diversifying our business model and delivering great products is creating solid market and financial momentum. Looking at the second quarter specifically, strong semi-custom demand and better than seasonal graphics sales drove a 23% sequential revenue increase and our return to non-GAAP operating profitability.

We also recorded our first full quarter licensing gain from our China server JV, with THATIC and improved our balance sheet with cash proceeds from the formation of our ATMP joint venture with NFME. Looking at our computing and graphics segment, revenue decreased 5% sequentially as stronger than seasonal GPU sales were offset by a decline in desktop processor sales. First half 2016 GPU sales increased by a double digit percentage from a year ago, as the investments we have been making to develop leadership graphics hardware, software, and drivers combined with new marketing campaigns are paying off.

Our strong second quarter graphics performance was capped by the launch of our new Polaris-based RX 480 GPUs at the end of June, which helped contribute to our highest desktop channel GPU shipments since the fourth quarter of 2014. The Radeon RX family resets expectations around the experiences and features gamers now want in a mainstream GPU. We are pleased with the Polaris launch, initial channel sales, and OEM design wins. We expect this strong demand to continue and help drive revenue growth in the third quarter, with the launch of the RX 470 and RX 460 desktop GPUs and Polaris-based notebooks from our OEM customers. We also delivered our third straight quarter of sequential professional graphics revenue growth and believe we gained share driven by increased adoption of Firepro graphics by OEMs as well as several cloud data center GPU compute wins.

In client, mobile APU sales increased for the third straight quarter, partially offsetting decreased desktop processor sales led by channel softness in China. Shipments of our recently launched 7th generation APUs are ramping well and outpacing sales of our 6th Generation APUs at this point in their life cycle. More than 25 new 7th generation APU systems, including several premium designs, are expected to be widely available in the coming months, from Acer, ASUS, Dell, HP and Lenovo, providing us with confidence in this part of our business as we enter the seasonally stronger second half of the year.

Turning to our enterprise embedded in semi-custom segment, our 59% sequential revenue increase is the largest since our first full quarter of semi-custom product shipments in 2013. As in the previous two years, we expect semi-custom shipments to peak for the year in the third quarter, as both Microsoft and Sony prepare for the holidays. Based on strong demand, we believe semi-custom unit shipments and revenue will grow on an annual basis.

Last quarter, at E3, Microsoft announced two new members of the Xbox One family powered by AMD. The Xbox One S is the slimmest Xbox console ever and the first to support HDR. The system is expected to go on sale in the coming weeks.

Microsoft also announced their next generation game console, codenamed Project Scorpio for the 2017 holidays. Project Scorpio is designed to be fully compatible with existing Xbox One software while leveraging AMD's leadership gaming technologies to create more immersive 4K and VR gaming experiences. Project Scorpio is one of the semi-custom design wins we communicated previously.

Our next Generation Zen processor products passed several key milestones in the quarter as well. I'm excited to report that in addition to conducting the first public demonstration of our next Generation Zen-based processors at COMPUTEX in June, priority server customer sampling began in the quarter and dual socket server platforms are now running at both our labs and our customers' labs. We are pleased with the performance we are seeing with Zen hardware, which is helping to expand our customer engagements and accelerating design win momentum across multiple OEMs and ODMs. We remain on track for volume shipments of our Zen server CPU in the first half of 2017.

In closing, over the last 18 months we have been diligently executing our strategic plan to improve our financial performance by delivering great products, strengthening our customer relationships, and simplifying our business. In the past six months alone, we released our game changing Polaris architecture, completed our ATMP JV transaction, announced a JV and IP licensing transaction with THATIC, and returned to non-GAAP operating profitability.

While we recognize we have more work to do, we believe that based on the ongoing ramps of our semi-custom SoCs, Polaris GPUs, and 7th generation APUs, we can deliver full year revenue growth in 2016 and non-GAAP operating profitability in the second half of the year.

We also remain focused on delivering our roadmap of high performance products and technologies, including Zen and our next generation Vega GPU architecture that can drive long-term growth.

Now I'd like to turn the call over to Devinder to provide some additional color on our second quarter financial performance.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

Thank you, Lisa, and good afternoon, everyone. The second quarter was a strong quarter, punctuated by better than expected financial performance, driven by demand for our semi-custom SoCs and the closure of our ATMP joint venture transaction with Nantong Fujitsu Microelectronics, which bolstered our cash position.

Second quarter revenue was $1.027 billion, up 23% sequentially, driven by higher sales of semi-custom SoCs. The year-over-year revenue increase was 9% with higher sales in both reportable segments.

Gross margin was 31%, down 1 percentage point from the prior quarter, primarily due to a higher mix of semi-custom SoC sales. Operating expenses were $342 million, up $10 million from the prior quarter, primarily due to increased marketing investments. We also recognize a $26 million licensing gain associated with our JV with THATIC and restructuring credits of $7 million, primarily related to facilities. We are pleased to report operating income of $3 million this quarter.

Net loss was $40 million with loss per share of $0.05, calculated using 794 million basic shares in the quarter. We recorded a pre-tax gain of $150 million, related to the ATMP JV transaction, an equity loss of $3 million based on our 15% ownership stake and taxes of $27 million related to the JV transaction. Adjusted EBITDA was a positive $36 million, compared to negative $22 million in the prior quarter.

Now turning to the business segments. Computing and graphics revenue was $435 million, down 5% from the prior quarter, primarily due to decreased sales of client desktop processors and chipsets. Revenue was up 15%, year-over-year, largely driven by higher client notebook processor and graphics sales.

Computing and graphics segment operating loss was $81 million, compared to $70 million the prior quarter, primarily due to lower revenue. Enterprise, embedded and semi-custom revenue was $592 million, up 59% from the prior quarter, and 5% higher than the prior year, driven by higher semi-custom SoC sales.

Operating income of this segment was $84 million, up from $16 million in the prior quarter, driven by higher revenue and a $26 million IP licensing gain compared to a licensing gain of $7 million in the first quarter.

Turning to the balance sheet. Our cash and cash equivalents totaled $957 million at the end of the quarter, up $241 million from the end of the prior quarter, primarily due to net cash proceeds from the ATMP JV transaction, offset by working capital needs in the quarter. Inventory was $743 million, up $68 million or 10% from the prior quarter, and higher than guided in support of expected higher semi-custom sales in the third quarter. In the second quarter, we recorded a $62 million investment on our balance sheet related to our 15% ownership stake in the ATMP JV.

Total wafer purchases from GLOBALFOUNDRIES in the second quarter was $75 million, and year-to-date, we have purchased $259 million. That as of the end of the quarter was $2.24 billion, flat from the end of the prior quarter and includes total borrowings of $226 million on our secured revolving line of credit.

Free cash flow in the second quarter was negative $106 million, compared to a negative $68 million in the first quarter of 2016, primarily due to the inventory build in support of strong second half revenue.

Now turning to the outlook, which is based on a 13 week fiscal quarter. For the third quarter of 2016, we expect revenue to increase 18% sequentially, plus or minus 3%, primarily driven by our graphics and semi-custom products, including the ramp of new semi-custom business. Non-GAAP gross margin to be approximately 31%, non-GAAP operating expenses to be approximately $350 million, due to an increase in R&D investments. IP monetization licensing gain to be approximately $22 million. To maintain non-GAAP operating profitability, non-GAAP interest expense taxes or other – and other to be approximately $45 million, cash and cash equivalents to be approximately flat, and inventory to be approximately %700 million. And lastly, for the full year 2016, we expect low single digit revenue growth year-over-year.

In closing, we are pleased with the progress we made this quarter. We launched exciting new products in the second quarter, with more expected to come to help drive strong revenue growth and improve financial performance in the third quarter. We recognize there's a lot more work to be done to return AMD to sustainable profitability and free cash flow generation, and look forward to continuing our progress over the coming quarters.

With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter

Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

Thank you, Devinder. Operator, if you could poll the audience, please, for our question and answer session.

QUESTION AND ANSWER SECTION

Operator: Certainly. We'll now be conducting a question and answer session. [Operator Instructions] Our first question today is coming from the line of David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Wells Fargo Securities LLC

Q

Thanks very much. My first question, can you give us any detail on the ramp in dollar terms of revenues from new semi-custom products in the September and December quarters, and what the seasonal pattern of these products might be?

Lisa T. Su
President, CEO & Non-Independent Director

A

Sure, David, this is Lisa. Let me start with that. So, our semi-custom business overall, we see as strong for the year. I think the predominant business is the current generation game consoles, and as they ramp into the second half and the stronger holiday season. We expect the seasonality of semi-custom to be similar to prior years, where we'll see a peak in the third quarter and decline in the fourth quarter, and we will see the new business layer in, starting in the third quarter, but I don't expect that to change the seasonality pattern. So you know, we're building up for a strong holiday season overall.

David M. Wong
Wells Fargo Securities LLC

Q

Okay. Great. Thanks, Lisa. And since the launch of your Radeon 480 graphics product end of last month, have you been able to supply to demand for the cards or if not, when do you expect demand will rise to match supply?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, so, David, we're very pleased with the launch of the Radeon RX 480. We had good supply at major retailers on launch day. Since then, the demand has continued to be strong and so some of the retailers are out of supply. We do see that the 14nm LPP yields are good and we are ramping up production steeply. So we expect that that will equalize as we go through the quarter. We are also very soon going to launch the rest of the Radeon RX family. And so you'll see three products in the third quarter in terms of overall product momentum.

David M. Wong
Wells Fargo Securities LLC

Q

Great. Thanks very much.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, David.

Operator: Thank you. Our next question today is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis
Jefferies LLC

Q

Thanks for taking my question. The first one, Lisa, maybe for you. The China licensing deal was – I thought it was creative and fascinating. Can you characterize kind of the pipeline of IP deals that you have or technology deals? Is this it or do you have more in the pipe? Can you talk about timing or the types of deals you might be working on?

Lisa T. Su
President, CEO & Non-Independent Director

A

Sure, Mark. So the China JV, as you said, we announced it last quarter and it's now in operation. It's actually going well. So we're on track for some of the important milestone deliveries that we had. In terms of the overall pipeline, I would say we have a nice set of interesting opportunities. They are very much – as you know, they take a while for them to come to fruition. But we feel good about the model, which is partnering with folks that need high performance technology and we'll continue to work those deals as we go through the next couple of quarters.

Mark Lipacis
Jefferies LLC

Q

Okay. Great. A follow-up, if I may. I was hoping that you could just help me with the accounting of the semi-custom design wins. If I remember properly, there was two that you expect in the back half of this year and then one, I thought it was the first half of next year. So Scorpio is one of those three? But that's next year. So that's the one for next year?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, let me help you out with the accounting. I know that we've had several different pieces of information on the semi-custom new design wins. So, what we've said is we'll have a total of three semi-custom new design wins that will account for about, let's call it $1.5 billion of revenue, approximately, over the next three to four years. We're starting the ramp of new business this coming quarter, this third quarter, and that will be one of the semi-custom design wins. Scorpio is also a design win, and that, as our customer has said, will be in 2017, and we'll give you more information about the third one as we have more visibility.

Mark Lipacis
Jefferies LLC

Q

And do you have more design wins that you just haven't announced or mentioned timing of?

Lisa T. Su
President, CEO & Non-Independent Director

A

Well, we're trying to get out a little bit of the counting game, but I think, overall, we're pleased with the semi-custom pipeline. I think some of the questions that we've been asked are, do we believe we have design wins outside of game consoles, and the answer is yes. We have design wins outside of game consoles. I think we view the pipeline as good and it's a business model that works well with our high performance technology slant and our SoC capabilities.

Mark Lipacis
Jefferies LLC

Q

Thank you. That's very helpful.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Mark.

Operator: Thank you. Our next question today is coming from Matt Ramsay from Canaccord Genuity. Please proceed with your question.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

Thank you very much. Good afternoon. Thanks for taking my questions. Lisa, I have a couple of questions on Zen. You gave some color in your prepared remarks about server opportunities for Zen starting in the first half of next year. Maybe you could give us a little color on potentially what markets you're going after there, where you see the opportunities. It seems to me that a lot of different moving parts in the cloud market with OpenPOWER and ARM and then custom CPUs from Intel. But a pretty big enterprise space that's x86-captive for you guys to go after, so I'd just be interested to see what the strategy is going forward there and where the design wins might come from.

Lisa T. Su
President, CEO & Non-Independent Director

A

Sure, Matt. So, let me give you a little bit of color of how we see it. First of all, look, Zen is a brand new CPU design and we had very ambitious goals for it.

Given where we are today, it's actually coming up very well. We've demoed both desktop systems and now we have server systems working in both our labs and our customers' labs. I would say as the progress of Zen is – goes along in terms of validation, the customer interest has increased, and so we did close a number of design wins in the second quarter, and we have a number more in the pipeline, as we go into the third quarter and more widespread availability.

Our view is, Zen is a general purpose server architecture that can play in many different places. So you mentioned the cloud. I think that's certainly one target market, given the growth there. We also see there are workloads that would be particularly fit well for sort of the performance areas that we're targeting. I think enterprise is also again very much a target area for Zen. What we're looking for, again, is ensuring that we have a very high quality launch, and so we're working very closely with customers to make sure that we run their workloads and demonstrate the performance improvements that we expect. But as I said, overall, it's going well and we continue to work with customers to ensure that they see the benefits of Zen and working with AMD.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

Thank you for the color and it's good to hear. I guess another question on Zen, more in the PC markets, because I think your prepared remarks focused a bit more on server, but maybe you could give us a little bit of an update in the timing of desktop and notebook potential launches. It just seems to me, going into the holiday season, it's still a little unclear as to where Zen is going to land relative to holiday ramps in the Western markets and to Chinese New Year. So any color around that would be really helpful. Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

No, that's a fair question, Matt. We have been very focused on the server launch for first half of 2017. Desktop should launch before that. In terms of true volume ability, I believe it will be in the first quarter of 2017. We may ship some limited volume towards the end of the fourth quarter, based on how bring up goes and the customer readiness. But again, if I look overall at what we're trying to do, I think the desktop product is very well positioned for that high end desktop segment, that enthusiast segment in both channel and OEM, which is very much a segment that AMD knows well and so that's where we would focus on desktop. You should expect a notebook version of Zen, with integrated graphics in 2017, and that development is going on as well. And so, I think it's just a time of a lot of activity around the Zen and the different Zen product families.

Matthew D. Ramsay
Canaccord Genuity, Inc.
Q

Thank you very much. Congratulations on the return to profitability.

Lisa T. Su
President, CEO & Non-Independent Director
A

Thanks, Matt.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP
A

Thank you.

Operator: Thank you. Our next question today is coming from the line of Stacy Rasgon from Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC
Q

Hi, guys. Thanks for taking my questions. I was looking at the implied guidance for Q4. You said for the full year up low single digits, so call that 3%, but it would imply Q4 down, 16%, 17% sequentially, and actually down on an absolute basis lower than I would have thought. I think Q4 has an extra week in it. I was wondering if you could give us some color on how we see the drivers for seasonality going from Q3 to Q4 across both of the businesses, given the trajectory of the different product launches that we have in the back half. Like, how do you come to that number?

Lisa T. Su
President, CEO & Non-Independent Director
A

Sure, Stacy, maybe I'll start and then see if Devinder would like to add to it. So look, when we started the year, our expectation is that we would grow revenue in 2016, versus 2015, but we were coming off of a very low base in the first quarter. So we've been pleased with how it played out, certainly in our second quarter revenue and the third quarter revenue guidance.

Overall, the businesses are performing well. So we do expect both computing and graphics and EESC to both grow for the year. I think the semi-custom business is the large driver of the fourth quarter, in terms of just how we see the overall business playing out, but the computing and graphics business is playing out as you might expect. So, the second half should be seasonally higher. Certainly with Polaris and as we launch broader availability across the product line, as well as the seventh generation APUs as they go into back-to-school and holiday. So that's the way we should think about it.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Okay. Thank you. For my follow-up, I just wanted to take a look at your notebook shipments in the quarter. So they were up again sequentially, I think they were up double digits in Q1, I think they were up in Q4 as well. So three quarters in a row of sequential increases, obviously off of a low base as well. How confident are you – what's driving that? Is it actually sort of sell out that's actually driving the demand or is this sell in into the channel? And how should we think about that potentially normalizing?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, so if you're talking about the notebook computing business. Actually, we are kind of pleased with how it's performed. So if you look at it, overall the – our OEM customers have adopted our technologies. So we see that across both notebook and desktop, but presumably notebook. We are also making progress in commercial and that was a very important initiative over the past five or six quarters, and so that's been nice to stabilize the business. And, again, I don't believe it's a sell-in phenomenon. Actually, it's consumption share that we see increasing. I think we have a reasonable opportunity to add to that in the second half of the year. But it's really around our products and the platforms that we're putting together with the OEMs.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Got it. If I could ask one more really quick. I was just a little surprised at how much your wafer purchases at GLOBALFOUNDRIES came down quarter-over-quarter, given the increase in notebooks as well the timing of the Polaris launch. Should we read anything into that?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

I think basically the purchases of the wafers are in line with product demand and mix of business and as I said in the prepared remarks, year-to-date we've purchased about $260 million of wafers and we are getting into the back half of the year, which as you can see, with our revenue guidance in Q3, is pretty strong.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Thank you, guys.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse group. Please proceed with your question.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Yes, good afternoon, guys. Thanks for letting me ask the question and congratulations on orchestrating the turnaround. I guess, Lisa, my first question, I'd kind of like to get your view on the news earlier this week around SoftBank and ARM. You're sort of in a unique position because you're both a partner with ARM as an ARM licensee, but if you look at your custom silicon business, especially on the x86 architecture, you can make the argument that you're a little bit of a competitor as well. So I'm kind of curious how you see kind of the reaction to that from a customer perspective, and does that change your view of how you might be able to monetize your own IP in the future?

Lisa T. Su
President, CEO & Non-Independent Director

A

John, thanks for the question. Look, I think it's a very interesting deal. The ARM-SoftBank deal. I think we have a lot of respect for ARM. They are a close partner. I'm not sure we would call them a competitor. Overall, they are a partner. As it relates to how we think about our IP, we really believe that our IP, particularly the high performance element of it, on the microprocessor and the graphics side is very unique and in some sense, there are very few places in the industry where you have access to it. I think the applications that need it, whether you're talking about consumer applications or enterprise cloud applications are growing. And so it's an opportunity for us to look for larger markets to monetize, beyond just our own products. And that's in general the way we think about IP monetization. We have a set of products that is very important to our business model, but our IP can go further than our products themselves, and so we would continue to look for opportunities to monetize our IP.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

And then guys, I apologize if I missed this, you commented on your expectations for GPUs going into Q3 and for semi-custom. How do you view the PC outlook within your total outlook of up 18%? And then I've got a quick follow-up.

Lisa T. Su
President, CEO & Non-Independent Director

A

Sure, so let me talk about the PC market overall. I think our view of the PC market is pretty similar to others in the industry. We would say overall for 2016, high single digit decline. We have seen some positive signals and we saw some positive data points from IDC earlier the last week, and then we saw a little bit of pickup in consumption in June from our OEM customers, but, again, that was compared to, let's call it a soft April/May.

Our view is OEM business looks okay. The channel for us is still weaker than we would like, and that's our view of the PC business. Even in that framework, we believe we can grow our computing and graphics business on the strength of the products. The graphics products, we've talked about as they ramp in the second half of the year. And on the computing side as well, I think we have a number of new platforms and back-to-school and holiday are important for us. So, that's the way we would characterize PCs.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

So, Lisa, not to put words in your mouth, but for Q3, PC is up, but perhaps not up as much as seasonal? Is that the best way to think about it within your guide?

Lisa T. Su
President, CEO & Non-Independent Director

A

I would say, roughly seasonal. I mean roughly seasonal.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

That's helpful, and then last thing here. I apologize, but Devinder, now that you've got revenue growth behind you and you've got some momentum here, how do we think about the gross margin progression from here and kind of the puts and takes? I know there's a lot of different dynamics there including the mix of semi-custom, but from these levels, how should we think about gross margin progression over the next, call it two to four quarters?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yes, John, I think the way you think about it is, it is the mix of business. So that's a good observation, but also you see us making continuing investments in our roadmap, in graphics and other areas. And we believe that will help us improve the gross margin. And then as you look out longer term, as you observe, get beyond a couple of quarters and get into 2017, we do have the Zen product introduction coming up. We also have a [ph] partner (33:36) in the pro graphics area, and that should drive even higher gross margins compared to where we are today, given the mix will get better with those products.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Thankful. Thanks, guys.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, John.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question.

Sidney Ho
Deutsche Bank Securities, Inc.

Q

Thanks for taking my question. This is Sidney Ho calling in for Ross. Just a follow up to the last question, but focusing on the third quarter. You guided third quarter gross margins to be flat, but the profile of the revenue growth seems to be – would suggest gross margin should decline on a mix-adjusted basis. How should we think about gross margin by segment in Q3? What are some of the moving parts? And maybe follow-up to that, do you expect a gross margin of the new custom design wins ramping this quarter to have better or worse margins than the game console business?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah, I think that's well put. I mean, if you look overall, when we have a higher mix of semi-custom business, typically the gross margin is lower since the business model on the semi-custom side imparts a lower gross margin, just the way the model is constructed. So keeping it flat at 31%, with the guide in Q3 versus where we were in Q2, we were pretty pleased with that and I think you are seeing some of the strength underlying the non-semi-custom business is allowing us to keep it flat quarter-on-quarter.

Sidney Ho
Deutsche Bank Securities, Inc.

Q

Okay. Great. And then my follow-up question is, you guys talked about the Zen products at COMPUTEX and it's on track to launch in the first half of 2017. Can you talk about the impact on R&D expense and maybe on gross margins on the preparation of this launch over the next few quarters? And if you hit your revenue plans that you have thought about, at what point do you need to start increasing OpEx from the $330 million to $350 million level?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP
A

You know the OpEx side of it, if I look at it from that standpoint, you have seen our OpEx actually go up, and in Q3 we are guiding the $350 million level, with specific targeted investments we are making in key R&D areas and products, in particular the high performance roadmap that we have laid out. We are also making some specific investments in the marketing area, given the new products that are coming out on the PC side as well as the GPU side. Trying to attract end users back to the AMD brand and I think you are continuing to see us do that. And that helps obviously with these new products underlying the better margins that you get with the fresh cycle and particularly with the new technology areas that we are putting our products in.

Sidney Ho
Deutsche Bank Securities, Inc.
Q

Great, and maybe just one quick follow-up. For Q4, with an extra week in the fiscal quarter, should we expect OpEx to be at the high end of the level, that will be enough, with the $350 million?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP
A

I'm not prepared. One of the things about OpEx is I always say, even if you look at Q3, the OpEx is up on a guided basis at $350 million, but very much as I always say, we manage the OpEx really tightly. We've done that over the last several years and obviously it gets modulated somewhat by revenue. Q3 revenue is up 18%, OpEx is at $350 million, and we'll talk about Q4 when we gather here in about 90 days.

Sidney Ho
Deutsche Bank Securities, Inc.
Q

Okay. Thank you very much.

Operator: Thank you. Our next question today is coming from Joe Moore from Morgan Stanley. Please proceed with your question.

Joseph L. Moore
Morgan Stanley & Co. LLC
Q

Great. Thank you. I was also curious about the GLOBALFOUNDRIES being so low in Q2. And I guess, have you guys finalized the 2016 wafer supply agreement, and can you talk more generally about how you're deciding which products are allocated to GLOBAL and TSMC and is there anything that's exclusive to one or the other?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP
A

Yeah, several parts to it. The working relationship, as Lisa said, with GLOBALFOUNDRIES is very good. We continue to work through the 2016 WSA and that part's now finalized. We are in the process of negotiating that. In the meantime, we continue to get delivery of wafers for the products that we need in line with the product demand and mix of business. And relative to your – which products on which foundry, we typically do not share the source of foundry for any of our wafers or products.

Joseph L. Moore
Morgan Stanley & Co. LLC
Q

Okay. That's fair. And then with regards to kind of thinking about next year's OpEx, when you look at the importance of a CPU that can attack the server market and can attack the high end of the sort of enthusiast CPU market, I guess I don't want you necessarily to be constrained by the R&D requirements of the last couple years. So how do you think about that if you start to show some revenue traction? I mean, can you – how much flexibility do you think there is on spending? And I'm not asking for a number, but just qualitatively how are you thinking about profitability versus investing in these opportunities next year?

Lisa T. Su
President, CEO & Non-Independent Director

A

Joe, I would say my engineers would be very happy to hear you say that. So, look, I appreciate the question. I think you've seen and Devinder said this, we're going to be disciplined in OpEx, and, as this quarter was an important turning point for us, to return to operating profitability. I think we have a nice sort of a view into Q3. We will look for opportunities to ensure that we are strategically placing the big bets in R&D. And, both on the CPU and the GPU side. For example, this year we have ramped up our investments on the graphics side with the formation of the Radeon technologies group, and what we're doing in both hardware and software, very significant investments and similarly on the CPU side as well. I think we take very seriously our commitments in terms of profitability, but we will invest in the future and we'll continue to look for opportunities to balance those in the right way. I don't know, Devinder, do you want to add anything?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

No, I think that's well said. 2017, obviously as we get to the back half of the year, Q3 we've guided, we're getting to that, get through Q3, and get into Q4, and at that point, we'll start thinking about where we want to place our bets as these are put in in terms of the longer term investments in 2017. Right now, we are really focused on getting – we got to non-GAAP operating profitability this quarter. We want to maintain that in Q3 and then we'll see what happens from there.

Joseph L. Moore
Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Operator: Thank you. Our next question today is coming from Christopher Danely from Citigroup. Please proceed with your question.

Marco Chen
Citigroup Global Markets, Inc. (Broker)

Q

Hi, this is Marco Chen calling on behalf of Chris Danely. Thanks for letting me ask the question. My first question is, could you please update us on your expectations on the static x86 server JV in China? Are there any potential legal risks with it, potentially Intel?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes, so relative to the server JV that we have with THATIC, as we stated before, we believe that our joint venture is operational. I think it's well underway. The technology that we're licensing is AMD technology, and so we don't have any issues relative to licensing. I think -

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah, if I may add. One thing on the update, I guess, if you look at the prepared remarks and the commentary for Q3, is we now expect, based on technology transfer milestone completion, to recognize $22 million of licensing gain in Q3 and approximately $75 million for the year, which is higher than what we had said previously when we said it was $52 million for the year. So it's incremental and therefore, as Lisa said, things are [ph] presently (42:02) on track and we continue to meet our technology transfer milestones from a date standpoint.

Marco Chen
Citigroup Global Markets, Inc. (Broker)

Q

That's very helpful. Thank you. And then my follow up. I know you guys mentioned PCs and graphics segment should be up year-over-year. Could you guys get into more detail and maybe talk about each segment individually, so your trend for PCs versus GPUs?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, we don't usually go into granularity about the sub segments of the business. I think it's fair to say that our PC business has stabilized, and what we're seeing now is the opportunity as we go into the seasonally stronger half of the year, on both the PC side and the graphics side, on top of that, with some new product launches. We believe that we will end up growing year-over-year. But, again, we don't usually guide to details within a segment.

Marco Chen
Citigroup Global Markets, Inc. (Broker)

Q

Thank you.

Operator: Thank you. Our next question today is coming from Ambrish Srivastava from BMO. Please proceed with your question.

Ting Pong Gabriel Ho
BMO Capital Markets (United States)

Q

Hi. This is Gabriel Ho calling in for Ambrish. Thanks for taking my question. I have a follow-up on your Project Scorpio comment. I think it's going to be launched in 2017, and I think you have significantly higher performance and support [ph] for 4K (43:19). So how should we think about maybe the pricing or ASP that compared to what you have indicated on the current generation game console platform?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes, so, again, we wouldn't disclose anything that's incrementally more than what our customer has disclosed. So I think Microsoft has talked about their goals with Project Scorpio. I think we are in support of those goals. Given the performance level, you would imagine that there's more capability on chip, but I wouldn't want to go more than that.

Ting Pong Gabriel Ho
BMO Capital Markets (United States)

Q

Okay. As a follow-up, I think your competitor has launched a comparable mainstream product. I think GeForce 1060, so and given the absence of your maybe higher performance part launching, maybe to the second half. So how should we think about the rest of the year on the demand on your graphics side?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, we are feeling very good about our Polaris launch. This was our strategy from the beginning. We laid out a strategy where we were going after the mainstream, and trying to create really a new experience in terms of both capability and price point, and I think we've done that. We're also very, very focused on the X12 and our performance on new APIs like Vulkan. So we're happy with our competitiveness. I think it's played out as we thought it would do.

Certainly, our aspirations in GPU are to certainly have very competitive products across the entire product line and so we've talked about working on Vega, which is the next generation high end architecture, but in terms of our competitiveness, we again, we've executed what we thought we were going to execute and it seems like from both customer reviews and analyst reviews, that it's pretty well received by market.

Ting Pong Gabriel Ho
BMO Capital Markets (United States)

Q

Okay. Thank you.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

A

Operator, we'll take two more callers, please.

Operator: Certainly. Our next question is coming from Ian Ing from MKM Partners. Please proceed with your question.

Ian L. Ing
MKM Partners LLC

Q

Yes, thank you for fitting me in. So, EESC looks like you achieved operating income, same level as third quarter of last year, but with $45 million lower revenues. So, just wondering how you got more profitable in this segment, given these are both strong game console quarters and also you got annual price declines in game consoles, I assume. Thanks.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

I think if you look at the profitability, you've got to remember in the EESC segment, we also have the businesses embedded, for one, and also the investments we are making for the enterprise side of it, with the data center product that's coming out in 2017. So, the profitability – you are right about the observation, but profitability depends upon, obviously, the largest business we have in there right now is the semi-custom business, but also the investments on the OpEx standpoint that we make year-on-year, and we talked about the targeted investments we were making in some of the product areas.

Ian L. Ing
MKM Partners LLC

Q

Okay. Great, but these are relatively older products then, embedded and enterprise products at the moment then, it sounds like. Okay. Great. And then my follow-on is, you had a one-year cadence for GPUs now. Can you talk about expectations on how last year's R9 300 Series winds down and how that plays out? It looks like in Q2, there was really just a lack of a pause ahead of a known refresh and do you expect sort of a sharp wind down at some point or is it more gradual?

Lisa T. Su
President, CEO & Non-Independent Director

A

Actually, Ian, that's a good observation. The 390 series or the 300 series overall, actually did do okay in the second quarter. We were also wondering whether there would be a pause prior to a new generation. I think we see it as a very orderly transition. It's actually one of our better product transitions as we go from the 300 series over to the 400 series. So, again, nothing very spectacular to report, other than the sell through has continued – the sell through was good in the second quarter and we believe that it's an orderly transition of the inventory.

Ian L. Ing
MKM Partners LLC

Q

Okay. Great. Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Ian.

Operator: Thank you, our final question today is coming from Jaguar Bajwa from Arete Research. Please proceed with your question.

Jaguar Bajwa
Arete Research Services LLP

Q

Yeah, hi, thanks for taking my question. Just a question on Q3. Could you just lay out which will be the fastest growing sequential segment in Q3? Will that be the GPU business, the CPU or semi-custom? Thanks.

Lisa T. Su
President, CEO & Non-Independent Director

A

Jaguar, I think what we would say is that our Q3 guidance is, you know, both semi-custom and graphics will be the drivers of the sequential revenue growth.

Jaguar Bajwa
Arete Research Services LLP

Q

Okay. Thanks. And then could you just give a bit more clarity around Vega timing? And also what do you expect to be your differentiation here versus what NVIDIA has done with Pascal?

Lisa T. Su
President, CEO & Non-Independent Director

A

Again, I think we'll talk more about the details of the Vega architecture in time, but certainly Vega is a high performance GPU that will use high bandwidth memory as part of it. So, I would leave the details for a more – as we get closer to the Vega launch dates.

Jaguar Bajwa
Arete Research Services LLP

Q

Okay, well maybe just one final one then. When we get into the server CPU cycle with Zen, should we expect any kind of contribution from an APU format with CPU plus Vega, because we are seeing a lot of acceleration now in the data center? Do you think that could be a key product for you guys, which maybe your competitors may not have, bringing an AP into the server market for high performance servers?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, I think it's fair to say that we do believe we can combine a high performance CPU with the high performance GPU. As we look at our GPU compute in general, both professional graphics and server markets for GPU, I think that will increasingly become an area of focus for us, as we continue to grow the graphics business. So I think the answer is yes. I mean, obviously it will come in time, but it's an area where combining the two technologies makes a lot of sense.

Jaguar Bajwa
Arete Research Services LLP

Q

Okay. Thank you very much.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thank you.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

Operator, that concludes the question-and-answer session. If you wouldn't mind wrapping up the call, please.

Operator: Certainly. That concludes today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2016 Earnings Call for 21-July-2016 5:00 PM ET
Thursday, July 07, 2016 08:30:11 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2016 Earnings Call for 21-July-2016 5:00 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle_Print&ID=2187336
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Advanced Micro Devices, Inc. (AMD)

Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Micro Devices First Quarter 2016 Earnings Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ruth Cotter, Senior Vice President, Human Resources, Corporate Communications and Investor Relations. Please go ahead, Ms. Conner.

Ruth Cotter

Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

Thank you, and welcome to AMD's first quarter conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you've not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a few dates for you. Devinder Kumar will present at the JPMorgan Global Technology Media and Telecom Conference on May 24 in Boston, and our second quarter quiet time will begin at the close of business on Friday, June 17, 2016.

Before we begin, let me remind everyone that first quarter 2016 was a 13-week quarter for AMD, and we expect to record our extra week in the fourth quarter of 2016.

Today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations; speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Please note that we will be referring to non-GAAP figures during this call except for revenue, which is on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measures in the press release and CFO commentary posted on our website at quarterlyearnings.amd.com.

Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC, and, in particular, AMD's Annual Report on Form 10-K for the year ended December 26, 2015.

Now with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, CEO & Non-Independent Director

Thank you, Ruth, and good afternoon to all those listening in today.

Our strategy to improve our business by gaining share in the Graphics and PC markets, growing our Semi-Custom business and expanding into the datacenter market is progressing as planned.

First quarter revenue decreased in line with expectations to $832 million, driven largely by an anticipated reduction in Semi-Custom shipments. Looking at our Computing and Graphics segment, against the backdrop of one of the largest sequential Q4 to Q1 declines in the PC industry and ongoing softness in the Chinese PC market, we continue to execute our multi-quarter plan to improve the financial performance of this part of our business. Revenue decreased 2% sequentially, as improved notebook processor, desktop GPU and professional graphics sales offset declines for our other PC products.

We reduced our operating loss from the prior quarter, outperformed the PC market and believe we regained processor and GPU share. Importantly, we accomplished this while maintaining our disciplined approach to managing inventory in the quarter, as our inventories with MNCs and downstream channel partners were flat to slightly down sequentially.

We had our second straight quarter of double-digit sequential percentage growth in mobile APU sales. We began shipping our seventh-generation Bristol Ridge APUs in March, and have secured new design wins that continue our expansion into more premium notebook offerings, including HP's new ENVY x360 convertible notebook. Compared to our previous generation 15-watt APU mobile offering, Bristol Ridge delivers a 20% improvement in our already industry-leading graphics performance, and up to 20% CPU performance uplift.

In Graphics, we delivered a strong sequential double-digit percentage increase in desktop discrete unit shipments largely driven by increased sales of our Radeon 300 Series GPUs in the channel. Our investments in Graphics and our focus on creating industry-leading drivers and software are starting to pay off. We have delivered seven new Graphics drivers releases in the first quarter alone, not only improving the performance and user experience of our GPUs, but also adding support for a new AAA game titles and features like our innovative XConnect external GPU technology. We expect to grow our investment in Graphics throughout the year as we further update our Graphics software and extend our leadership in DirectX 12 gaming and VR.

We believe VR will be a key long-term demand driver for AMD, across both our consumer and Professional Graphics offerings, especially as content creators require more powerful GPUs to create fully immersive VR experiences. To capitalize on this trend, I'm proud to share that we plan to launch the industry's most powerful platform for VR creation and consumption at the end of this month, when we introduce the $1,500 Radeon Pro Duo.

We remain on track to introduce our new 14-nanometer FinFET based Polaris GPUs midyear. Polaris delivers double the performance per watt of our current mainstream offerings, which we believe provides us with significant opportunities to gain share.

Now turning to our Enterprise, Embedded and Semi-Custom segment. Revenue declined 24% sequentially due to lower Semi-Custom sales. Based on our current visibility, we expect Semi-Custom unit shipments and revenue to grow, on an annual basis, based on strong demand for game consoles and the ramp of our previously announced new business in the second half of the year.

In Embedded, we secured new designs across our target markets. Highlights from the quarter include our first significant CPU design win with one of the leading network infrastructure providers. I'm also pleased to share that we are making excellent progress on our strategy to reestablish our presence in the datacenter market, as we successfully passed several key milestones related to our next-generation Zen-based server processor. The Zen silicon running in our bring-up labs is meeting our expectations, and priority customer sampling is on track to begin this quarter in advance of datacenter system availability in 2017.

Our EESC results in the quarter also benefited from the latest step in our strategic IP monetization efforts. As we've disclosed earlier today, we have licensed high performance microprocessor technologies to a newly created JV we formed with THATIC. The JV will develop SoCs tailored to the Chinese server market.

The $293 million licensing agreement is a great example of how our IP monetization efforts can accelerate the adoption of AMD technologies in key markets while also strengthening our balance sheet and financial results.

Today's announcement is a key part of our overall strategy to re-enter the datacenter market, with the JV providing AMD with a differentiated approach to gain share in the fastest growing regional server market.

In closing, we're making steady progress on the clear strategy we have developed to return AMD to growth and profitability through delivering great products. We are executing well to our product and technology roadmaps, including the introduction of our seventh-generation APUs, our midyear launch of new Polaris GPUs and our future Zen-based processors.

As we enter into the second quarter, we see strong demand for our Semi-Custom and Graphics products, which we believe will lead to stronger than seasonal sequential revenue growth. For the full year, we are confident that our product portfolio and business execution can further strengthen our financial results and enable us to grow annual revenue and return to non-GAAP operating profitability in the second half of the year.

Longer term, we expect a strong customer interest in AMD's datacenter offerings will result in new design wins that can deliver profitable revenue growth in 2017 and beyond.

Now I'd like to turn the call over to Devinder to provide some additional color on our first quarter financial performance.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

Thank you, Lisa, and good afternoon, everyone. From a financial perspective, the first quarter came in as expected.

We continued funding our roadmap products and also made progress on our IP monetization strategy with the execution of a licensing agreement that is expected to generate $293 million of cash before tax, contingent upon achieving certain milestones.

Let me review the results for the first quarter. As a reminder, our first fiscal quarter was a 13-week quarter. Revenue was $832 million, down 13% sequentially, driven primarily by lower sales of Semi-Custom SoCs. The year-over-year decline was 19%, due primarily to lower sales of Semi-Custom SoCs and client notebook processors.

Gross margin was 32%, a 2-percentage-point improvement from the prior quarter due primarily to a more favorable product mix and a mix of revenue between the business segments. Operating expenses were $332 million, up $9 million from the prior quarter primarily due to increased R&D expenses related to new products, partially offset by lower SG&A expenses.

Operating expenses were $12 million higher than guided, primarily due to the timing of mass and hardware for our new products and some incremental investments in Graphics. Operating loss was $55 million, and net loss was $96 million with loss per share of $0.12 calculated using 793 million shares. We recognized a $7 million licensing gain associated with our IP monetization efforts in the quarter.

Net interest, other expense and taxes were $41 million in the quarter, down from $53 million in the prior quarter, primarily due to a $13 million tax settlement in Q4 2015, which was included in the GAAP results. Adjusted EBITDA was negative $22 million, compared to negative $5 million in the prior quarter.

Now turning to the business segments. Computing and Graphics revenue was $460 million, down 2% from the prior quarter, primarily due to lower desktop processor sales. Computing and Graphics segment operating loss was $70 million, compared to $99 million in the prior quarter, primarily due to decreased operating expenses.

Enterprise, Embedded and Semi-Custom revenue was $372 million, down 24% from the prior quarter, primarily due to lower sales of our Semi-Custom SoCs. The operating income of this segment was $16 million, down from $59 million in the prior quarter, driven primarily by lower revenue and higher R&D expenses, partially offset by the IP licensing gains.

Turning to the balance sheet, our cash and cash equivalents total $716 million at the end of the quarter, down $69 million from the end of the prior quarter, primarily due to lower sales and higher debt interest payments of $69 million in Q1. Additionally, our Q1 results include $52 million net of taxes received from our IP licensing agreement.

Inventory was $675 million, down $3 million from the end of the prior quarter. Total wafer purchases from GLOBALFOUNDRIES in the first quarter were $183 million, including $155 million related to the 2015 WSA amendment taken in Q1 2016.

Debt, as of the end of the quarter, was $2.24 billion, flat from the end of the prior quarter, including total borrowings of $230 million on our secured revolving line of credit, unchanged from the prior quarter. Free cash flow in the first quarter was negative $68 million, compared to a positive $27 million in the fourth quarter of 2015.

Before providing our outlook for the second quarter, let me provide an update on our ATMP joint venture with Nantong Fujitsu Microelectronics. Earlier this month, NFME's shareholders approved the transaction. And we are currently in the final stages of obtaining regulatory approvals, and expect to close the transaction this quarter.

Now turning to our outlook, which is based on the 13 fiscal week quarter. For the second quarter of 2016, we expect revenue to increase 15% sequentially, plus or minus 3%, driven by a strong demand for our Semi-Custom and Graphics products; non-GAAP gross margin to be approximately 31%; non-GAAP operating expenses to be approximately $335 million; IP monetization licensing gain to be approximately $25 million; non-GAAP interest expense taxes and other to be approximately $45 million, including approximately $3 million of taxes related to the IP licensing gain; cash and cash equivalents to be approximately $950 million, including approximately $320 million related to our ATMP joint venture; inventory to be up slightly from first quarter levels.

For the full-year 2016 we continue to expect revenue to grow year over year, to be non-GAAP operating profitable in the second half of 2016, and to generate positive free cash flow from operations for 2016. Also we now expect non-GAAP operating expenses to be between $330 million and $350 million per quarter; IP monetization licensing gain of approximately $52 million, with $7 million already recognized in Q1 2016; and capital expenditures of approximately $80 million. For the rest of the full-year 2016 outlook, please refer to the written CFO commentary document posted on amd.com.

In closing we continue to strengthen AMD's core business, while leveraging our IP and technology. As we look to the rest of the year, we are focused on introducing compelling new products, regaining market share, and improving our financial performance.

With that I'll turn it back to Ruth. Ruth?

Ruth Cotter

Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

Thank you, Devinder. Operator, we'd be very happy for you to poll the audience for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time we'll be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Mark Lipacis from Jefferies. Please proceed with your question.

Mark Lipacis

Jefferies LLC

Q

Thanks for taking my question. And I guess this is one of the most exciting developments that we've heard about in a while, the license agreement. And I was hoping that you could maybe provide some more color on that.

Could you help us understand – maybe just go back in time and just explain the cross license agreement that you have with Intel? What should investors understand about that? And assessing any kind of a risk associated with this IP agreement? Do you tell Intel that this is going on? And did you get clearance from them? Or is this something you just kind of run with? And do you have to wait for like regulatory approval to get this through or – and how should we think about timing and milestones? So that's a lot of questions. I'll stop there. Thank you.

Lisa T. Su

President, CEO & Non-Independent Director

A

Okay, Mark. This is Lisa. Thank you for your question. And regarding the JV that we just announced, yes, we are very excited about it, partnering with THATIC and really focusing on the Chinese market for server processors. What we are licensing in this agreement is microprocessor technologies and system-on-chip technologies. All of the technologies licensed are AMD technologies. So, there are no encumbrances from that standpoint.

We have closed on the deal, and we are starting execution of the deal. So, we've talked about, from a financial standpoint, there's a $293 million licensing payment over a number of years. What we expect is the first payment we received in the first quarter of $50 million-ish. And we expect that over the first two years that about half of the licensing payments would be paid upon completion of some development milestones.

So, overall for us, I talked about IP monetization in a very broad sense. For us, that includes patents as well as technology licensing. This one is very positive for us, not just from the standpoint that it leverages our IP, but it also gives us a very key partner in the Chinese market, which we all believe is going to be very, very important for datacenter growth going forward. So, hopefully, I addressed your questions there.

Mark Lipacis
Jefferies LLC

Q

Yeah. And if I might just one quick follow-up. Are you of the view that you just can go and hit the ground running? I guess, you do, because you're expecting a $15 million payment right away, is there like any risk in the regulatory front on this deal? Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Mark, we don't expect any risk on the regulatory front. We believe that the technologies that we're licensing are compliant with all of the regulations, the U.S. regulatory issues. And I would also say that the joint venture is starting, and we do believe that we will execute quickly.

Mark Lipacis
Jefferies LLC

Q

Thank you very much.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Mark.

Operator: Thank you. Our next question today is coming from David Wong from Wells Fargo. Please proceed with your question.

David M. Wong
Wells Fargo Securities LLC

Q

Thanks very much. Could you give us some idea – you called out your sequential growth guidance was in part due to Graphics. Are you able to give us any feel for what sequential growth in Graphics your guidance assumes? And what products are driving the sequential growth? Does this come from Polaris or do Polaris r evenues start after the June quarter?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes. So, David, our sequential guidance, as we mentioned, is due to both Semi-Custom and Graphics. I would say, it's more heavily weighted on Semi-Custom. But if you look at our Graphics progression over the last couple of quarters, even though Q1 is normally a weaker market than Q4, we grew units overall in the desktop Graphics business. So, we believe that was on some of the strength of some of our new software work and our work with the ecosystem. So, going into the second quarter, again, we believe that we have an opportunity in Graphics to drive some volume. Polaris is on track to launch in the middle of the year. And we will expect that will drive further strength in the second half.

David M. Wong
Wells Fargo Securities LLC

Q

Okay, great. And just a clarification. You mentioned $53 million license gain, but if I understand correctly, your guidance is for $25 million in the second quarter. Is that part of that $53 million or is that something different?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah, David. I can take that. So, the total proceeds in the Q1 timeframe were $57 million, but there are taxes related to that. So the net cash for us was $52 million. We recognize $7 million in Q1 of 2016. We're recognizing $25 million in Q2. And then the rest of it will be over the second half of 2016, which is the balance $20 million.

David M. Wong
Wells Fargo Securities LLC

Q

Great. Thank you.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

You're welcome.

Operator: Thank you. Our next question today is coming from Hans Mosesmann from Raymond James. Please proceed with your question.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Thanks. Hey, Lisa, can you give us a sense on Zen – based on you're hitting all your performance milestones, what part of the server market are you addressing? What's the size of the opportunity? And I'm assuming that you can go after both enterprise and datacenter because it's an x86. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes. So, Hans, we are pleased with the progress on Zen. Obviously, there are lots of engineering milestones to pass, but a key one is that we're on track to sample to our priority customers in the second quarter. In terms of the markets that we can address, yes, we do believe that Zen has brought applicability across enterprise and datacenter. And we will continue to work with both OEMs and ODMs to ensure that they have the right boards and platforms for our products.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay. Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Hans.

Operator: Thank you. Our next question today is coming from Joe Moore from Morgan Stanley. Please proceed with your question.

Joe L. Moore
Morgan Stanley & Co. LLC

Q

Great. Thank you. I wonder if you could talk a little bit about how the JV is going to be set up over time. Will you compete with them with standard products within China, or is there some kind of dividing of the market? And will they be manufacturing the products with their own foundry relationships or will you be delivering the manufactured product?

Lisa T. Su
President, CEO & Non-Independent Director

A

Okay. So, Joe, the way to think about it is, the JV roadmap will be a complimentary roadmap to our own server roadmap. So, we think there will be enough differentiation. But taken as a whole, it'll be a compelling roadmap. In terms of foundries, I think we're not ready to talk about foundries, but we'll update more about the products as we get further into the execution.

Joe L. Moore
Morgan Stanley & Co. LLC

Q

Okay. And will the monetization of this over time, I mean, you mentioned that there's a royalty component as well. Will most of the monetization come from the licensing? Or do you think the royalty portion could be of similar size down the road?

Lisa T. Su
President, CEO & Non-Independent Director

A

I would say that it's probably a bit early to call that. The licensing payment is well understood. The royalties will come over time depending on the strength of the products and the number of products that are being done.

Joe L. Moore
Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Joe.

Operator: Thank you. Our next question today is coming from Ian Ing from MKM Partners. Please proceed with your question.

Ian L. Ing
MKM Partners LLC

Q

Yes. First question on the server JV, your products are going to go up against some deep incumbency in the China server market. So, how advantage do you think this JV will be in terms of perhaps being a locally-sourced product or are there other advantages that this JV would bring to the table to address the incumbency?

Lisa T. Su
President, CEO & Non-Independent Director

A

I think, Ian, we believe that there is a large opportunity in the datacenter market across the board. I mean, that's why we're investing so much in Zen, and its follow-ons. As it relates to the China JV that we're doing with THATIC, I think there is certainly a benefit to having someone local that has experience in the market and knowledge of the market. And THATIC is an investment consortium that is partially led by the Chinese Academy of Sciences. So, we think that both from a technical and a commercial standpoint, they will be a value-added partner in this joint venture.

Ian L. Ing
MKM Partners LLC

Q

Thanks. And for my follow-up for your June guidance, you're getting some strength in from this new Semi-Custom ramp. I mean, how sustained should we think that ramp to be? And is it a seasonal ramp? Does it come back every year? Any granularity would help. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So, as it relates to our guidance for the second quarter and then the full year, if you think about the Semi-Custom business in the last few years, the third quarter is always the peak, and it will be the peak this year as well. We are starting some of the ramp in the second quarter, as we build up to the stronger third quarter. But overall, I think, we feel good about the Semi-Custom business. The business overall will grow year-on-year as a result of the product momentum we have.

Ian L. Ing
MKM Partners LLC

Q

Okay. Thanks. I'll re-queue.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks.

Operator: Thank you. Our next question today is coming from Vivek Arya from Bank of America. Please proceed with your question.

Q

Hi. This is Shankar on behalf of Vivek. I have a question on the gross margin. Given the strong growth in Q2, why isn't the gross margin growing? And longer term, what are the levers behind the gross margin? Can it grow from 32% to 35%, 40%, and what do you have to do to get there?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah. I can take that, Shankar. So, I think if you look at the business, in particular as I said even in my prepared remarks, you have gross margin levers, but one of the things that obviously comes into play is the mix of business between the Semi-Custom business or the EESC business and then the CG business. So that obviously comes in play. As Lisa said, we have the growth with our guidance for revenue in Q2, and it's weighted towards the Semi-Custom business in addition to the growth that we're seeing in Graphics. And that's primarily what's driving the guidance at 31% as compared to where we came in, in Q1, at the 32% level.

And then as far as the levers going out from then, I think it partly is a mix of the business overall from a viewpoint of the Semi-Custom business and other businesses, but also the continuing investment we're making in the roadmaps, as you see from our OpEx guidance for the rest of the year, that we want to go ahead and invest in products, in Graphics and in other areas that will help us improve the gross margin. And then getting into later on when the Zen product is introduced, having even higher gross margin compared to where we are today.

Q

All right. Thanks. As a follow-up on the Semi-Custom side, didn't some Embedded revenue will likely come in, in the second half, like you guided before, $1 billion of total revenue spread over, I think, three years? How much of the second half growth in Semi-Custom comes from Embedded versus Semi-Custom?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So maybe let me give you some explanation on that, Shankar. So the Semi-Custom, just to recap on what we've said about the Semi-Custom designs in the past. We have a total of three design wins that have a lifetime revenue of about, let's call it, $1.5 billion or greater. And that will come across over the next three years to four years.

In addition we have our current game console business as well. So when you look at the aggregate of that, we do expect to start ramping that new business in the second half of the year. But we also expect the seasonal uplift of our traditional game console business. So that's adding to what we expect will be a strong year for Semi-Custom overall.

Q

If I can just slip in. The $1.5 billion you said, is that evenly split over the next three years to four years? Or is it ramps towards the end of 2018 or so?

Lisa T. Su
President, CEO & Non-Independent Director

A

I mean it takes some time to ramp, right? So this year will be lower, since it's half a year, and it's not all of the designs. And as we go into the next few years, it will ramp to a steady state. So...

Q

Okay. Thank you.

Operator: Thank you. Our next question today is coming from Stacy Rasgon from Bernstein Research. Please proceed with your question.

Stacy Aaron Rasgon
Bernstein Research

Q

Hi, guys. Thanks for taking my questions. First on the licensing agreement, can you be a little more specific on exactly what you're licensing? You said it was like high performance CPUs and SoCs. Is this x86? Is it ARM? Is it both? And what are the other pieces besides CPUs potentially that you're licensing?

Lisa T. Su
President, CEO & Non-Independent Director

A

Okay. So, Stacy, what we're licensing is microprocessor technology and system-on-chip technology. So they're technologies, not products. The technologies are applicable to both x86 and ARM. But as you know most of our investments are in x86. And then in terms of other aspects, there are other aspects that are needed to put together a system-on-chip, so they include things like fabrics and other IP.

Stacy Aaron Rasgon
Bernstein Research

Q

So let me ask the question a different way. Will the JV be able to manufacture and sell x86 based server chips into China?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes. The JV will be able to manufacture and sell x86 server chips.

Stacy Aaron Rasgon
Bernstein Research

Q

Thank you. Thank you. I have one more question for you on IP. Is this JV exclusive? Or would you be free to sign other server-based JVs with other parties, both either inside China or outside of China?

Lisa T. Su
President, CEO & Non-Independent Director

A

It is not an exclusive deal.

Stacy Aaron Rasgon
Bernstein Research

Q

Okay. And one more if I could. Just in your current quarter you launched Bristol Ridge in March. So maybe that led to some of the incremental, like, better than market unit growth. But why were ASPs overall down, given the product refresh that started? And what do you expect for pricing into Q2?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So if you talk about the Bristol Ridge launch, we did start the launch in March, including on the mobile side. And that did contribute to some of the mobile units up.

If you look at the overall ASPs, actually mobile ASPs were up, desktop ASPs were down. And that's why we said overall down, but it was quite modest. So if you look overall I think the ASP trends are about what we would expect. Going into the second quarter and in general, I mean it depends on the mix and the mix of the product. We are certainly trying to sell further up the stack. But we'll have to see how the exact mix comes out. But there's not a dramatic change in ASPs, if that's what you're asking.

Stacy Aaron Rasgon
Bernstein Research

Q

Got it. Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Stacy.

Operator: Thank you. Our next question today is coming from Harlan Sur from JPMorgan. Please proceed with your question.

Bill C. Peterson
JPMorgan Securities LLC

Q

Yeah. Hi. This is Bill Peterson calling in for Harlan. Thanks for taking the question. A clarification on the earlier question. You said most of the new growth is coming from Semi-Custom and some from Graphics. Is there any channel fill or related Polaris revenue in the second quarter or planned in the second quarter? Or is it really a second half story?

Lisa T. Su
President, CEO & Non-Independent Director

A

Again, not being specific, because we haven't actually announced our launch date, but I would say the majority of Polaris is a second half story.

Bill C. Peterson
JPMorgan Securities LLC

Q

Okay. Thanks. And then more of a broader question related to PCs, obviously becoming less important. But what is AMD's view on the PC market in terms of unit shipments this year? And what is the expectation in terms of AMD's growth in that segment, if we think about the full year?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So again, on the PC market I think our view of the PC market is very consistent with what's out there, probably down, let's call it, high single digits. Certainly the first quarter started off a bit weaker than any of us would have liked. I would say though in that environment, we still believe that we can gain share in both the client compute and the Graphics side, really as we are transitioning to a new product portfolio on the Graphics side. So I think that's a strong driver for us.

And then on the client compute side, between our product refresh and also our partnership with OEMs, I think in general OEMs are getting more comfortable using us higher up in the stack, and our A8s, our A10s, our commercial-based processors. So we're continuing to work with OEMs to ensure that we get into the right priority platforms. And so that would be our focus even in a down market.

Bill C. Peterson
JPMorgan Securities LLC

Q

Okay. Thanks for that.

Operator: Thank you. Our next question today is coming from Suji De Silva from Topeka Capital Markets. Please proceed with your question.

Suji De Silva
Topeka Capital Markets

Q

Hi. How you're doing? So, on the arrangement with THATIC, can you talk about what end markets the server product would be specifically targeting? Is it going after government business there, research institutions or maybe the China Internet companies?

Lisa T. Su
President, CEO & Non-Independent Director

A

I think it's fair to say that the market range for the joint venture will be across China, so, across all of the markets that you mentioned.

Suji De Silva
Topeka Capital Markets

Q

Can you talk about the pipeline for the licensing business? You instituted, I guess, announced it a couple of quarters ago and you already have a success here. I'm wondering how robust the pipeline might be for further licensing opportunity.

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. Look, we're thinking about our IP monetization strategy as really a broad strategy that's going to unfold over the next number of years. So, I wouldn't say that these things are all going to be immediate. The IP monetization includes patent licensing, it includes sale of a certain parts of our patent portfolio that are no longer core to our business, as well as the strategic technology licensing. We have a good solid pipeline. I would say, there are lots of opportunities out there. We are looking for ones that are very additive to our product portfolio into our roadmap objectives. And I think we will look for the right partners to enable that.

Suji De Silva
Topeka Capital Markets

Q

One last quick question. Would it be possible to tell us how long you've been in discussions for this licensing agreement? [ph] And understand (35:23) how long the lead times are for them to close?

Lisa T. Su
President, CEO & Non-Independent Director

A

It's fair to say that any one of these deals takes a while. So, they're fairly involved to go through, but I think we have a good set of conversations. And we certainly believe that there's a lot of value in this IP portfolio that we will continue to leverage.

Suji De Silva
Topeka Capital Markets

Q

I'm sorry by what I mean a while means. Thank you.

Operator: Thank you. Our next question today is coming from Ross Seymore from Deutsche Bank. Please proceed with your question.

Sidney Ho
Deutsche Bank Securities, Inc.

Q

Hi. This is Sidney Ho calling on behalf of Ross. Thanks for taking my question. So, first question is, you talked about EESC revenue will be up annually. And I think you talk about the different components. So just to be clear, do you expect game console revenues specifically to be up? And kind of related to that, do you expect the C&G revenue to be up this year as well?

Lisa T. Su
President, CEO & Non-Independent Director

A

Okay. So, again, I'd like to keep it at the segment level. And at the segment level, we expect both segments to be up to contribute to our overall guidance of revenue being up. As it relates to our EESC business, the majority of the EESC business is Semi-Custom. So, Semi-Custom would have to be up year-over-year. And then I think that's about as specific as I would like to get.

Sidney Ho
Deutsche Bank Securities, Inc.

Q

Okay. Great. And my follow-up question is on the discrete GPU market. Your competitor has grown very nicely, by what 35%, in the last two years. Clearly some of that is coming from share gains. I mean, you guys have also gained game share in Q1, seems like. What do you think the Graphics market itself is growing on a normalized basis? And it wasn't that long ago you guys were like 50% share in discrete Graphics, that is, but with the traction you're seeing right now and with Polaris right around the corner, how quickly do you think you can regain share? And which segment do you think has the biggest opportunities?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So, look, I think the Graphics business is very strategic to us. And I think it's not just a unit story, it is really also the mix going to higher-end Graphics driven by VR and driven by AAA gaming and all the things going on there.

As it relates to our share, I will say that we certainly have aspirations to regain shares to our historic levels. It will take us some period of time. So, it'll happen over multiple number of quarters. We're optimistic about the second half of the year, and we think Polaris is positioned well. We're particularly positioning in some of the mainstream segments that are higher volumes that would drive share growth faster. And we'll have to see how that plays out in the second half of the year.

Sidney Ho
Deutsche Bank Securities, Inc.

Q

Great. Thanks.

Operator: Thank you. Our next question today is coming from Christopher Danely from Citigroup. Please proceed with your question.

Q

Good afternoon. This is Marco speaking on behalf of Chris Danely. In light of your IP licensing agreement with THATIC, can you just kind of talk about your expectations for the China server market in 2016 and 2017, and is there any longer term milestone?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So, with regard to our China JV with THATIC, we're starting the development phase in 2016. So, I would say that we view this as a longer term opportunity for us. But overall, I think all of the trends in the datacenter market are certainly positive. And we believe we can participate in those trends with both the AMD products as well as the JV products.

Q

Thank you. And then my follow-up regarding your days of inventory. It looks like this quarter is about 110 days. Why is it so high, and if there's any worries?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Hi. I think, if you look at it from a day standpoint, essentially we've managed the inventory pretty well. It's up slightly in Q1, but we also guided the revenue up pretty significantly from where we ended in Q1. And we've also said that second half of the year we're expecting strength over first half, and obviously that leads to higher inventory. And so, Q1 to Q2 up slightly, revenues up. And then we expect second half to be stronger than the first half.

Q

Okay. Thank you very much.

Operator: Thank you. Our next question today is coming from Kevin Cassidy from Stifel. Please proceed with your question.

Kevin Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Thank you for taking my question. On the licensing and JV, are there opportunities – would you consider the mobile market or the desktop market?

Lisa T. Su
President, CEO & Non-Independent Director

A

When you say, you mean mobile PCs or mobile other...?

Kevin Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Yeah, mobile PCs.

Lisa T. Su
President, CEO & Non-Independent Director

A

I see. Look, I think, as it relates to the overall licensing strategy, I think we are open to licensing that makes sense. And so, strategically placed with the right market drivers. I don't think we have anything that is necessarily off limits. I will say that it does need to be strategic and additive to our product business. Our first priority is the product business, and the IP monetization effort is an overlay on top of that.

Kevin Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Okay. And what is the timeframe for the JV? I guess, does this license go on through the life of the patents or...

Lisa T. Su
President, CEO & Non-Independent Director

A

It's for a number of years through the product development and sales cycle.

Kevin Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Okay. Nothing specific right now?

Lisa T. Su
President, CEO & Non-Independent Director

A

No, nothing specific right now.

Kevin Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thank you.

Operator: Thank you. Our next question today is coming from Vijay Rakesh from Mizuho Securities. Please proceed with your question.

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Hi, guys. Thanks. Just on this licensing agreement, obviously when you license it to China, do you think they have the manufacturing process experience to go into production with this? And what's the timeline to get commercial products in the market with this licensing agreement?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, Vijay. Thanks for your question. Actually, we're not talking about sort of the details of the product timelines just yet. We'd like to really get the JV off and running before we disclose those details, and those will be disclosed as part of the joint venture. As it relates to manufacturing, I think there might be interest in manufacturing in China, although that is certainly not a condition of the deal.

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Got it. And as you look at this Semi-Custom ramp, the 15% to 18% very encouraging. How do you split it up between gaming and the new VR strategy, VR market? Obviously, VR seems to be a huge market as you look out. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. I think the way to think about it is, for the near term, I think the Semi-Custom business and gaming is probably the larger driver. We believe VR is a strategic area where you will see more pickup over the next number of quarters and over the next years, but it's not the near-term driver.

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Got it. Thanks.

Operator: Thank you. Our next question today is coming from John Pitzer from Credit Suisse. Please proceed with your question.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah. Good afternoon guys. Lisa, I guess, my first question, when you look at your full-year guide for revenue to grow, I'm kind of curious to what extent is that based upon sort of market forecast versus market share gains. I know you don't want to get into division by division, but maybe at a high level, as you look at your year-over-year growth, how do you differentiate between what the market's doing and kind of the market share gains that you need to get to that year-over-year growth?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. That's a fair question, John. So, let me break it up into the two segments. When you look at the EESC segment and especially Semi-Custom, I mean, that's less about a general market and more about what we see in terms of the customer forecasts, and what they're seeing the market to be. So, I think those are, let's call it, fairly well understood by us, and we're very interlocked with our customers.

When you talk about the Computing and Graphics market, I think that's where you get a little bit more of how much uncertainty is there with the PC market trends. There's no question that the PC market is weaker than any of us would like. I think from our standpoint, though, if you remember the last few quarters and how many times we've talked about inventory normalization and ensuring that we got ourselves into a healthy position relative to our OEM and channel customers, I think we feel that we've done a good job there. And we're now in a place where the consumption is more in line with the selling.

So we believe that even in this market, there's enough opportunity for us to gain share. And obviously we have to prove that out over the next couple of quarters. But just given where our business is, where we see the products, and where we see the design wins, that's how we see the market right now.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah. And then, Lisa, I apologize if you addressed this, but just going back to the JV in China. I'm just kind of curious. The IP licensing gains you expected this year, are there any milestones that you need to hit to get that? And as we think about 2017, if you hit the milestones in 2017, would we expect licensing to grow year over year from the JV?

And then lastly on the JV, just given that you guys have the opportunity to go into China today and sell your own product, I'm just kind of curious how we should think about $100 of server product in the JV? And what that means to you from an economic standpoint? Versus you just going into China today and selling $100 worth of server product as AMD.

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. No. Good question. So, look, on the JV licensing payments, so we will expect about half of the licensing revenue to come over the next two years, so over 2016 and 2017. Our current forecast for 2016 was that $50 million-ish that Devinder mentioned. And it is contingent on several milestones that we believe are on track.

To your broader question about why do a JV? And versus just selling right into servers? Look, we're very cognizant of where our share is in servers. So I believe we have the technology to get there. And we will continue to make progress.

But given the importance of China, and the fact that having a partner who is very much familiar with both the Chinese market from a customer as well as just a technology standpoint, I think can only be additive. And there's more than enough server market to go after, given where we are. So I think it's an additive deal to our baseline strategy.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Thanks, guys.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

A

Operator, we'll take two more callers, please.

Operator: Certainly. Our next question is coming from Deepon Nag from Macquarie. Please proceed with your question.

Deepon Nag
Macquarie Capital (USA), Inc.

Q

Yeah. Thanks, guys. So, Lisa, for the Semi-Custom wins that you're going to get in the back half of the year, are those going to be purely incremental to existing products? Or is there any risk of cannibalization to existing products?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. I don't believe that we've gone through any detail about what those wins are. So I would prefer to let that come out as our customers are ready to launch.

Deepon Nag
Macquarie Capital (USA), Inc.

Q

Okay. Thanks for that. And then on the game console side, so clearly VR is going to be a pretty big deal in Q4 with Sony PS4 VR. And there's been some chatter about obviously maybe a faster refresh for some of the game consoles. Because the value of Graphics is becoming higher in these game consoles, is there any potential for you to get higher content and more specifically higher margins in future console refreshes? And is there also any ability to renegotiate terms if – because of the value of your IP is getting more valuable inside these consoles?

Lisa T. Su
President, CEO & Non-Independent Director

A

So let me take that in several pieces. Relative to our current game consoles, those deals were well negotiated at the beginning. And I don't think we will be renegotiating. I think the ASPs and all that stuff are also well understood.

Relative to what VR brings – and again not being specific to any particular customer, because there's just a lot of speculation out there in the industry. I will say that VR is very exciting not just for game consoles, but for PC gaming, for the headset guys, for the ecosystem. So yes. We believe that Graphics becomes much more valuable in this framework. And we will be looking for how to leverage and monetize that across both our Semi-Custom business as well as our discrete Graphics and APU businesses.

Deepon Nag
Macquarie Capital (USA), Inc.

Q

And just one quick clarification if I could squeeze it in. So for any future console refreshes though, you do have the ability to reset ASP terms? Or is it already pre-negotiated in your initial contracts?

Lisa T. Su
President, CEO & Non-Independent Director

A

Well, I think if anybody were to do a different console or a new console, then that would be a new negotiation. But for the current generation consoles, those terms are locked.

Deepon Nag
Macquarie Capital (USA), Inc.

Q

Okay. Great. Thanks a lot.

Operator: Thank you. Our final question today is coming from Jaguar Bajwa from Arete Research. Please proceed with your question.

Jaguar Bajwa
Arete Research Services LLP

Q

Hi. Thanks for taking the question. Just on the Polaris launch in midyear, you talked about attacking the mainstream segment of the GPU market. I just wonder when you look at potential share gains in the second half, do you expect that to come more from the discrete desktop side in the AIB channel or the notebook space, where you have a relatively higher share, market share?

And given your ASPs in that space, roughly in the discrete desktop spaces, I think you've got about a third of the ASP of your competitor. Just wondering on the trend of that? And how you see that over the second half of the year?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So we believe that we have a share gain opportunity in both mobile and deskto p/AIB as we look at Polaris and how it will launch in the second half of the year.

Relative to the ASP trends, I think that depends a bit on the mix of the business. So I think I'll defer that to how things look. But from a macro standpoint we believe we can get a larger revenue share in discrete Graphics, but we'll certainly have to look at how the individual quarters shape up.

Jaguar Bajwa
Arete Research Services LLP

Q

Okay. And then also, given your IP licensing deal in China, I'm just wondering on the acceleration side for GPU, I mean, do you see opportunity there potentially with that deal? And also, just on a more general sense, we hear a lot about acceleration with GPU. Can you just talk about how you're approaching that kind of acceleration in general? I mean, will Polaris be suited to that? Or we have to wait for Vega to come out later in the year? And how do you differentiate versus your competitors?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah. So, in terms of your first question on GPU acceleration, so, the JV that we announced with THATIC is focused on microprocessor technologies only. So, it doesn't cover Graphics.

And then to your comment about Graphics acceleration or just in general becoming more important and a growth driver, we would agree with that. I think going forward, you'll see a bit more focus from us in that area. We have launched some new professional graphics products recently. We've also introduced this new software initiative called GPUOpen that really focuses on building an open ecosystem around the Graphics area, both in compute and gaming. And so, we do believe it's a good opportunity and an area that we will invest more.

Jaguar Bajwa
Arete Research Services LLP

Q

Great. Thanks very much.

Operator: Thank you.

Ruth Cotter
Chief Human Resources Officer and Senior Vice President of Corporate Communications, Investor Relations

Operator that concludes today's call if you'd like to wrap it up, please. Thank you.

Operator: Certainly. That concludes today's teleconference. You may disconnect your line at this time. And have a wonderful day. We thank you for your participation today.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2016 Earnings Call for 21-April-2016 5:00 PM ET
Thursday, April 07, 2016 08:28:10 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2016 Earnings Call for 21-April-2016 5:00 PM ET.

Press Release URL: http://phx.corporate-ir.net/External.File?t=1&item=VHlwZT0yfFBhcmVudElEPTUyMjMwODZ8Q2hpbGRJRD02MzAyNTE=
Live WebCast URL: http://www.media-server.com/m/acs/502fa8cc1813e66d2b12cf860c0bdc11
Replay WebCast URL: http://www.media-server.com/m/acs/502fa8cc1813e66d2b12cf860c0bdc11

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Advanced Micro Devices, Inc. (AMD)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for your patience. You have joined AMD's fourth quarter and year-end earnings conference call. At this time, all participants are in a listen-only mode. Later, there will be an opportunity to ask questions, and instructions will be given at that time. As a reminder, this conference may be recorded.

I would now like to turn the call over to your host, Director of Investor Relations, Ms. Liz Morali. Please wait just a moment for Ms. Morali to begin.

Liz Morali

Director of Investor Relations, Advanced Micro Devices, Inc

Thank you for joining our fourth quarter and year-end conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Lisa Su, our President and Chief Executive Officer, and Devinder Kumar, our Senior Vice President, Chief Financial Officer, and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a few dates for you. Mark Papermaster, Senior Vice President and CTO, will present at the Morgan Stanley Technology Media and Telecom Conference on March 3 in San Francisco. And our first quarter quiet time will begin at the close of business on Friday, March 11, 2016.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Additionally, please note that we will be referring to non-GAAP figures during this call except for revenue, which is on a GAAP basis. The non-GAAP financial measures referenced are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary posted on our website at quarterlyearnings.amd.com.

Please refer to the cautionary statements in today's earnings press and CFO commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's quarterly report on Form 10-Q for the quarter ended September 26, 2015.

With that, I will hand the call over to Lisa. Lisa?

Lisa T. Su

President, CEO & Non-Independent Director

Thank you, Liz, and good afternoon to all those listening in today.

While 2015 was a challenging year from a financial perspective, the dedicated commitment of our employees combined with our long-term technology investments and sharpened focus have created a strong foundation for future growth. In the fourth quarter, revenue decreased 10% sequentially to $958 million, as seasonally lower semi-custom SoC shipments were partially offset by the second straight quarter of double-digit percentage revenue growth in our Computing and Graphics business.

Looking at our Computing and Graphics segment, revenue increased 11% sequentially, as we continued to improve the performance of our PC business. We had strong double-digit sequential percentage growth in mobile APU sales, driven largely by increased Carrizo shipments and good sell-through of AMD-based PCs on Black Friday.

In the channel, we delivered our third straight quarter of sequential revenue growth and further reduced downstream product inventories based on improved demand for FX CPUs and A-Series APUs. We also made progress diversifying our client computing revenue as we further expand into the commercial PC market.

Second half 2015 commercial APU unit shipments increased more than 15% from the first half of the year. We believe we can continue to grow our commercial shipments based on the high volume wins we are securing both across large enterprises and the public sector.

Now, switching to graphics, GPU revenue increased sequentially for the second straight quarter, driven by improved AIB channel sales of our Radeon 300 Series across the enthusiast, performance, and mainstream segments and growth in professional graphics sales. The PC gaming market strength helped fuel a richer GPU mix and improved demand for our high-end Radeon R9 Series in the quarter. We expect this momentum to continue throughout 2016, as Oculus and HTC begin shipping consumer-ready VR headsets.

The buzz and interest in VR is an exciting trend that is focusing the software industry's attention and some of its brightest minds back on the PC platform. While the initial wave of VR will be focused on gaming, an increasing number of developers see VR as the most significant advancement in how we interact with technology since the introduction of the mouse and graphical user interface. Most importantly, these breakthrough software experiences will only be enabled with high-performance energy-efficient GPUs.

Overall, we made good progress further stabilizing our PC business in the fourth quarter. And we believe we are well positioned to navigate the seasonally weaker first half of the year and ongoing challenges in the China PC market due to macro conditions.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue declined 23% sequentially, in line with our expectations, as semi-custom sales decreased from their third quarter seasonal peak. We had record annual semi-custom unit shipments in 2015 and have shipped more than 50 million semi-custom APUs as a critical and trusted partner to Sony and Microsoft. Demand for game consoles looks strong for 2016, and we remain on track to generate additional revenue from new semi-custom business in the second half of 2016.

We also began production shipments of our first 64-bit data center-class ARM SoC and expect additional system introductions from our partners throughout 2016 as the ARM 64-bit infrastructure ecosystem further develops.

Now turning to the year ahead, we remain focused on completing our strategic work around three key growth pillars. First, in PCs, even in a declining overall market, we believe we can regain client compute and discrete graphics share for the year, driven by gaming, VR, commercial, and our most competitive product roadmap in more than a decade.

We have clear opportunities to regain GPU share in 2016 based on the performance per watt of our new GPUs and software leadership. Earlier this quarter at CES, we announced our new Polaris GPU architecture, which we expect to begin shipping in the middle of 2016. Polaris combined significant design enhancements as well as 14-nanometer FinFET process technology to deliver double the performance per watt of our current GPU offerings.

Customer response has been excellent, particularly in the notebook space, where for the first time ever there will be a GPU architecture capable of bringing high-end gaming and VR experiences to thin and light notebooks.

In client computing, our opportunities to regain share in 2016 will be driven by our design win momentum, continued progress expanding into the commercial market, and reentering the high-performance desktop market late in the year with our Zen-based Summit Ridge CPU.

Our second growth pillar is in the $15 billion-plus data center and infrastructure markets, driven by our FirePro GPUs and next-generation server CPUs. Our Zen-based CPU development is on track to achieve greater than 40% IPC uplift from our previous generation, and we are on schedule to sample later this year. We have secured several key design wins with global OEMs for our Zen-based server CPU and believe we can rapidly reestablish our presence in the data center when we bring our new products to market in 2017.

With FirePro, we plan to leverage our upcoming Polaris architecture and suite of new software tools designed to dramatically simplify GPU computing to accelerate the adoption of FirePro in the HPC and data center markets.

Our third growth pillar is focused on further expanding the TAM for our products and technologies through ramping our previously communicated semi-custom wins, converting additional semi-custom pipeline opportunities, and gaining share in targeted embedded markets.

We also have near-term opportunities to strategically monetize our valuable IP in 2016 through licensing and partnerships that are complementary to our product development efforts. I look forward to sharing the initial results of our IP monetization strategy in the coming quarters.

While we expect revenue to be lower in the first half of 2016 compared to the second half based on the seasonality of the PC and game console businesses, we remain focused on successfully executing our product and technology roadmaps and plan to return AMD to non-GAAP operating profitability in the second half of 2016 and generate positive free cash flow from operations for the year.

Now, I'd like to turn the call over to Devinder to provide some additional color on our fourth quarter financial performance. Devinder?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

Thank you, Lisa, and good afternoon, everyone.

In 2015, notwithstanding a difficult PC market and financial losses, we continued our multi-year effort to position our business model by diversifying revenue and establishing a foundation for improved financial components.

We made progress in stabilizing the Computing and Graphics segment and achieved strong double-digit percentage revenue growth in the second half of 2015. We also reduced overall channel inventory significantly from the prior year. In our EE and C segment, we had record shipments of our semi-custom SoCs powering the PlayStation 4 and Xbox One game consoles.

In total, against the backdrop of a 28% revenue decline from 2014, we reduced our cost profile with a 14% decrease in OpEx, managed our inventory down, and maintained our cash well within our target range of $600 million to $1 billion.

Now let me provide the specifics of the fourth quarter. Revenue was $958 million, down 10% sequentially, driven primarily by seasonally lower sales of semi-custom SoCs partially offset by higher Computing and Graphics segment sales. The year-over-year decline was 23% due primarily to lower client processor and chipset sales and lower game consoles royalties.

Gross margin was 30%, a seven percentage point improvement from the prior quarter, with 6 percentage points resulting from the impact of the $65 million inventory write down in Q3, and the remainder primarily from improved product mix in the Computing and Graphics segment.

Operating expenses were $323 million, down $13 million from the prior quarter, primarily due to global head count and ongoing expense control. Operating loss was $39 million and net loss was $79 million with loss per share of $0.10 calculated using 791 million shares.

Net interest, other expense, and taxes were $40 million in the quarter compared to $39 million in the prior quarter. The GAAP results include a $13 million tax settlement in a foreign jurisdiction. Adjusted EBITDA was negative $5 million, improving from negative $55 million in the prior quarter.

Now turning to the business segments, Computing and Graphics revenue was $470 million, up 11% sequentially primarily due to higher notebook processor sales. This is the second consecutive quarter of double-digit percentage revenue growth for this segment as we increased sales of both our client compute and graphics processors in Q4. Computing and Graphics segment operating loss was $99 million, improving from $181 million the prior quarter primarily due to higher sales and the absence of a third quarter 2015 inventory write-down.

Enterprise, Embedded, and Semi-Custom revenue was $488 million, down 23% from the prior quarter primarily due to seasonally lower sales of our semi-custom SoCs. The operating income of this segment was $59 million, down from $84 million in the prior quarter driven primarily by lower semi-custom product sales.

Turning to the balance sheet, our cash and cash equivalents totaled $785 million at the end of the quarter, up $30 million from the end of the prior quarter. Inventory was $678 million, down $83 million or 11% from the end of the prior quarter, primarily due to reduced levels of semi-custom SoC inventory.

We have concluded our wafer reprofiling discussions related to the 2015 WSA amendment with GLOBALFOUNDRIES and will be moving approximately $60 million of wafer purchases from that amendment to later in 2016. To date, total wafer purchases under the 2015 WSA amendment are approximately $1 billion, including approximately $150 million of wafer purchases, which were not taken until early in our fiscal first quarter 2016. We are currently negotiating the 2016 WSA amendment.

Debt as of the end of the quarter was $2.26 billion, flat from the end of the prior quarter, including total borrowings of $230 million on a secured revolving line of credit unchanged from the prior quarter. Free cash flow in the fourth quarter was a positive $21 million, an improvement of $105 million from the third quarter of 2015.

Turning to our outlook for the first quarter of 2016, which is based on a 13-week quarter, AMD expects revenue to decrease 14% sequentially, plus or minus 3%, driven by game console seasonality and a cautious macro environment in China. Gross margin is expected to be approximately 32%.

Non-GAAP operating expenses are expected to be approximately $320 million; interest expense, taxes, and other to be approximately $42 million; cash and cash equivalents balances to be down approximately $100 million from the end of the fourth quarter, including $70 million of cash interest payments. This cash balance does not include any cash proceeds related to the ATMP JV with Nanfong Fujitsu Microelectronics. We expect to close that transaction in these first half of 2016, pending regulatory and other approvals, and expect cash proceeds of approximately $320 million, net of taxes and other expenses, upon closure. Inventory is expected to be approximately flat from fourth quarter levels.

Our fiscal year 2016 is based on 53 weeks. And we plan to take the extra week in our fiscal fourth quarter. For the full year 2016, we expect revenue to grow year-over-year; non-GAAP operating expenses between $320 million and $340 million per quarter as we continue to invest in leadership products and in line with our expected revenue profile; interest expense, taxes, and other to be approximately $45 million per quarter; cash and cash equivalent balances to be in the optimal zone of $600 million to $1 billion; capital expenditures of approximately $70 million; inventory to be down year-over-year; and to return to non-GAAP operating profitability in the second half of 2016 and generate positive free cash flow from operations for the year.

In closing, as we begin the new year, we remain focused on financial and operational execution and look forward to building on our second half 2015 product and road map momentum throughout 2016 across the three areas that Lisa outlined: high performance PCs, the data center, and TAM expansion through semi-custom and embedded opportunities.

With that, I'll turn it back to Liz. Liz?

Liz Morali
Director of Investor Relations, Advanced Micro Devices, Inc

Thank you, Devinder. Operator, can you please poll the audience for questions?

QUESTION AND ANSWER SECTION

Operator: Yes, I sure can. [Operator Instructions] So we'll take our first question from David Wong from Wells Fargo.

David M. Wong
Wells Fargo Securities LLC

Q

Thanks very much. I've been looking at your guidance for growth, year-over-year growth in revenue in 2016. You're starting the – well, you're ending 20 – with the last quarter, your game console revenues down year-over-year. Do you expect game console revenues to grow in 2016 as a whole? And what other things will drive overall growth for 2016?

Lisa T. Su
President, CEO & Non-Independent Director

A

David, thanks for the question. So let me give you a bit of color on sort of this – the guidance and how we view 2016. So if you look at overall 2016, we do expect to grow revenue. And if you look at our business, we see certainly the second half of revenue will be stronger than the first half because of both of our businesses.

Game consoles, we see units going up 2016 to 2015. We've also said in the Enterprise, Embedded, and Semi-Custom segment that we will be ramping some new design revenue in the second half of 2016. So we see that as a positive growth driver. And then if you look overall at our Computing and Graphics business, we do believe even in a down PC market that we have the opportunity to gain share as a growth vector in Computing and Graphics. So those are the overall drivers for the 2016 comments.

David M. Wong
Wells Fargo Securities LLC
Q

Okay, great. And just a quick follow-up, I understand that you don't break out all the details. But can you give us some feeling as to whether your discrete GPU business is showing year-over-year growth at the moment, either in the December quarter or expected for the March quarter?

Lisa T. Su
President, CEO & Non-Independent Director
A

So as you say, we don't go into that level of detail. I think what we have said is that we did see growth in our discrete graphics business sequentially in both Q3 and Q4. As we look into 2016 with our discrete graphics business, we have a strong product portfolio. In particular, the ramp and introduction of our new FinFET products, code-named Polaris, will happen in the middle of 2016, so that will be a 2016 growth driver. So certainly, we've seen some sequential improvement in the second half of 2015, and we look forward to those product releases in 2016.

David M. Wong
Wells Fargo Securities LLC
Q

Great, thanks very much.

Lisa T. Su
President, CEO & Non-Independent Director
A

Thanks, David.

Operator: Okay, thank you. And our next question is from Ian Ing from MKM Partners. Ian, please go ahead.

Ian L. Ing
MKM Partners LLC
Q

Yes, could you – thanks. Could you talk more about the channel business in light of your cautious comments on macro in China? Are you seeing weakness potentially in the ODM business or the white-box market?

Lisa T. Su
President, CEO & Non-Independent Director
A

Ian, I think overall if you look at the channel business in the second half of the year for us, second half 2015 relative to first half 2015, we have made quite a bit of progress in the channel in terms of just overall inventory levels. We saw a good quarter in the fourth quarter in both North America and Europe. We did see a degradation in China towards the end of the fourth quarter. And I think there are cautious comments throughout the industry about the early 2016 start for China. So I think overall, what I would say is I'm pleased with the progress we've made in the channel. I think in both the desktop channel as well as the AIB channel, we've made some progress in the second half of the year. I think China is a factor as we go into the first quarter. But I think overall, we still view the channel as a positive business for AMD and one in which we believe we can grow share.

Ian L. Ing
MKM Partners LLC
Q

Okay, great. And then, Devinder, your OpEx guidance range, $320 million to $340 million in the coming quarters, can you give a sense of the timing of some of the upcoming mask costs given you've got Zen-based cores and Polaris coming up?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

I would say I think you hit the nail on the head. There are new products coming out, and there are some mask costs. Cores, I think that's more weighted towards later in the year. From a Q1 timeframe, we have given other guidance on the OpEx at the $320 million level compared to where we ended up in Q4 of 2015. So yes, we do have support for the investments in the products we need, and in particular the technology and product transitions that we have coming out in 2016. And that's why you see a range in OpEx of between $320 million and $340 million. And then the last factor that obviously affects the OpEx is obviously the revenue profile which, as Lisa said earlier, is stronger in the second half of the year than the first half of the year.

Ian L. Ing
MKM Partners LLC

Q

Okay. And my last question, you're talking now about some GPU share gains in 2016. Does the sole lot of that come from the Polaris launch starting midyear, or is that sustained business from the R9 Series or a combination?

Lisa T. Su
President, CEO & Non-Independent Director

A

We have made some progress in with the R9 Series, particularly in the fourth quarter. I think as we go forward, it's a combination of things. If you look at our investments in graphics, they really include both hardware and software. So the Polaris family is excellent from a hardware standpoint in terms of the performance per watt that we get. But we have a number of software initiatives that we've started over the past couple months and will continue. And we see all of those contributing to graphics momentum.

Ian L. Ing
MKM Partners LLC

Q

Okay, thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Ian.

Operator: Thank you. Our next question is from Sanjay Chaurasia from Nomura. Please go ahead.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Hi, Devinder, one question on gross margin. I noticed that you're not providing gross margin guidance for 2016. And I was wondering if you have clarity that your revenue would be up year on year. What are some of the puts and takes here that's making you hold gross margin guidance?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

I think the key is if you look back over the last few quarters, we have made progress on the gross margin front, ending Q4 2015 at the 30% level, and the guidance specifically for Q1 of 2016 is 32%.

You're right, I haven't given guidance for the year. But some of the puts and takes are really the mix of product as we get more into 2016 and then obviously the mix of business between our Computing and Graphics segment and the EESC segment. In Computing and Graphics, we have introduced some new products in the second half of 2015 and even going into 2016. And you have some of the commercial success we have had, and that obviously helps gross margin. But at the same time, we want to see how the year unfolds, in particular on the PC side of the house, given some of the comments we made about caution in China in particular. So for the year, I'm not giving guidance today. This is first quarter guidance at the 32% for gross margin. And we'll get through the year as we get into the next one or two quarters.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Okay, and as a follow-up, Lisa, I have a question now on ARM servers. You indicated you're shipping Seattle, but at the same time in your guidance, you didn't mention anything about ARM contributing in 2016. And my question is, is ARM servers a meaningful strategy for you in 2017 and 2018?

Lisa T. Su
President, CEO & Non-Independent Director

A

Sanjay, the ARM servers did start shipments. And we have shipped our first production unit. I think we have some design wins with it. And I would call it a modest revenue contributor in 2016. We still see ARM strategically as an interesting market for the infrastructure markets. But it is certainly developing a bit slower than expected. So I think, overall, I think it's an important proof point in terms of enterprise-class server architectures with ARM. But it's a modest revenue contribution in 2016.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Thanks, Lisa.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thank you.

Operator: Okay, thank you. So we'll take our next question from Vivek Arya from Bank of America Merrill Lynch. Please go ahead with your question.

Vivek Arya
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thanks for taking my question. Lisa, just to follow up on the last one on ARM servers, the comment about progress being somewhat slower, do you think that's an AMD-specific trend or does that apply to all the ARM server vendors?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, I mean, I think it's more of a market statement, Vivek, than an AMD-specific statement. I think the overall commentary, maybe if I just expand a little bit, is the data center market is really, really interesting. I think we all agree with that. I think x86 has a lot of momentum. And that's one of the reasons that we've put quite a bit more emphasis on our x86 data center and infrastructure play. That being said, I think ARM does have a lot of specific areas where it can contribute, and it has done so. But I would say, in servers in particular, perhaps slower than originally expected but still something to watch for the medium term.

Vivek Arya
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Got it. As I follow up, perhaps a longer-term question, which is, what is the strategy to actually get to a meaningful earnings and cash flow growth? I understand on the macro environment is a little tough right now. But the way I see it, a lot of the progress you guys are making on your embedded products is being offset by the declines in your legacy businesses. And as the mix is shifting to embedded products, gross margins are sort of holding around that 30% level, but you're not really able to reduce cost. So sales are finding it tough to grow, right, with that offset. Gross margins are not moving up that much. And you are now going to hold OpEx steady also. So I'm just trying to understand what are we missing here that can help AMD be a more sustainably profitable company. Thank you.

Lisa T. Su
President, CEO & Non-Independent Director
A

Sure, Vivek. So let me try and then Devinder can add if he has some comments. So I think what you have to do is take a step back and look at overall – the progress in year 2015 from a foundation standpoint and then what we hope to accomplish in 2016 and forward. I think the most important message around sustainable profitability for AMD is around our product and technology road map and ensuring that we grow share in our target markets. So that is certainly the goal. I think if you look at some of the progress that we made in the second half of 2015, we have seen a – some stabilization in our Computing and Graphics business and actually a return to some sequential growth.

As we go forward into 2016, we certainly have to continue that momentum in both our client compute as well as our graphics business in terms of gaining profitable unit market share. And then as we go forward, we have our data center strategy as well as our semi-custom and our new markets that will bring additional opportunities. So from a product standpoint, it is about getting our technology out there. And I think we will enter 2016 with the strongest product portfolio we've had in a long time. And we need to continue to work with our customers on design opportunities and moving the platforms into production as we go through the year 2016.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP
A

If I can add, Lisa, I think the other thing I would add is if you look at the couple of areas that Lisa mentioned, data center in particular, but also the embedded space, as we talked about in our Financial Analyst Day in May, those are businesses that command higher gross margins. So, Vivek, to your point about the close margins, I think longer term, with that business kicking in 2017, we believe that we can get closer to the longer-term model.

2016, we've guided to operating – I mean free cash flow positive from an operations standpoint. And as we continue to manage the cost, as you said, especially on the OpEx side of the house, improving the gross margin, in and of itself, obviously benefits the bottom line. And that's kind of adding towards the longer-term model we outlined at the Analyst Day that we had in May of 2015.

Vivek Arya
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Thank you, one last quick clarification. What PC unit declines, Lisa, are you assuming for 2016? Thank you.

Lisa T. Su
President, CEO & Non-Independent Director
A

So if you look at the current market projections, it's somewhere in the low-single digits. I think if you were to talk to the customer side, it might go from low-single digit to mid-single digit. So that's the environment that we are forecasting our unit share growth.

Vivek Arya
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thank you, good luck.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thank you.

Operator: Okay. Our next question comes from Stacy Rasgon of Sanford Bernstein. Stacy, your line is open.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. First, I was wondering if you could elaborate a little more on how you plan to gain share on PCs for the year especially since it looks like Zen isn't really launching until the tail end of the year. It looks like you're starting Q1 already in the hole if I compare your guidance versus Intel.

Lisa T. Su
President, CEO & Non-Independent Director

A

Okay, Stacy, why don't I start and again Devinder can add. So overall, if you look at PCs, I think we'll have to wait until the numbers come out. But we believe we have gained a bit of share in Q4. I think if you look at the driving factors behind that, Stacy, there were a couple factors in 2015. I think we did a concerted effort to clean up some of our channel inventory both on the OEM side, as well as in the DIY channel. So that factor will be gone in 2015, relative to 2016. I think if you look at the product road map, I think the product road map is stronger. I think if you look at our commercial business, that is also stronger so it's leading to a stronger product mix. So those are the key factors.

Relative to the Q1 guidance, I'll make a comment about Q1 guidance overall. Our Q1 guidance includes obviously both the Computing and Graphics and the Enterprise, Embedded, and Semi-Custom business. The semi-custom business is historically significantly lower in the first quarter of the year. If you look at the past couple years, it's been the case because we're coming off of a strong holiday season. So I would say that that has to be factored into the guidance. And then if you look at the Computing and Graphics business, I think what we're seeing is very consistent with what's out there in the market and we believe in that market – that set of market conditions we can gain share.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Another thing I would add, Stacy, is I think too early to tell from a viewpoint of your thinking in terms of guidance for Q1 that just based on the guidance we lose share in Q1 in the PC space.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Or by just looking you down 14% and Intel down what they are, there's a differential there.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah, I think the key is to look at the guidance that we gave and trying to pass out where the decline is and it's more weighted towards the EESC segment than the Computing and Graphics segment.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Got it. Okay, thanks. For my follow up...

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah, the other thing just – just one clarification.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Yes.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

I think that the thing to bear in mind, I think I said in my prepared remarks in our quarter in – our quarter this year actually both from a viewpoint on the quarter and the year over year of a 53-week year, and we have a 13-week quarter in Q1 as opposed to what the comparison you are doing I think it's more on the 14 weeks as opposed to 13 weeks.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Even if you correct for that – but okay. In terms of my follow-up, just very briefly, did your guidance for positive free cash flow for the year include the proceeds from the back-end sale? And does your guidance for 32% gross margin for next quarter contemplate you selling any of the inventory that you wrote down in Q3?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

So the first one is, no, it does not. The free cash flow from operations have been positive for the year. It does not include the proceeds from the joint venture for the back-end facilities. And then the guidance for the margin at 32% Q1 does not contemplate any sale of previously reserved inventory.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC

Q

Got it. And that free cash flow – that's not operating cash flow guidance, that's free cash flow guidance...

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

Yeah. That's free cash flow. I think the way we define it is operating cash flow less CapEx.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co. LLC
Q

Got it, okay. Thank you, guys. Good luck.

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP
A

Thank you.

Lisa T. Su
President, CEO & Non-Independent Director
A

Thanks, Stacy.

Operator: Okay. Our next question comes from Matt Ramsay from Canaccord Genuity. Please go ahead, Matt.

Matthew D. Ramsay
Canaccord Genuity, Inc.
Q

Thank you very much, good afternoon. I think there's some – my observations looking at the product road map is there's some pretty big hurdles passed, getting Polaris on FinFET, getting Zen on FinFET over the next few quarters. I guess relative to some lower operating spending that you guys are doing as a company, maybe, Lisa, you could lay out some priorities for how you're going to roll out these products? I guess particularly I'm looking at how you balance semi-custom versus discrete GPU, how you balance enterprise GPUs versus APUs when you roll out Zen. It seems like quite a bit to take on given the lower spending levels as a business as a whole. And I just wonder how you're prioritizing that versus guidance for the year. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director
A

Sure. So, Matt, I think maybe a couple of comments. I will say that I am pleased with the execution on engineering that we have accomplished over the last 12 months. I think we have passed some significant hurdles. The transition to FinFET for us was very, very critical across our businesses, and I feel good about the state of the progress there. As a result, as it reflects on 2016 spending, I think Devinder commented earlier, but I would say that's why we're giving ourselves a range in the OpEx from $320 million to $340 million. And we are being prudent in where we spend. However, clearly, there's a significant focus on discrete graphics and what we can do in that space. I think we're very excited about the momentum around our virtual reality and the momentum in gaming. And we think that's a very good market for us.

I think relative to our CPU competitiveness and regaining competitiveness there, that is a very key priority as well. So Zen across both our client computing as well as our server markets are a priority. Relative – the good thing about our semi-custom business is it does rely on customer investment to customize the roadmap. And so I think the combination of those things gives us a reasonable envelope to execute the go-to-market around the product portfolio.

Matthew D. Ramsay
Canaccord Genuity, Inc.
Q

All right, thank you. Thanks for that. And I guess as my follow-up, I think I took away as an impression at least from CES a refocusing of investment on developers, particularly in the GPU space. So, Lisa, maybe you could speak to that a little bit and how you guys are trying to I guess balance the priorities of the semi-custom business in consoles and gaming with rekindling the brand and maybe rekindling MindShare with developers in the PC gaming community. Thanks.

Lisa T. Su
President, CEO & Non-Independent Director

A

I think the Radeon Technologies Group has added a lot of focus to our graphics activities. And I think, as you said, it's both a hardware and software statement. So the work we've done around our drivers and trying to ensure that we have a good customer experience as well as a good development experience is certainly there. I think the main takeaway is we know how to do this. It's really a matter of getting the focus and getting it done.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

All right, thanks. Good luck.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Matt.

Operator: Thank you. And our next question is from Srini Pajjuri from CLSA Securities. Please go ahead.

Srinivas Reddy Pajjuri
CLSA Americas LLC

Q

Thank you. Lisa, just going back to your annual guidance for growth, if I start from down 2014, I think you have to model double digit for the next three quarters, which is well above seasonal for you. So I'm trying to understand where the growth is coming from. Obviously, you said you expect to gain share. But can you talk about the semi-custom win that's supposed to ramp in the second half, how big that opportunity is? And when exactly do you expect those ramps to come in?

Lisa T. Su
President, CEO & Non-Independent Director

A

So actually let me try to frame it in this way. So if you look overall at our business, yes, we are projecting full-year revenue growth 2016 compared to 2015. And so we would have to have some significant growth as we go into the second half of the year. Independent of any new designs, the semi-custom business naturally is significantly higher in the second half than in the first half, especially third quarter. It's a peak for the business as we go into the holiday season. And we continue to see that phenomenon as our customers are giving us their forecasts.

We expect the base semi-custom business or the base game consoles to continue unit growth in 2016 versus 2015. There will be some modest ASP decline with that. And then we expect to layer over it some new semi-custom revenues starting in the second half of the year. So from what we see, obviously a lot of things have to happen. But the semi-custom business is one that we've been able to predict pretty well, given the customer long-term forecasts. And then we have to continue the conversation around the Computing and Graphics business as we see how the market sorts itself out in the first half of the year going into the stronger second half for the PC business.

Srinivas Reddy Pajjuri
CLSA Americas LLC

Q

Okay. And then as a follow-up, I think, Lisa, it was last quarter you told us that you're looking to monetize some of the IP properties that you have. Can you give us an update, based on your discussions, how you see that opportunity short term and long term? Thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes, so on the IP monetization strategy, we will continue to update that quarterly as we go through the process. I think we have had a good – really a good discussion around where to go there. I think there are several different avenues that we believe our IP will be valuable. I think on the straight patent side, we've said before we have 10,000 patents that are over a substantive number of technical areas, including graphics and microprocessors and other semiconductor patents. Those can certainly be licensed, or in some cases there may be sales.

However, another area that we think has a lot of potential is the area of technology licensing, where we can help partners accomplish their objectives with both patents and knowhow. So we will update the results on that as we go through 2016, but we do believe it's a significant area for us going forward.

Srinivas Reddy Pajjuri
CLSA Americas LLC

Q

Thank you.

Operator: Okay, we'll take our next question from Ross Seymore from Deutsche Bank. Please go ahead.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Thanks you letting me ask the question. Lisa, one for you on I guess what you'd call now the base enterprise embedded in semi-custom business. You talked about the gaming SoC business being up on a unit basis. But in 2015, that whole segment was down about 8% year over year. So I guess my question is, I know new things are coming in the back half of this year. But what gives you confidence that today's core business can actually remain anywhere close to flat considering that it fell in 2015?

Lisa T. Su
President, CEO & Non-Independent Director

A

Ross, so let me give you some more color on the two areas, which might help. So on the base EESC business, if you were to look at product revenues of semi-custom game console SoCs, they were actually up a bit. So overall units were up double-digit percentage. ASP declined but less than that, and so product revenue was up. What you saw as segment decline was actually legacy revenue from server and embedded. If you remember, we have some legacy revenue based on some of the older up-drawn products that we continue to sell. That has seen a drop-off as well as our DCSS or SeaMicro business was there in 2014 that we exited in 2015. So that was the year-on-year decline that was there.

And then I think as you go forward to 2016, I'm not being that specific about the base business, but I will say I think units will be up. And we'll have to see exactly how much up as the markets go. But we certainly don't see it substantially down, if that's what you're implying.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

That's very helpful. I guess piggybacking off that to an earlier question, this time for Devinder, on the gross margin side, correct me if I'm wrong here, but what I heard as to the answer to the earlier question as to why you're not guiding for the full-year gross margin was partially because of the unknown mix dynamic in revenues. To the extent that's true, does that imply that the gross margin delta between the Computing and Graphics group and the EESC group, even with the new ramps in semi-custom, is likely to remain as wide as it has in the last year or so?

Devinder Kumar
Chief Financial Officer, Treasurer & Senior VP

A

I think we have to see how the year unfolds to be honest. I think Q1, like I said, the guidance is 32%. We need to see a mix of product. We have our new products being introduced in both the businesses with the new design wins in the second half on the semi-custom side and then obviously on the CG side. You've heard us talk while Graphics and Computing have new products kicking in. And so from my standpoint, I want to see how it unfolds in terms of the mix of product, mix of the business before getting into the gross margin. But fair to say, as you know, the semi-custom business just the way the model was from an NRE standpoint has lower gross margin in the Computing and Graphics side of the business. So that's a fair statement.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Okay, thank you.

Operator: Thank you. Our next question is from Chris Rolland from FBR & Co. Chris, please go ahead.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.

Q

Hey, guys. Thanks for the question. On the semi-custom business, I'm sure you guys have looked at prior console platform price cuts for customers and their effect on sell through. So I'd love to know how you're thinking about that and a potential reacceleration. If that were to happen, do you have any prior metrics you can share with us? And then also, I think I know the answer, but if there was a platform price cut, should we still expect a slow and linear reduction in your ASPs or might there be something more aggressive like a one-time step-down?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yes, okay. So, Chris, if you look at the semi-custom cycle, and again, these cycles are hard to predict. Through this year, through the end of 2015, the game console units are far ahead of the previous cycles, so – on the order of $20 million units ahead of the previous cycle. When you look at the significant price points, I would say their sub-$300 price points that start accelerating demand and you saw some of that this holiday season. So that had some impact. When you – your question overall in terms of acceleration. I think, again, the game console guys know how to do this cost reduction, and they've done it very well. Our price or ASP reductions are not step function reductions. They end up being pre-negotiated and in-line with cost reductions that we have agreed to with our partners.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.

Q

Okay, very helpful. Also perhaps you can talk about ASPs in 2016, how you sort of see them trending with Summit Ridge and server products and how big a driver is that for top line and for profitability.

Lisa T. Su
President, CEO & Non-Independent Director

A

I think it is very important that we see an improvement in our product mix. And that's something that we've certainly been striving for in both our mobile products. And as we introduce higher performance desktop and server products, we should see that reflected in the ASPs. So the mix of business focusing on commercial versus sort of the low-end consumer will help all those things. But when Devinder talks about some of the pluses and minuses on gross margin, it really is our ability to increase and improve that mix in our overall business going forward.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.

Q

Thanks so much.

Operator: Thank you. Our next question comes from Hans Mosesmann from Raymond James.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Thanks. Hey, Lisa, a clarification on Zen. You said that you had some design wins already on the server side of that road map. Can you give us a sense on what kinds of server wins and what kind of an opportunity you see in terms of market share over the next several years as you come back to the market?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, so, Hans, overall, on the Zen design wins, we have been engaged very early on with large OEM and cloud providers on the Zen design point and the platforms that would be useful for Zen. So we are – we have closed our first design wins. We are working very closely with these OEM partners to make sure that they bring up their platforms concurrently with our own design validation and testing. I think the main message is we are on track with the schedule that we previously discussed in terms of sampling this year. We will introduce first in desktop. And so, we are having conversations with some of the PC OEMs about getting their platforms ready for desktop. And then we will go into enterprise server first full year in 2017.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay. And then as a follow up, what kind of performance point should we look at your initial Zen in the server space? Is this kind of Xeon E3 class type products or E5s? Or maybe you can help with granularity there if you can?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, so we believe that we'll be able to address, let's call it, 80% of the server CPU market with our Zen class of products. That's the very high end but really the meat of the market.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay, thank you.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Hans.

Liz Morali
Director of Investor Relations, Advanced Micro Devices, Inc

A

Operator, we'll take two more questions, please.

Operator: Okay, we'll take our next question from Joe Moore from Morgan Stanley. Joe, your line is open.

Joe L. Moore
Morgan Stanley & Co. LLC

Q

Great, thank you. I wondered if you could talk about the discrete GPU business. You were first to market with high bandwidth memory and saw the benefit of that. Did you see the benefit that you'd hope for? And with your competitor ramping HBM, at some point I presume with this year, does that blunt the momentum that you've seen on the GPU side?

Lisa T. Su
President, CEO & Non-Independent Director

A

I would say HBM was a very good technology. I think we got the performance benefit that we expected. It is still at the high end of the cost point range and so that's why we've introduced it just at the high end. I think HBM and all this 2.5D packaging technology is going be really important over the next three years, so three years to five years but definitely over the next three years. So I think being first to market, we've gotten a lot of experience on the technology. We will continue to use high bandwidth memory in our portfolio. And as the cost goes down, it will give us an opportunity to use it in a broader set of segments.

Joe L. Moore
Morgan Stanley & Co. LLC

Q

Great, thank you. And then as my follow up, have you talked about potentially semi-custom products in virtual reality? And to the extent that you have or can, does that going to have the same type of GPU requirement that we've seen on the PC platform or is it possibly scaled down from that level of performance requirement?

Lisa T. Su
President, CEO & Non-Independent Director

A

So I think there are opportunities to do custom implementations of GPU for virtual reality. I think the amount of graphics horsepower that's required and perhaps some of the form factors that you want to go into being smaller and more portable would enable you to do that. I think it's early to talk specifics, but I think the general idea that VR has a lot of requirements and doing something custom might be helpful, I think, is absolutely on the mark.

Joe L. Moore
Morgan Stanley & Co. LLC

Q

Thank you very much.

Lisa T. Su
President, CEO & Non-Independent Director

A

Thanks, Joe.

Operator: Okay, thank you. We'll take our final question from Stephen Chin from UBS. Stephen, your line is open.

Stephen Chin
UBS Securities LLC

Q

Great, thanks for taking my questions. Lisa, if I could on the graphics roadmap side, with the upcoming Polaris architecture later this year, that's going to come out about four to five quarters after Fiji was released, which is a pretty good improvement in terms of timing or cadence compared to the previous generation, so I guess my question is that, is this sort of one year plus cadence for your GPU roadmap? Is this something that can be sustained going forward? And how does that compare relative to the OpEx run rate that Devinder guided for this year? Is that the right quarterly run rate for – that can sustain that type of graphics road map, first of all?

Lisa T. Su
President, CEO & Non-Independent Director

A

So I think the overall answer is we do believe the cadence of graphics requires annual refreshes and we are going to invest to enable that. And I think the Polaris launch is significant because it's also a change of process technology, which sometimes can run into other issues. But I think we feel very good about where we are there. And you should expect that cadence to continue.

Stephen Chin
UBS Securities LLC

Q

Perfect. As my follow-up, just given some of the product announcements on the professional commercial graphics side and some the design wins you were talking about with Dell, for example, I was wondering if you could help provide any color from your customers in terms of qualitative or even quantitative potentially in terms of the opportunity for AMD this year, especially given the macro backdrop. Is that – is there going to be some large step function up this year from those design wins? Or will the macro potentially play somewhat of a modest headwind for that new opportunity?

Lisa T. Su
President, CEO & Non-Independent Director

A

Yeah, so I really view the macro as more as a headwind for the overall PC market. When you talk about professional graphics, I think it's such a specialized market that it is more about the product you offer and is it competitive and differentiated enough. I think it's fair to say that most of our customers would say that the products are actually very good. So the overall product capability and performance is good. Our issue has really been are we investing enough in the software resources to help customers use some of our products? So I think on the professional graphics space, we do believe it's a growth opportunity. I think we're going to continue to invest on some of the software around professional graphics and continue to make steady progress into 2016.

Stephen Chin
UBS Securities LLC

Q

Great, thank you.

Liz Morali
Director of Investor Relations, Advanced Micro Devices, Inc

Thank you. That concludes our call for today. We would like to thank everyone for participating. Operator, you may close the call now.

Operator: Okay. Ladies and gentlemen, this does conclude your conference. You may now disconnect and have a great day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2015 Earnings Call for 19-January-2016 5:00 PM ET
Tuesday, January 12, 2016 04:42:03 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2015 Earnings Call for 19-January-2016 5:00 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle_Print&ID=2130467
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Q3 2015 Earnings Call

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Stephen Chin
UBS Securities LLC

Matthew D. Ramsay
Canaccord Genuity, Inc.

Joe L. Moore
Morgan Stanley & Co. LLC

Sanjay Chaurasia
Nomura Securities International, Inc.

Mark Lipacis
Jefferies LLC

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Vijay R. Rakesh
Mizuho Securities USA, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for your patience. You've joined AMD's Q3 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference may be recorded.

I would now like to turn the call over to your host, the Corporate Vice President of Corporate Communications and Investor Relations, Ms. Ruth Cotter.

Ruth Cotter

Corporate Vice President Investor Relations and Corporate HQ Site Lead

Thank you and welcome to AMD's third quarter conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you've not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Lisa Su, our President and Chief Executive Officer and Devinder Kumar, our Senior Vice President and Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a few dates for you. Lisa Su will present at the Wells Fargo Tech, Media, Telecom Conference on November 10 in New York, and at the Credit Suisse Annual Technology Conference on December 2 in Arizona. Devinder Kumar will present at the Raymond James Technology and Communications Investor Conference on December 8 in New York, and our fourth quarter quiet time will begin at the close of business on Friday, December 11, 2015.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally, please note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measures in the press release and CFO commentary, which are posted on our website at quarterlyearnings.amd.com.

Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's quarterly report on Form 10-Q for the quarter ended June 27, 2015.

Now, with that, I'll hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director

Thank you, Ruth, and good afternoon to all those listening in today. We successfully executed many of our near-term tactical priorities in the third quarter, while also taking several key steps as a part of our longer-term strategy to focus AMD on delivering great products, driving deeper customer relationships, and simplifying our business.

Highlights include delivering strong double-digit sequential revenue growth in each of our business segments; expanding our product portfolio with the introduction of several new APUs and GPUs that improve our competitive positioning in key markets; forming the Radeon Technologies Group to bring a vertical focus to our Graphics business and help strengthen our performance in traditional graphics markets, while simultaneously establishing leadership initiatives in immersive computing markets like virtual and augmented reality.

And in the third quarter, we also taped-out multiple products in FinFET technologies across both of our foundry partners that are on track to enter production next year.

We also took targeted actions in the quarter to streamline portions of our business as a part of aligning our cost structure with our revenue profile, and we took an inventory write-down, primarily on some of our previous-generation APUs, largely related to weaker-than-expected PC demand. While not ideal, we believe the write-down helps ensure we have the appropriate balance of inventory in place, given market conditions.

Looking at our financial performance, third quarter sales were $1.06 billion. The sequential increase of 13% included revenue growth across both our Computing and Graphics segment as well as our Enterprise, Embedded and Semi-Custom segment. In our Computing and Graphics segment, we delivered our first sequential revenue increase in two years. CG revenue increased 12% sequentially, primarily due to improved GPU and desktop APU sales.

Channel sales also improved sequentially for the second straight quarter as we saw the benefit from the work we completed earlier in the year to reduce channel inventories. We continue to have success with HP in the commercial market, as they are seeing accelerating demand for their AMD-based systems, including increased adoption with key Fortune 500 accounts. As a result, I'm pleased to share that, for the first time, AMD was the exclusive launch processor partner for HP's newest EliteBook commercial client systems, based on our latest Carrizo PRO APUs, which launched at the end of September.

Overall, PC demand, particularly, in the consumer market, continues to be somewhat muted as there remains a high volume of Windows 8-based systems still on shelves. As a result, OEMs have been slower to ramp their Windows 10 platforms than we anticipated. We did see multiple customers introduce new Carrizo-based Windows 10 platforms in the third quarter, and we expect additional platforms will come to market in the fourth quarter.

Shifting now to Graphics, GPU revenue increased sequentially as we grew both OEM and channel sales based on the strength of our latest desktop and notebook offerings. Our strategy to profitably regain share by capturing key hardware and software technology transitions, like HBM and DirectX 12, is gaining traction.

We expanded our Fury family of HBM-enabled GPUs in the quarter to include the Fury Nano, the world's smallest and most power-efficient enthusiast desktop graphics card. We delivered strong double-digit percentage sequential revenue growth in the high-end, enthusiast, and performance portions of the GPU market, based on the success of our flagship Fury line of energy-efficient products.

On the software side, our GCN GPU architecture is delivering up to a 30% performance increase on applications written for the next-generation of low-level programming APIs, like Microsoft's DirectX 12, that are being quickly adopted by developers.

Turning to our Enterprise, Embedded and Semi-Custom segment, revenue increased 13% sequentially, driven by strong Semi-Custom sales to support holiday game console demand. We are on track to set an annual record for Semi-Custom unit shipments in 2015. Demand from Sony and Microsoft indicates that the record-setting sales pace of this generation of game consoles will remain strong. We also remain on track to begin revenue shipments of our additional Semi-Custom design wins starting in the second half of 2016.

As a part of further diversifying into the medical, communications, and non-console gaming markets, we plan to expand our embedded product offerings this quarter with the introduction of our newest R-Series SoC, which will deliver significant performance per watt improvements compared to our previous-generation, and offer industry-leading graphics capabilities for embedded designs.

Today, we also announced that we have signed a definitive agreement with Nantong Fujitsu Microelectronics to form a joint venture combining AMD's high-volume assembly and test facilities and experienced workforce with NFME's established OSAT expertise. Today's announcement is another example of how we are executing the strategy we outlined at our Financial Analyst Day in May to focus the company on improving our long-term financial performance by building great products and simplifying our business model.

Forming a back-end manufacturing joint venture is a significant step towards achieving these goals, as we align our operating model with other established companies and strengthen our balance sheet.

Looking to the fourth quarter and beyond, our priorities are clear. First, we must make more progress returning our Computing and Graphics business to a healthy trajectory by ramping Carrizo unit shipments, further penetrating the commercial client market, regaining profitable GPU share, and maintaining healthy OEM and channel inventory levels. While we are not anticipating Windows 10 will drive a dramatic near-term PC refresh cycle, the continued adoption of Windows 10, which has already been installed on more than 110 million PCs to-date, provides a great opportunity for AMD over the coming year, based on a steady consumer and commercial refresh cycle environment.

Second, we must continue delivering strong new products. This includes successfully executing key design milestones through our breakout Zen CPU core. Zen remains on track for availability in 2016, and we believe will return AMD to the mainstream server and high-end client markets in a significant way in 2017 and beyond.

We are also focused on delivering our next-generation GPUs in 2016, designed to improve performance per watt by 2x compared to our current offerings, based on design architectural enhancements as well as advanced FinFET process technology.

Third, we must further strengthen our balance sheet through continued improvements in our financial performance and strategic actions like our joint venture with Nantong Fujitsu. One of our most valuable assets is our patent portfolio. We own foundational patents in processing, graphics, semiconductor fabrication and other technologies. This portfolio is not broadly licensed and could provide a significant source of revenue for years to come.

We believe we have the right long-term strategy to return AMD to profitability and the correct set of priorities that will help us navigate the near term.

Now, I'd like to turn the call over to Devinder to provide some additional color on our third quarter financial performance. Devinder?

Devinder Kumar
Chief Financial Officer & Senior Vice President

Thank you, Lisa, and good afternoon, everyone. In my remarks today, I'll be referencing non-GAAP figures except for revenue, which is on a GAAP basis. I'm pleased with the progress we made in the third quarter with 12% sequential revenue growth in our Computing and Graphics segment and seasonally strong sales in our Enterprise, Embedded and Semi-Custom segment. Additionally, we continue to simplify our business model and sharpen our financial focus as evidenced by the manufacturing joint venture announcement for our ATMP facilities, which will also bolster our balance sheet and the restructuring actions, which will help reduce costs.

First, let me review the third quarter numbers. Third quarter revenue was $1.06 billion, up 13% sequentially, driven primarily by seasonally stronger sales of our Semi-Custom SoCs and improved desktop processor and GPU sales. The year-over-year decline of 26% was driven largely by decreased sales across our Computing and Graphics products.

Gross margin was 23%, down 5 percentage points sequentially. Gross margin was impacted in the quarter by a $65 million inventory write-down, comprising primarily older generations APUs. The impact on the inventory write-down was 6 percentage points.

Before I cover the rest of the financial performance of the quarter, let me briefly recap the restructuring plan we announced at the beginning of October. It is a latest step to simplify our business and better align our resources around our priorities and business outlook. As a result of these actions, we expect to reduce global head count by approximately 5% by the end of Q1 2016. Total restructuring and other special charges in Q3 2015 were $48 million, comprised of $41 million related to the recent restructuring plan and $7 million of facilities-related charges from our 2014 restructuring plan.

Operating expenses in the third quarter were $336 million, down $17 million from the prior quarter, including $2 million of savings related to our 2015 restructuring plan. In our fiscal third quarter, the operating loss was $97 million and net loss was $136 million, a $0.17 per share loss calculated using 785 million shares. The impact of the inventory write-down for the loss per share was $0.08.

Net interest, other expense and taxes were $39 million in the quarter, down from $44 million in the prior quarter due primarily to a decline in other expenses. Adjusted EBITDA was negative $55 million, compared to negative $42 million in the prior quarter.

Now turning to the business segments, Computing and Graphics segment revenue was $424 million, up 12% sequentially, primarily due to higher sales of GPUs and desktop processors. Computing and Graphics segment operating loss was $181 million, compared to $147 million the prior quarter, primarily driven by an inventory write-down of older generation products, partially offset by higher revenue.

Enterprise, Embedded and Semi-Custom revenue was $637 million, up 13% from the prior quarter, driven by seasonally higher sales of our Semi-Custom SoCs. Operating income of this segment was $84 million, up from $27 million in the prior quarter, primarily due to the absence of the $33 million technology node transition charge in Q2 2015 and higher sales.

Let me now cover today's joint venture announcement. We signed a definitive agreement with Nantong Fujitsu Microelectronics to form an industry-leading assembly, test, mark and pack or ATMP joint venture to which we will contribute our ATMP facilities in Malaysia and China. The value of the deal is approximately $436 million. And upon the close of the transaction, AMD will retain a 15% ownership in the joint venture. We expect to receive

$371 million in cash from our partner with net proceeds of approximately $320 million after taxes and other expenses at closing, which is expected in the first half of 2016 after all regulatory and other approvals.

We expect the transaction to be cost-neutral to the P&L, which significantly reduce capital expenditures for the company. In addition, as a result of the plans for our ATMP facilities, the balance sheet reflects held-for-sale accounting of the ATMP assets and liabilities with associated inventory, property, plant, and equipment, and accounts payable balances being reclassified to other current assets and other current liabilities with an impact of $119 million and $81 million, respectively.

As our business model continues to evolve, and based on recent questions from some investors, I want to take a moment to cover our cash and working capital management needs. As you know, we target managing cash within the range of $600 million to $1 billion, and cash may on occasion trend to the lower-end of that range with the expectation that it returns to the mid-range or better thereafter. We are comfortable with this because of the lower quarterly revenue run rate, lower OpEx, focus on reducing inventory and continuing efforts to improve sales linearity.

In addition, there's a disproportionate impact on cash of approximately $70 million during the first and third quarters of each year based on our current debt profile that is also a factor on cash balances. Additionally, the JV transaction should result in cash generation of approximately $320 million in the first half of 2016, with a significant CapEx reduction to an approximate $60 million annual run rate.

We also believe we have the ability to generate significant revenue while licensing or otherwise monetizing our IP portfolio. Lastly, if needed, we have other options available to bolster cash; namely, tapping our asset-backed loan, of which $230 million is drawn as of the end of the quarter, or accessing the capital markets.

Over the longer term, we look forward to de-risk our debt maturity profile, reduce interest expense and allocate excess cash over $1 billion to reducing debt.

Turning to the balance sheet, our cash and cash equivalents balances total $755 million at the end of the quarter, down $74 million from the prior quarter, primarily due to a $69 million debt interest payment in the third quarter. Inventory was $761 million, down from $799 million the prior quarter, due to the $65 million inventory write-down.

Debt as of the end of the quarter was $2.26 billion, essentially, flat from the prior quarter. As of the end of the quarter, total borrowing against our secured revolving line of credit was $230 million, unchanged from the prior quarter.

Free cash flow in the quarter was negative $84 million, compared to a negative $75 million in the prior quarter.

Lastly, as mentioned on our last quarter's earnings conference call, we are actively working with GLOBALFOUNDRIES to reprofile our 2015 wafer commitments in line with product demand in the fourth quarter of 2015 and into 2016. As of the end of the third quarter of 2015, we had purchases amounting to $631 million under the Fifth Amendment of the WSA. We anticipate concluding of our wafer purchase reprofiling discussions with GLOBALFOUNDRIES before the end of the year.

Now, turning to the outlook for the fourth quarter 2015, AMD expects revenue to decrease 10% sequentially plus or minus 3% due to a seasonal decline in Semi-Custom sales. We expect Computing and Graphics segment revenue to increase sequentially. Non-GAAP gross margin is expected to be approximately 30%.

Non-GAAP operating expenses are expected to be approximately $350 million, including savings of approximately $7 million from our 2015 restructuring plan. Interest expense, taxes, and other to be approximately $45 million. Inventory is expected to be down from Q3. Cash is expected to be approximately flat at $750 million, including cash payments of approximately $19 million related to the 2015 restructuring actions.

In closing, we continue to take steps to further simplify our business model, manage expenses, and make the right investments to deliver on our longer-term strategy and improving financial performance.

With that, I'll turn the call back over to Ruth. Ruth?

Ruth Cotter

Corporate Vice President Investor Relations and Corporate HQ Site Lead

Thank you, Devinder. Operator, we'd like you to now poll the audience, please, for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, ma'am. [Operator Instructions] Our first question comes from the line of Chris Rolland of FBR & Company. Your line is open.

Christopher Rolland

FBR Capital Markets & Co.

Q

Hey, guys. Thanks for the question. I am trying to put the pieces together on the guidance, particularly, for the Semi-Custom business. The sequential drop is maybe a little bit more than I had thought. And I was just wondering if maybe you could talk us through the moving parts here. Is it all units? Or is there perhaps a step function decrease in pricing? Was there some sort of inventory that was built? How do I think about the step-down in Q4?

Lisa T. Su

President, Chief Executive Officer & Director

A

Sure, Chris. This is Lisa. Let me try to give you some color on that. So if you look at the Semi-Custom business as a whole, it actually was a very strong third quarter and a strong overall year. So we saw units go up. We expect units to be up on a full-year basis year-over-year and revenue to be modestly up year-over-year as well.

When we talk about the Q3 to Q4 guidance, we actually ended up Q3 a bit stronger than our original guidance. And that was because our customers were ramping Semi-Custom units prior to the holiday ramp. And so September was a very strong month for us. October and November will be strong months as well.

Q4 is down seasonally from Q3, just given the shape of the holiday ramp. So in terms of the magnitude of the overall units from a Q3 plus Q4 standpoint, it's pretty much as we would expect, and it's really just a timing between Q3 and Q4. As we said in – Devinder's mentioned in the prepared remarks, we do expect the Computing and Graphics business to be up quarter-over-quarter. And again, that's due to some of the progress that we're making in that business.

Christopher Rolland

FBR Capital Markets & Co.

Q

Okay, great. Thanks, Lisa. The next one is for Devinder. So congrats on the assembly test deal. I guess, my question is, was there a prearranged assembly test supply agreement that you guys worked out as part of the deal? And if so, how should we think about minimum volumes, or pricing, or length of the arrangement?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah. I think that's a lot of detail, Chris. But let me tell you, overall, from a viewpoint of the deal, we are very happy to be able to combine our ATMP facilities with the expertise, – with our partner NFME. They are one of the top OSATs in China. And as far as the supply arrangement is concerned, we have a lot of flexibility. Overall, from my standpoint and the products that we have in our factories today, a significant portion of that will become part of the JV product. But at the same time, we have a lot of flexibility to use other OSATs as the case might be.

Christopher Rolland
FBR Capital Markets & Co.

Q

Okay. You do have some capacity that's tied up, but you have flexibility for the rest. Did I understand that correctly?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Well, think about it, it's a five-year agreement. We have products that are running in the factories today, but we also have a lot of product that's run in the OSATs that we do business with around the world. And as the agreement is implemented, we will have some products in the JV facilities, and at the same time, lot of flexibility to make products outside of the JV entities.

Christopher Rolland
FBR Capital Markets & Co.

Q

Okay, great. Thanks a lot. And congrats again on that deal.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Thank you.

Operator: Thank you. Our next question comes from the line of David Wong of Wells Fargo. Your question, please.

David M. Wong
Wells Fargo Securities LLC

Q

Thank you very much. Following up on the earlier – the question just now, when you sell your assembly and test facilities, or the stake in them, does that result in any increase in packaging costs when the deal closes? Do you have an estimate of the impact on gross margin if there is an increase?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, David. As I said in my prepared remarks, we expect this to be cost-neutral. So there should be no impact from packaging or overall cost. We've got a pretty good supply agreement that we have put in place with our suppliers, so don't expect any impact. However, I will add one thing. If you look at the OpEx side of the house, you can expect some decline in the OpEx. But on the COGS side of the house, essentially, cost-neutral.

David M. Wong
Wells Fargo Securities LLC

Q

Okay, great. And then, in addition to licensing your IP, are there any pieces of IP you have that you think you could sell? And if so, do you have any estimate of the [ph] realizable (25:53) value of IP that you might be able to sell outright?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think if you look at our overall portfolio of IP, we have a lot of IP over the history of the company with the strong investment that made in R&D. Lisa will probably give some details in terms of the various areas. But what I would say about our portfolio, especially, the IP portfolio is we are able to generate revenue and we plan to monetize that for revenue. And in some sense, if you look at our 10,000 patents, of which half are U.S.-based, based on present transactions, you can imagine the value of the IP portfolio is pretty strong and pretty significant, I guess. So, Lisa, you want to comment on the IP portfolio itself?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, David, maybe just to expand on that a little bit, look, in terms of our IP portfolio, we are very proud of sort of the overall foundational patents that we have across processors, graphics as well as other semiconductor technologies. Previously, we'd been more opportunistic in how we've approached licensing. And we believe that there's an opportunity now to be more strategic and deliver about what we do. So in terms of your specific question, I think we're open to – there are several different avenues, including licensing technology, forging partnerships, perhaps, sales of certain pieces of the portfolio. So we are considering all those options.

David M. Wong
Wells Fargo Securities LLC

Q

Okay. Great. And my last one, the 12% sequential growth you saw for Computing and Graphics, was that driven roughly equally by GPUs and the processor chips? And similarly, when you expect that segment to grow sequentially in December, do you expect both parts of it to grow?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So, David, in terms of the overall Computing and Graphics business, up 12%. I would say it was a little bit more heavily weighted on Graphics versus Computing. We do see some strength in both businesses as our product portfolio becomes stronger. And we continue to launch more platforms in the market. So we do expect overall growth in Computing and Graphics in Q4.

David M. Wong
Wells Fargo Securities LLC

Q

Great. Thanks very much.

Operator: Thank you. Our next question comes from the line of Hans Mosesmann of Raymond James. Your line is open.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Yeah. Thanks. Lisa, can you give us a sense of what's going on with Zen? Or, actually, I should ask with the departure of Jim Keller, that kind of shakes things up quite a bit. What is the succession there? And I suppose that Zen is already architecturally very well-defined. What happens after that in terms of road map and Keller's departure? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, Hans, so let me talk overall about Zen and our road map, and then, specifically to your question. So as I said in the prepared remarks, Zen is on schedule for availability in 2016 and first full-year of revenue ramp in 2017. As you know, these microprocessor projects are multi-year projects. So the architecture, the execution team very much in place. I think we're pleased with the progress. And we will continue to work hard to meet our objectives in that area.

In terms of the long-term roadmap, we are extremely committed to high performance x86 CPUs. And there should be no confusion on that point.

Mark Papermaster is currently directly engaging with the team on that execution, and we'll have more details to come. But, overall, pleased with the execution, and it continues to be our number one priority for the company.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay. If I could just as a follow-on relatedly, on the ARM side of the equation, we just heard earlier this week Qualcomm jumping into the fray. Xilinx talked about some of the accelerator-type ASICs of what may be happening in next-generation hyperscale data centers. What's AMD's position on all this? There's lots of activity. And what are you guys doing? Because it seems that Seattle, or at least, your first incarnation of ARM and servers didn't really pan out that much.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So, Hans, I think relative to ARM, I continue to believe ARM has a place in the data center both – as you think about sort of the convergence between networking storage and servers. I think it's fair to say for all of us that it's been a slower-to-adopt in the server market just due to some of the software and the infrastructure.

Relative to Seattle, we will be starting our first modest production shipments in the fourth quarter, in this coming quarter this year. And I view it as a longer-term bet. So no question that the server market is attractive, data center is attractive. We're very focused on it from an x86 standpoint. And we'll continue our ARM efforts in a complementary way.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thanks, Hans.

Operator: Thank you. Our next question comes from Harlan Sur of JPMorgan. Your question, please.

Harlan L. Sur
JPMorgan Securities LLC

Q

Hi. Great. Thanks for taking my question. So, Lisa, you gave us sort of a relatively brief update on Zen. If you could just give us an update on Zen from a performance perspective. It's a new core architecture, new process technology. I think you taped out a couple of chips last quarter. Any feedback on the performance, early yield metrics that gives the team confidence on the broad rollout of the different product families starting next year?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, so, Harlan, let me capture it this way. So as we stated in the Financial Analyst Day, we had a target of 40% IPC performance of Zen over our previous generation. We believe we're on track for that. Relative to process technology, we've taped out multiple products to multiple fabs in FinFET. And we believe that they're also on track in terms of overall ramp. So we continue to focus on both of those aspects, both the architecture, the process technology, but so far so good.

Harlan L. Sur
JPMorgan Securities LLC

Q

Great. And then, does the joint venture agreement also include transferring over your HPM technology to the JV? And does the JV have the right to offer this capability to some of its customers? HPM seems to be a fairly differentiated performance feature for AMD, wouldn't want to see that being offered to other potential competitors. Any comments would be appreciated there.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So the high bandwidth memory technology that we introduced on our Fury line of products is actually done jointly with several OSATs. So we have definitely put a lot of R&D into the technology, and those are ramping today. They are not part of the JV, per se.

Harlan L. Sur
JPMorgan Securities LLC

Q

Okay. Great. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thank you.

Operator: Thank you. Our next question comes from the line of Ian Ing from MKM Partners. Your question, please.

Ian L. Ing
MKM Partners LLC

Q

Yes. Thanks. Devinder, thank you for laying out all the sources and uses of cash. So you're guiding to $750 million cash. You're going to get some proceeds from the assembly and test sale, I guess, sometime mid-year. So between now and then, what are the true contractual obligations you have? Is it really things like interest and restructuring payments? I know you've got obligations to GLOBALFOUNDRIES, but then again, there's no penalties there. So just the true obligations in your mind.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think if you look at it from a viewpoint of the specific items that you mentioned, you're right about the restructuring actions, but the cash payments – if I summarize the restructuring plan that we announced earlier this month, $26 million of cash payments, $7 million actually occurred in Q3, $19 million to be paid out in Q4. And then as we get into 2016, there's another $15 million, 15, one-five, to be paid out for the restructuring plan. And then we are done. And at that point, obviously, we get the benefits from the restructuring plan. I mentioned in the remarks that I had that. If you look at 2016, there's about $58 million of savings. Now, overall from an OpEx standpoint relative to the actions that we took.

As far as the obligation to the Wafer Supply Agreement, yes, you're right, do not expect the charges that you talked about. And obviously, we're working with GLOBALFOUNDRIES, our partner, to go ahead and reprofile the timing and the mix of the wafers as we look at the demand profile for Q4 2015 and into 2016.

CapEx, I mentioned that with the transaction, [ph] we're (34:53) not just bolstering the balance sheet with cash sometime in Q1 2016. So the CapEx comes down by about $40 million from the current annual run rate of $140 million. So net-net, I think when I look at all the factors at play, all else being equal, I feel good about the actions we have taken from a cash standpoint. And you've seen us manage the cash within the range that we have laid out. And I went through a little bit more detail in this particular earnings call in terms of all the various areas and how we look at cash management as well as working capital management.

Ian L. Ing
MKM Partners LLC

Q

Great. Thanks. And then, follow-up, Enterprise, Embedded, Semi-Custom, I'm just trying to see how it can possibly grow next year. I mean, you have game consoles, obviously, regular ASP declines year-over-year. I mean, what should we think of the main drivers of new revenue that we could perhaps get you over this year's type of revenue run rate? Is this the other Semi-Custom wins? Or is it some other areas?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So the way I would think about the Enterprise, Embedded and Semi-Custom segment in terms of longer-term revenue growth, in 2016, as we said, we will have additional Semi-Custom revenue ramping in the second half of 2016. So I think that would be one driver. And then, as we go into the medium term with Zen, that would be more of a 2017 revenue driver.

Ian L. Ing
MKM Partners LLC

Q

Okay. And then, if I can fit in one more, I mean, your Computing Graphics, revenue's up nicely in the September quarter. Looks like your operating loss, though, grew sequentially. Just trying to figure, is that sort of some transient marketing costs? Or is that some other things going on there in terms of the operating loss growing?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah. A couple of things. When you look at the numbers from a segment reporting standpoint, you are right that the operating loss did go up. But within the with the operating loss in Q3 of 2015, the inventory write-down that I talked about to the tune of $65 million, the larger portion of that is within the Computing and Graphics segment. So it skews the results from an overall operational standpoint. So if you adjust for that, the improvement, even though it was a loss, was there from Q2 to Q3 on the higher revenue.

Ian L. Ing
MKM Partners LLC

Q

Yeah. Okay. Thanks a lot.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Welcome.

Operator: Thank you. Our next question comes from Stephen Chin of UBS. Your question, please.

Stephen Chin
UBS Securities LLC

Q

Yeah. Thanks for taking my questions. Lisa, if I could ask you on the Graphics side of the business, just looking at your AIB business for the graphics boards, can you talk about how those products in particular performed relative to the overall Graphics business in terms of sequential growth? How the sell-in sell-out will be? And kind of what your view is on safe inventories exiting the quarter and kind of what the expectations are for Q4?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So, sure. So if I look at the overall Graphics business, we did see growth across both the desktop as well as the notebook portion of the business. Relative to AIB, the third quarter was really the start of the ramp of the Fury Series as well as the R9 Series. I think it was a transition quarter in terms of transitioning from the older products into the newer products.

Relative to inventories, actually, I think we're in good shape on inventories. China is a little bit sluggish. And we see that across both Graphics as well as Computing. All other regions are in good shape.

Stephen Chin
UBS Securities LLC

Q

Great. And as a follow-up, in terms of the blended ASPs, you guys noted that it was flat sequentially, but up year-over-year. Can you just talk about just from a mix standpoint how you expect that to progress in the current quarter? Are you expecting the mix to continue skewing towards the richer Fury and new product portion of the portfolio? Or do you expect a good amount of lower-end GPUs to be sold in this coming quarter?

Lisa T. Su
President, Chief Executive Officer & Director

A

It's hard to say. I think we'd have to look at all of the dynamics. But it's fair to say that the AIB ASPs are trending upwards because we have now a solid offering in the enthusiast and performance segments where we did not before. Relative to overall ASPs, I think we'll have to comment on that next quarter.

Stephen Chin
UBS Securities LLC

Q

Okay. Great. Thank you.

Operator: Thank you. Our next question comes from the line of Vivek Arya of Bank of America. Your line is open.

Q

Thank you. This is [ph] Shankar (39:39) on behalf of Vivek. Just want to touch upon the console side of things again. So you mentioned the unit growth was strong in Q3, but can you give us a sense on how the ASPs have trended this year and then how should we model ASP trends next year?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So, let's see, what's the best way to say that? I think what I said was overall units were up year-on-year 2015 to 2014 as we project into the fourth quarter. Revenue is up modestly. So the ASP decline is modeled in there. As we go into 2016, again, I expect that units will be up, given our current visibility, the ASPs are known. So the main thing will be just looking at – you can easily vary a couple of million units this early in the cycle. So I won't say exactly where I expect revenue to be, but those are the relative trends. I expect units to be up, ASPs, on the same order and we have to see where that actually ends up.

Q

Got it. Thank you. And then, my follow up is on the Graphics side of business. Obviously, you're shipping new products into the market, but can you talk about what your overall gaming TAM is? And how fast you think that market will grow? And how fast you think you can grow in that market?

Lisa T. Su
President, Chief Executive Officer & Director

A

So I think we're very bullish on the graphics market as a whole. When you think about discrete graphics and the gaming portion of it as well as the newer applications – immersive applications around virtual reality itself, what – the conventional wisdom that ASPs are going down is probably modified by the fact that there's – with 4K, with DX12, with some of these other drivers, virtual reality, that there's more use for graphics horsepower.

Going forward, I think we have a lot that we can do in terms of the product portfolio. So we're very focused on launching sort of our 2016 products. That will be significant architectural and process technology enhancements. And we continue to believe that Graphics is a growth business for us.

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Matt Ramsay of Canaccord. Your line is open.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

Yes. Thank you very much. Lisa, just wanted to ask another question on the overall graphics market and follow up to the last question. I think conventional wisdom among investors is that maybe AMD is focused mostly on the console business and your primary competitors focused on the PC gaming business. And as trends like – I guess, first of all, do you agree with that? And just give a commentary on how you're focusing your investments. And second, as things like the eSports phenomenon take off, how do you feel the company is positioned to benefit from that? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. Okay. So good question. I think it's fair to say we are focused on overall gaming. It turns out that we have a very strong position in game consoles. So certainly that's a great business for us. I think PC gaming with our focus on both hardware and software optimization, particularly, as we move from DX11 to DX12, as you talk about some of the online gaming initiatives, I think we're actually very well positioned both with our APUs as well as our discrete GPUs.

So in terms of investments, I think you'll see us continue to invest and invest heavily in the Graphics area. And as I said earlier, I think it's a growth area for us. The fact that we are strong in game consoles, I think, is a benefit. And we'll continue to leverage how we can bring the game console and the PC gaming architectures closer together over time.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

Great. Thank you for that. And, Devinder, I just wanted to follow up on some questions that were asked earlier in the call about the JV and the impacts of that. It looks like there's a significant number of employees that will be going into the JV from AMD outright. Could you potentially quantify the impact on operating expense that you see maybe pre the deal and then post that deal closing and how we should think about the OpEx trajectory going forward? Thanks.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

A little bit too early for that. We signed an agreement today and announced the deal today. We have work to do to get the regulatory approvals to go ahead and get the deal closed, and at the same time, go ahead and get the deal done. And then, you're right about the significant number of employees moving over. It's to the tune of 1,700 employees; and relative to our base of about 9,500. That's close to 20% when you look at it from that standpoint.

So I think as we work through the details of how the JV is going to work [ph] movement of the (44:51) employees, I'll be able to give more color. But I'm pleased from a viewpoint of what we have negotiated from a costing standpoint, as I said earlier, and a cost-neutral from our standpoint. And then, OpEx, as I said, that should be a benefit. But too early to go ahead and quantify that. I think I'll be able to get into that when we close the transaction.

Matthew D. Ramsay
Canaccord Genuity, Inc.
Q

All right, great. Fair enough. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Joe Moore of Morgan Stanley. Your question, please.

Joe L. Moore
Morgan Stanley & Co. LLC
Q

Great. Thank you. First, I have just a housekeeping question. I think before when you've taken these inventory reserves, they haven't been included in non-GAAP, if I'm remembering that correctly. And now you are leaving the inventory reserve in non-GAAP. Can you talk about is there something different about this reserve than what you've seen before that there's a different treatment of it?

Devinder Kumar
Chief Financial Officer & Senior Vice President
A

I don't recall. I think I have to go back to, I think, the 2012 timeframe and the PC market shifted pretty significantly, and everybody felt the effects of that in the 2012 timeframe. We had that impact. So we had the non-GAAP treatment for the inventory write-down at that point. And we are consistent with the way we do it. If you look at it from a viewpoint of how we talk about our numbers, putting it into non-GAAP and then comparing it and then we call it out from an inventory write-down standpoint, where we have – even in my script – given the adjusted numbers in terms of what the impact is to EPS as well as the gross margin on the write-down inventory.

But I think we are fairly consistent. There might have been something that you recall. We took an LTM adjustment that might have been not included in non-GAAP numbers. But when you do an inventory write-down, from an AMD perspective, as far as I can recall, we've always left that in the non-GAAP numbers.

Joe L. Moore
Morgan Stanley & Co. LLC
Q

Okay. That's helpful. Thank you. And then, my second question is back to your Graphics business. You've had a nice sequential quarter, but I still have your GPU business down quite a lot year-over-year. Now that you have products that are more competitive in an enthusiast segment, can you give us like an upper bound of what you might be able to achieve there? Are there supply constraints that are keeping this small? And are you going to be able to kind of regain the levels that you were at a year ago in GPU?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. So, Joe, I think one quarter is good progress. Now you'll have to watch us over a number of quarters regain that Graphics momentum. And when I think about it, relative to the Fury launch, we did have some supply constraints in the third quarter. They are largely solved in the fourth quarter. So I don't think there will be any supply constraints. I think it's also fair to say that the Graphics portfolio is quite broad. And so you will see us updating the entire portfolio over the coming quarters both on the OEM side and on the AIB side. So, again, it's a strategic effort. It's not a one or two quarter effort to regain our Graphics share.

Joe L. Moore
Morgan Stanley & Co. LLC
Q

Great. Thank you very much.

Operator: Thank you. Our next question comes from the line of Sanjay Chaurasia of Nomura. Your line is open.

Sanjay Chaurasia
Nomura Securities International, Inc.
Q

Hi, Lisa. I have a question on your pattern portfolio. So it's a two-part question. First question is, is that – the option of licensing it, is that something have you decided that you will do? Or this is something you could do in future? And part two is, where the demand for such licensing could come from? Does it necessarily imply that it would allow companies to build competing products in graphics and servers?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. So in terms of our licensing our patents or our technology, we have done it from time to time, as I said, on a more opportunistic basis. And that's been both licensing technology as well as overall partnerships. As we go forward, we do believe that there's an opportunity to be more strategic in how we approach that. And that includes partnerships in a certain market that we're not directly building products, for example, as well as working together with other companies that are interested in access to some of the markets that we are competing in. So I think both are possible. And it's a strategic effort that we will take on over the next couple of years.

Sanjay Chaurasia
Nomura Securities International, Inc.
Q

And as a follow-up, I have a question on your graphics reorganization. Could you elaborate a little more? How does this reorganization, vertical reorganization helps you to recapture graphics share?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. It really is – if you listen to some of our themes over the last couple quarters, it is about simplifying and providing focus in our business. So Graphics is an area that is extremely competitive. And having all of the graphics resources in a single vertical organization allows us to focus those resources and make good trade-offs in terms of what are the key market opportunities. So it is again our belief that it's a very important segment for us as well as the Computing segment. And aligning the resources under Raja Koduri gives us a very strong strategic slant on where we're going with that business over the next couple of years.

Sanjay Chaurasia
Nomura Securities International, Inc.
Q

Thank you so much.

Lisa T. Su
President, Chief Executive Officer & Director
A

Thank you.

Operator: Thank you. Our next question comes from Mark Lipacis of Jefferies. Your question, please.

Mark Lipacis
Jefferies LLC

Q

Thanks for taking my questions. Lisa, when you talk about being more strategic on the IP licensing, does that suggest that this is – you think about the opportunities here in licensing to your customers more, or is that licensing to other semiconductor companies? And on that topic, is the vision – can you help us with the vision from the standpoint of how big this could be? Is this something that's a single-digit revenue line item or low-double-digits or well into the double-digits, how should we think about that?

Lisa T. Su
President, Chief Executive Officer & Director

A

Look, so when I think about licensing, again, I view it as licensing to partners who are, let's call it, in complementary market segments as well as to those in OEM businesses. So I mentioned three different areas. That was licensing technology, joint development partnerships as well as just a pure patent sale.

Relative to how to benchmark it, Devinder said it earlier, it's 10,000 patents. We think it's a very strong portfolio; one of the strongest in the semiconductor industry. Our goal would be to monetize it across those various aspects over the next couple of years. So I don't have an exact number. But it is something that we view as very valuable and complementary to our product development efforts.

Mark Lipacis
Jefferies LLC

Q

Fair enough. And then, a follow-up if I may. You mentioned virtual reality and Mark Papermaster has talked about that as an exciting market opportunity. Recently, NVIDIA had announced partnerships to make VR-ready notebooks to come out, I think, later this month. Do you have a similar effort to – do you have something that do something similar on that front to have a VR kind of branded ready notebooks with your customers? That's all I have. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes. We are working very actively in the VR space. I think both Mark and Raja probably talked about it over the last couple of months. We've been working with a bunch of software developers as well as OEMs and headset manufacturers to put together overall solutions. So you'll be hearing more from us in those areas.

Mark Lipacis
Jefferies LLC

Q

Great. Thank you very much.

Ruth Cotter
Corporate Vice President Investor Relations and Corporate HQ Site Lead

A

Operator, we'll take two more questions, please.

Operator: Yes, ma'am. Our next question comes from the line of John Pitzer of Credit Suisse. Your line is open.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Good afternoon, guys. Thanks for sneaking me in. Just a quick question on operating profit by segment. I guess, the company's done a good job over the last 12 months taking overall OpEx down by about $75 million. And if I look at the Enterprise, Embedded and Semi-Custom business, revenue is kind of down – I'm sorry, revenue is about flat year-over-year in the September quarter. But if you look, the op profit is down by about $20-plus million. I'm just kind of curious, Devinder, did some of the inventory write-down hit that segment? Or just help me understand specifically what's going on with operating profit within the Semi-Custom business.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think a couple of things. If you do the year-on-year comparison and this is a little bit complicated with the – last quarter, if you remember, we had the technology node transition charge and this quarter we had a small portion of the inventory write-down that hit the segment. When I look at the numbers from that standpoint, it is down. But it is down only slightly from a viewpoint of comparing from a year-ago quarter to where it is today.

And one of the things that's happening with that business, as you've heard us say, is we've had a situation where we launched a couple of products two years ago, we ramped the product, we are pursuing other businesses. And we are investing in that business and obviously that generates some expenses that go into that particular segment.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. And maybe, John, just to give you a little bit more color on that. So there was a smaller portion of the inventory write-down that was in the EESC segment. But if you're comparing year-on-year, you also have to remember that in EESC is also server and embedded. And those tend to be the highest margin parts our portfolio. And those are down year-over-year. So although Semi-Custom game consoles are up, those are down and that's had a little bit of effect on the margin mix in that business.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

That's helpful. And then, maybe as my follow-on. Turning to Computing Graphics, even if I exclude the inventory write-down in the September quarter, you're still kind of running at greater than $100 million per quarter operating loss there. Lisa, how do you think about – hopefully, this was the first quarter, as you pointed out in two years you saw sequential growth, so you turned the corner. But importantly, as you think about kind of bringing that business to breakeven, what are the most important levers in your mind over the next kind of four quarters to eight quarters?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So, John, good question. So, look, we called the trough in the second quarter. It was important for us to turn the corner on the business. But as you said, it's a multi-quarter effort to bring the business back to breakeven. We are taking a number of actions in terms of what we're doing there. There are OpEx actions. That's part of the restructuring effort that we're talking about. There are gross margin actions, particularly, as we see a ramp of our new Carrizo and our new commercial products, you should see some mix improvement in that business as well. And we need to get the revenue up. There's no question that we need to drive top line margin expansion as well as operating expenses.

I do believe that we will make significant progress in 2016. And we see lots of good signs. They just don't show up yet in the financials that you see. So we need to continue to make progress in those areas.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)
Q

Thank you, guys.

Operator: Thank you. And our final question comes from Vijay Rakesh of Mizuho. Your line is open.

Vijay R. Rakesh
Mizuho Securities USA, Inc.
Q

Yeah. Hi, guys. Just a question if it hasn't been asked before. If you look at 2016 the industry, how do you see – what do you see on PC units? And then, I'll have a follow-up. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. So I think if you look at the PC market, IDC has recently come out with some numbers on the third quarter and into 2015. Look, we expect the market to be down in 2016 modestly over 2015. We will also expect that we'll continue to have some choppiness in certain regions, particularly, in the emerging markets relative to the mature markets. And we'll have to see how the next few quarters play out from a market standpoint.

Vijay R. Rakesh
Mizuho Securities USA, Inc.
Q

All right. And when you look at your business for 2016, any thoughts on how the mix between PCs and Semi-Custom shake out? And also, with this foundry agreement, does it get you any lower taxes with Malaysia or Penang? Thanks. That's it.

Devinder Kumar
Chief Financial Officer & Senior Vice President
A

I can address the tax question. And then, I'll let Lisa address the 2016 question. On our taxes, if you look at our tax line, it's very minimal. The way our financials are and the way we have settled tax structures in the locations, especially, in China and Malaysia, we've not been paying any amount of significant taxes in those areas. They're pretty minimal. So since we pay minimal, now once the JV is formed at the time of closure, it would be a JV thing to go ahead and take care of the taxes. But the thing that I can also throw in, since you're looking at the accounting and the taxes is we will account for this particular JV once it's forming an equity accounting method, so it won't affect all the lines in the P&L. We'll just share in the bottom line of the JV on an equity basis, in which we have 15% ownership of the JV. Lisa?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. So on your question about sort of rough revenue mix in 2016, without being too exact, I think you should expect it to be roughly 50-50 or so. That's what we've said. We expect sort of a steady state model to be roughly half CG and half EESC going forward.

Vijay R. Rakesh
Mizuho Securities USA, Inc.
Q

Great. Thanks.

Ruth Cotter

Corporate Vice President Investor Relations and Corporate HQ Site Lead

Thank you, operator. That concludes our call for today. And we'd like to thank everyone for participating, and look forward to seeing many of you at the conferences we'll be attending for the rest of the quarter. Thank you.

Operator: Thank you, ma'am. And thank you, ladies and gentlemen, for your participation. That does conclude AMD's Q3 earnings conference call. You may disconnect your lines at this time. Have a wonderful day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2015 Earnings Call for 15-October-2015 5:00 PM ET
Thursday, October 08, 2015 02:12:06 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2015 Earnings Call for 15-October-2015 5:00 PM ET.

To obtain complete event details, subscribe to FactSet CallStreet. For additional information contact your FactSet representative or FactSet support at support@factset.com or call 1-877-FACTSET.

Event Type: Earnings/Results
Industries: Semiconductors
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Corrected Transcript

16-Jul-2015

Advanced Micro Devices, Inc. (AMD)

Q2 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for your patience. You have joined the AMD Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder this conference is being recorded. I would now like to turn the conference over to Ruth Cotter, Corporate Vice President of Corporate Communications and Investor Relations. You may begin.

Ruth Cotter

Senior Manager-Investor Relations

Thank you, and welcome to AMD's second quarter conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO Commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com. Participants on today's conference call are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President, Chief Financial Officer and Treasurer. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a few dates for you. AMD will be presenting at the Pacific Crest Technology Leadership Forum on August 10 in Colorado and at the Jefferies Semiconductor, Hardware & Communications Infrastructure Summit on August 25 in Chicago, and additionally, our third quarter quiet time will begin at the close of business on Friday, September, the 11th.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Please note that non-GAAP financial measures referenced during this call are reconciled to their most comparable GAAP financial measure in the press release and CFO Commentary posted on our website at quarterlyearnings.amd.com. Please refer to the cautionary statements in today's earnings press release and CFO Commentary for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's Quarterly Report on Form 10-Q for the quarter ended March 28, 2015.

Now, with that, I would like to hand the call off to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director

Thank you, Ruth, and good afternoon to all those listening in today. As we announced last week, second quarter revenue and gross margin decreased more than we initially guided as the consumer PC market became decidedly weaker following our Financial Analyst Day. The softer than expected consumer PC demand in advance of the Windows 10 launch caused our OEM notebook sales to slow late in the quarter, as our OEM customers and retailers actively work through their inventory of Windows 8-based systems.

This significantly impacted our second quarter PC notebook sales and reduced our gross margin as we ended the quarter with a larger mix of lower gross margin EESC revenue. Despite our Computing and Graphics revenue shortfall, our other businesses performed largely as expected. We also made some good progress during the quarter as we introduced several key new products, secured multiple embedded design wins across our target markets and continued to see strength in our Semi-Custom business.

Computing and Graphics segment revenue decreased 29% sequentially, based on soft consumer demand. This also impacted sales of our 6th Generation A-Series APU, code name Carrizo, as some OEMs chose to align Carrizo launches with the Windows 10 launch. We expect our mobile unit shipments will rebound and ramp in the second half of the year as more than 35 Carrizo platforms come to market globally.

In the channel, we saw a sequential increase in desktop processor revenue due to solid demand for our FX processors and our A-Series APUs. We also reduced downstream inventory levels in the quarter largely completing our multi-quarter channel rebalancing effort.

GPU revenue decreased sequentially in line with seasonality. We did see good initial demand for our new 300 Series GPUs and latest flagship Radeon R9 Fury X, which launched late in the quarter and contributed to a sequential improvement in GPU channel revenue and ASP. Fury X is powered by our Fiji GPU, the industry's first graphics chip to feature die-stacked high-bandwidth memory, which can deliver unprecedented performance in an extremely quiet and compact graphics card. We are pleased with the initial ramp-up of our Fiji GPUs and will expand our industry-leading HBM GPU offerings in the coming quarters as we introduce the Fury, Nano and a high-end duel Fiji GPU card.

We also strengthened our management team, as Jim Anderson joined us to lead our Computing and Graphics business group. Jim began his career as a processor architect and has held several leadership, business management and engineering roles across multiple technology companies. He is the ideal leader to return CG to a positive trajectory as we focus on stabilizing the business and then regaining profitable share.

Looking at our Enterprise, Embedded and Semi-Custom segment; revenue increased 13% sequentially driven by strong Semi-Custom sales. We remain on track to set a record for annual Semi-Custom unit shipments this year. As in 2014, we anticipate the third quarter will be our annual peak for Semi-Custom shipments and revenue, based on Sony and Microsoft building inventory in advance of the holiday period. We also began development of a new Semi-Custom design in the quarter. Like our other Semi-Custom designs, the details are customer confidential, but we are pleased with our progress continuing to expand our customer base in this important part of our business.

Looking forward, we believe the second quarter will be our revenue trough for the year, based on stronger second half demand for game consoles, combined with the ramp of our newest APU and GPU products, and OEM demand improving as the market transitions to Windows 10. That said, the PC market remains volatile. We must further align our cost structure with our revenue profile, as we focus on our strongest market opportunities and continue investing in the high-performance Computing and Graphics technologies that can enable us to create great products and reestablish AMD as a leader across our target markets.

As we discussed at our Financial Analyst Day in May, our focus is to expand margins and improve our cash flow generation by gaining profitable share across the gaming, immersive devices and data center markets over the next three years to five years. We are fully committed to pursuing this strategy as we create a more diversified AMD capable of generating consistent, profitable returns independent of the ebbs and flows of a single market.

AMD is at its best when we deliver leading edge technology, based on taking bold calculated risks that leverage our differentiated IP and design capabilities to create unique products that make our customers incredibly successful. This is where we are focused. Despite the near-term pressures, we have the right strategy to improve AMD's financial results.

Now, I would like to turn the call over to Devinder to provide some additional color on our second quarter financial performance. Devinder?

Devinder Kumar
Chief Financial Officer & Senior Vice President

Thank you, Lisa, and good afternoon, everyone. In my remarks today, I will be referencing non-GAAP figures, except for revenue which is on a GAAP basis. As Lisa discussed, second quarter results reflect the weaker than expected consumer PC market, which impacted demand from our OEM customers. Our EESC segment revenue was up, our channel inventory corrective actions are largely completed, and although our channel sales came in as expected, up from the prior quarter, it was not enough to offset the impact on our PC OEM processor business.

Second quarter revenue was $942 million, down 8% sequentially, primarily driven by lower sales to our PC OEM customers. The year-over-year decline of 35% was largely driven by decreased sales across our Computing and Graphics products. Gross margin was 28%, down four percentage points from the prior quarter, primarily due to a higher mix of Enterprise, Embedded, Semi-Custom segment revenue and lower than anticipated Computing and Graphics segment, notebook APU unit volumes. Additionally, our GAAP gross margin was affected by a $33 million technology node transition charge.

Operating expenses in the second quarter were $353 million, down $4 million from the prior quarter. Operating loss was $87 million and net loss was $131 million, or $0.17 per share, calculated using 778 million shares. Net interest expense, other expense and taxes were $44 million in the quarter, up from $43 million in the prior quarter. Adjusted EBITDA was negative $42 million, down from a positive $13 million in the prior quarter, and on a trailing four quarter adjusted base – adjusted EBITDA was $200 million.

Now, turning to the business segments; Computing and Graphics revenue was $379 million, down 29% sequentially, primarily due to decreased sales of our client notebook processors due to a weak consumer PC market, impacting our sales to OEMs. Channel PC processor and graphics sales were in line with the company's expectations. Computing and Graphics operating loss was $147 million, compared to a $75 million loss in the prior quarter, primarily due to lower notebook processor sales. Enterprise, Embedded and Semi-Custom revenue was $563 million, up 13% from the prior quarter, driven by higher sales of our Semi-Custom SoCs. Operating income of this segment was $27 million, down from $45 million in the prior quarter, due to the $33 million technology node transition charge.

Turning to the balance sheet; our cash, cash equivalents, and marketable securities balance totaled $829 million at the end of the quarter, down $77 million from the prior quarter, primarily due to lower sales in the quarter. Inventory was $799 million, up from $688 million in the prior quarter, in line with expectations in support of Semi-Custom holiday season sales in the second half of 2015, and due to lower sales of our client products driven by a weak consumer PC market. Debt as of the end of the quarter was $2.27 billion, flat from the prior quarter. This includes an additional $42 million draw on our ABL facility which was utilized to extinguish our 6% convertible senior notes that came due in May 2015. With the final payoff of our 2015 [ph] debt tower (11:50), there are no term debt maturities due until 2019. Free cash flow in the quarter was negative $75 million, an improvement of $120 million from the prior quarter.

Now turning to the outlook; at our Financial Analyst Day in May, we provided a view of our business in the second half of the year and an overview of the drivers that we believe would return AMD to profitability in the back half of the year. However, late in the second quarter, our OEM client PC demand was lower, triggered by the impact of the Windows 10 launch and inventory re-profiling by our OEM customers. Due to the shift in the PC market, we are now seeing a more challenging environment than we did in May with OEMs remaining very cautious about the second half, particularly the back-to-school cycle.

It is against this backdrop that we provide the following outlook. For the third quarter of 2015, AMD expects revenue to increase 6% sequentially, plus 3% or minus 3%. Non-GAAP gross margin is expected to be approximately 29%. Non-GAAP operating expenses are expected to be approximately $340 million; interest expense, taxes and other to be approximately $45 million. Inventory is expected to be approximately $850 million, in support of the second half product ramps and Semi-Custom sales to support the holiday season, and cash is expected to be approximately $700 million. This cash balance includes third quarter interest expense payments on our debt of approximately $70 million. Due to the recent change in the PC market outlook, our goal of second half profitability has been pushed out. However, we will continue to work towards improving our second half financial performance. We are assessing actions to be taken to reduce our current cost structure with a view to lower operating expenses to better align with our near-term revenue profile. We anticipate restructuring charges associated with those actions.

In conclusion, we look forward to seeing improvements in the back half of the year as we ramp Semi-Custom wins and our newest APU and GPU products. We remain focused on executing our longer-term product roadmap strategy as laid out at our Financial Analyst Day.

With that, I'll turn the call back over to Ruth. Ruth?

Ruth Cotter
Senior Manager-Investor Relations

Thank you, Devinder. Operator, if you could poll the audience for questions, please.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from the line of David Wong with Wells Fargo. Your line is open.

David M. Wong
Wells Fargo Securities LLC

Q

Thanks very much. Devinder, can you remind us as to what your minimum cash balance goal is? And also do you have – should you need to raise additional cash? Do you have an order of preference of the types of cash raised that you would work through?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yes, thank you, David. From a cash standpoint, as you probably heard us say previously, we have a minimum target of about $600 million to the range of $1 billion. We can manage it lower than that from a viewpoint of available revenue in our profile of the business model is right now. And in Q2, as you saw, we ended at about $830 million of cash. As far as the financing is concerned, our capital markets, on an ongoing basis, I monitor the capital markets pretty closely and if the need arises, obviously, we'll access the capital market. I think from an overall standpoint, if you think about it, with the cash that we have, we also have ABL availability that we put in place in the late part of 2013. And that's not all fully tapped out. So that's how I'd leave it from a cash standpoint, David.

David M. Wong
Wells Fargo Securities LLC
Q

Okay, great. And, Lisa, can you give us some idea in terms of Semi-Custom activities, how many projects you have in the pipeline? You mentioned that you had one that you've begun working on. Are there others that we might hear about over the next few quarters?

Lisa T. Su
President, Chief Executive Officer & Director
A

Sure, David. Thanks for the question. So on the Semi-Custom business, we've certainly been active in our work with various customers across target markets. So last year, we had announced two new Semi-Custom designs that were roughly $1 billion in lifetime revenue that would start ramp in the second half of 2016. We've started a new design this quarter that we believe expands our base for the Semi-Custom business, and we're very pleased with that. And then we still have a fairly active pipeline in Semi-Custom as well. So we view it as very much an area where there's a strategic interest in integrating our Graphics and CPU IP going forward.

David M. Wong
Wells Fargo Securities LLC
Q

Great. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director
A

Thanks, David.

Operator: Thank you. Our next question comes from the line of Ian Ing with MKM Partners. Your line is open.

Ian L. Ing
MKM Partners LLC
Q

Hi, yes, my first question is in GPU refresh. I mean, it's only been days and weeks, but it looks like on the retail sides, the Fury X and Fury is out of stock. So being out of stock is just a demand issue or more of a supply constraint issue?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yes, Ian, thanks for the question. So we did just launch our Graphics products towards the end of the second quarter, so in the late June timeframe. I think our initial ramp-up has been as expected. We're pleased with the Fury X ramp-up, certainly the fact that it's out of stock is not a bad thing, because it gives us good confidence that the customers are appreciating the product. Fury just launched actually this week and we will be launching Nano in the August timeframe. So I think, overall, the high-bandwidth memory ramp-up is going as expected, and we have a number of products coming out.

Ian L. Ing
MKM Partners LLC
Q

Okay. And you talked about the channel business now behaving largely as expected. I mean, is that fairly stable at this point going forward? I know there's some China macro issues that are still coming up on earnings calls, like Fairchild this morning.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so overall in our desktop and AIB channel business, we actually grew quarter-on-quarter, while reducing downstream inventory. So, we've been talking for the last couple of quarters of draining downstream inventory, and we now believe that we're close to largely completed with that. Yes, relative to China, I think there are some macro issues and we're watching carefully the China market overall, but relative to our channel business, I think the inventory corrections that we're working on have progressed as planned.

Ian L. Ing
MKM Partners LLC

Q

Great. And then my last question, I think you covered a lot of the second half catalysts and product cycles, but one thing I didn't hear about was the Seattle launch, the ARM-based Seattle launch, I think that's second half this year. Is that still on track or is there any other catalysts or product cycles we're missing?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Ian, so for the key products for the second half, certainly Carrizo on the APU side, the Fiji family of products on the GPU side, and then Seattle will continue to launch in the second half of this year.

Ian L. Ing
MKM Partners LLC

Q

Okay. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thanks, Ian.

Operator: Thank you. Our next question comes from the line of Vivek Arya with Bank of America Merrill Lynch. Your line is open.

Vivek Arya
Bank of America Merrill Lynch

Q

Thanks for taking my question. On the Wafer Supply Agreement with GLOBALFOUNDRIES, I believe it was for $1 billion-plus or so this year. And so far you were done with $367 million. I'm just curious, Devinder, do you think you will be able to fulfill this obligation this year? And if not, are there any financial implications we should be taking into account?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yes, Vivek, I think on the Wafer Supply Agreement, we have taken about $400 million-plus for the year against the commitment we made earlier this year. But we are working actively to re-profile our wafer purchase commitment with GLOBALFOUNDRIES, in particular, given the business outlook.

Vivek Arya
Bank of America Merrill Lynch

Q

So do you anticipate any financial implications that we should be taking into account when we look at your cash flow model?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think other than re-profiling the wafer purchase commitments, when you re-profile obviously there is a linkage to the cash from an outflow standpoint because the purchases happen and then the cash is paid out. But other than that, that would be – I don't anticipate any financial implications.

Vivek Arya
Bank of America Merrill Lynch

Q

Got it. And maybe one for you, Lisa; if we look at the – you are actively trying to bring OpEx in line with the revenue profile. And if I look at all the Semi-Custom wins that you've had so far, they have been at lower gross margins. Is that how we should see some of the newer wins? Will they also be at lower gross margins than corporate average? And if it is a lower gross margins, do you think you can cut OpEx fast enough to be sustainably free cash flow positive sometime in the near future?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so let me take that question in a couple of parts. So when we think about OpEx, look, we want to make very strategic decisions around OpEx. And we have a long-term roadmap. We have several segments that we're investing in for long-term growth and the Computing and the Graphics IP are critical to make that happen. That said, we do have to align our OpEx with our current revenue projections, and I think we have an opportunity to do that going forward.

Relative to Semi-Custom and what that means in terms of gross margin profile, I think the Semi-Custom business is across a set of target markets. So game consoles is one of those markets, but there are other markets that we have had success in, and when you look across those markets, I think there will be a range of gross margins as well, depending on the IP and the overall product specifications.

So, the goal is to return profitability. I think there's no question about that. And we will take active actions, on both the top line and the bottom line to do that, but I wouldn't make any assumptions about sort of the relationship between Semi-Custom and OpEx.

Vivek Arya
Bank of America Merrill Lynch

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Matt Ramsay with Canaccord Genuity Inc. Your line is open.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

Thank you very much for taking my questions. A little bit of a, I guess, longer-term strategic question for you, Lisa. Last night Intel announced the addition of a new chip on their 14-nanometer roadmap and pushed back 10-nanometer. It strikes two things; one, love to get your commentary relative to your foundry partners as to how the Moore's Law progression is going particularly with Zen coming on 14-nanometer next year, and second, it looks like now you will be in a position to potentially overlap your Zen products with a generation of Intel products that is still on 14-nanometer. Just your reaction to that in general and the competitive landscape on the foundry side. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Matt, so I do think the process technology landscape right now is quite interesting. So on your – the first part of your question, how do we view FinFET technologies? Actually, I think the maturity of FinFET technologies is coming along very nicely, and so we see it as an important part of our roadmap in 2016, across all of our markets. We have actually just taped out our first couple of FinFET designs. Relative to what that means for the competitive landscape going forward, I have been asked that question a couple of times over the last – last year, and my comments have been our focus is on design architecture, and it includes – and ensuring that we use all of our design architecture expertise.

So, Zen is a clean sheet design, and from an architectural standpoint I think it's going to be very competitive. The fact that the gap between foundry technologies and other technologies is shrinking, I think does change the competitive landscape and will be a good opportunity as we go forward competitively. So we are aggressively going after FinFET, and I think that's going to be an incredibly important node for us.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

That's helpful. And just as a follow-up for Devinder; you had mentioned in your commentary, rightsizing the operating costs for the new state of the business and you guys had given some targets for the full back half of the year at the Analyst Day, and you've pulled back on that profitability target now. Maybe you could just give a little more granular comments on what you think a proper OpEx structure is for the business as you see it right now relative to some of the larger-term targets you gave at the Analyst Day. Thank you.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yes, good question, and I think from a timeframe of profitability, we had said at the Financial Analyst Day that we expect to be profitable in the second half. Obviously that's been pushed out. We are taking actions to reduce the cost structure in line with the near-term revenue outlook, and if you look at the guidance we gave just for Q3, the OpEx is down from the $353 million down to $340 million and it will go down from there as we assess the actions and take actions to reduce the cost structure. Those actions are being assessed right now are not yet finalized, and once those are finalized obviously we will share the details with you.

Matthew D. Ramsay
Canaccord Genuity, Inc.

Q

All right, thanks very much.

Operator: Thank you. Our next question comes from the line of Ross Seymore with Deutsche Bank. Your line is open.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Hi. Thanks for letting me ask a question. I guess the first one, on the guidance, any sort of color you can give between the two segments, even directionally as you saw in the second quarter they performed significantly differently and that has big margin implications. So any color you can give there would be helpful.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Ross, let me start and maybe Devinder will have some comments. So, in terms of the third quarter guidance, we do expect both segments to be up. We've said previously that the Semi-Custom business usually has its strongest quarter in the third quarter. We think that's going to continue to be the case. The Computing and Graphics business is coming off of a low quarter. So we would expect improvement in both units as well as overall revenue as well. So I think you'll see both segments improve in the third quarter.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Great. And I guess as the follow-up, looking a little further out on the Semi-Custom side of things, just wanted to follow up to earlier question on the gross margin side but take a little bit more of a revenue look at it first. If the new businesses are coming on throughout the 2016 period, but the traditional full penetration of the gaming business kind of folds over simultaneously, how do you view the tradeoff between those as it results in your ability to grow that segment of your business, and what does that mean to gross margin if some of those smaller aggregate dollar opportunities may have better gross margins than the game console Semi-Custom business that you have today?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so let me try to put it this way. So the – let's call it the base Semi-Custom business that's around the game consoles, I think if you look at units and the units that ship year-on-year, I think we will still see 2016 to be a fairly solid year for the traditional, let's call it game console business overall. And then as we layer on top of it some of the new wins, I think that does give us potential to grow in the second half of the year. Obviously, there's a lot to happen between now and then. But I do see Semi-Custom as a growth driver for us going forward.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

And the gross margin implication?

Lisa T. Su
President, Chief Executive Officer & Director

A

With Semi-Custom, I think I would rather talk about operating margin because I think that's the better view of it, and I think the operating margins should also improve going forward.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Okay, great. Thank you.

Operator: Thank you. Our next question comes from the line of Sanjay Chaurasia with Nomura. Your line is open.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Oh, hi, Lisa. I have a two-part question on HBM and a follow-up. First question on HBM is, is it margin accretive or dilutive within your GPU business? And second question is, as you integrated HBM, could you talk about the challenges you faced and would you say that you have any technological lead here in integrating HBM in GPUs? Is it basically the six month to eight month lead that you have been able to gain, or there's more to it than you could see, you could maintain a longer lead here?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so maybe the second question first. Relative to HBM, I think we do have a lead. We're the first in the industry to integrate HBM in GPUs. We've targeted at the enthusiast segment because that's the right segment to, I would say, to learn the manufacturing technology. I would say that the manufacturing has come up as expected and we expect that the overall family of Fiji GPUs, the way we are rolling it out will be a strong set of products in the second half of the year.

Relative to the margins, I won't comment specifically about it. But I will say overall a key goal for us is to grow Graphics market share, and growing Graphics market share, having a leadership, strong product portfolio at the enthusiast segment helps across the entire portfolio.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Okay, and as a follow-up, you talked about 20-nanometer designs migrating to FinFET. Could you talk about which specific product was impacted and any associated impact on your revenue growth in the second half?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, on the 20-nanometer case, we did speak a little bit about that at our Financial Analyst Day in May. We started several designs in 20-nanometer and after looking at the overall design tradeoffs, we felt that FinFET was much more competitive, and so we decided to move a number of designs into FinFET technology. Relative to the second half of the year, I don't think there's anything substantive to talk about. I think the important thing is ensuring that we get our product portfolio into FinFET technology next year, which will improve our overall competitiveness.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Great. Thanks so much.

Operator: Thank you. Our next question comes from the line of Mark Lipacis with Jefferies. Your line is open.

Mark Lipacis
Jefferies LLC

Q

Thanks for taking my questions. First one, on the new Semi-Custom design that you just started to work on, could you go through the life cycle of one of these; like, when do you see the NRE, when do you see the chip revenues from this come in?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, so we start initial NRE payments as we start the design, and that goes through the design life cycle, and then over – depending on the design it will take anywhere from 24 months to 36 months to see significant revenue. On this particular design, we haven't been specific on the overall timing, but I will say that the lifetime revenue is in the range that we had previously stated for Semi-Custom, so in the $200 million to $500 million range.

Mark Lipacis
Jefferies LLC

Q

Okay, great. That's helpful. And then, Lisa, Mark Papermaster has mentioned Virtual Reality as being one of the next big things in the industry. How does that market play out for you guys? When do you start participating in that?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so we are extremely excited about the Virtual Reality market. I mean, if you look at the progression of that market and how quickly it has evolved, even over the last 12 months, I think it's an area that really uses both CPU and GPU technology. If you look at the headset manufacturers, or the ones that will have product out, most of those are stating product shipments sometime in the 2016 timeframe, starting early 2016.

So today, it's mostly developer systems, but working closely with the developers with our GPU technology, migrating to more commercial systems in 2016. There's a significant need for high-performance graphics and so we view it as a growth driver for our Graphics business.

Mark Lipacis
Jefferies LLC

Q

And on that, are you of the view that this is business applications or consumer gaming applications? Where do you think it will show up first?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, I think it will start with consumer gaming applications. That's where a lot of the activity is, but I think it will migrate to some education and other entertainment applications as well.

Mark Lipacis
Jefferies LLC

Q

Okay, thank you. And last question for Devinder, if I may. Devinder, in the event that revenues continue to kind of trickle down, is there a – I understand that a lot of the R&D is shared. Is there an R&D level below which you really – the company does not want to go below?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think it goes back to some of the things we talk about at the Financial Analyst Day. Fundamentally, we have a roadmap. We have specific products that are coming out over the next, call it 18-month timeframe and we are going to do everything possible to protect that roadmap, and R&D is obviously going to be the higher priority from that standpoint. And even as we talk and contemplate about the actions we are going to take, we are going to do everything to protect that roadmap for the longer-term; strategic roadmap, as well as the financial model.

Mark Lipacis
Jefferies LLC

Q

Fair enough. Thank you very much.

Operator: Thank you. Our next question comes from the line of Christopher Rolland with FBR. Your line is open.

Christopher A.J. Rolland
FBR Capital Markets & Co.

Q

Hey, guys, thanks for the question. So, first, just a quick clarification and then the question. I was a little confused on the Semi-Custom. Lisa, did you say that you had two new Semi-Custom wins and you just added one for a total of three or is it still just two?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Chris, we had two that we announced last year, and then we just added a third.

Christopher A.J. Rolland
FBR Capital Markets & Co.

Q

Okay. And the one that you just added, is that the new one or are you building one that will launch in 2016? That's the new one?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, that's the new one.

Christopher A.J. Rolland
FBR Capital Markets & Co.

Q

Okay, excellent. And secondly, on inventories, so, $850 million seemed a little bit high there. How much of that is that new Semi-Custom win that you're ramping there? And how much of it is console? And where might inventories space out in 2016?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yes, first of all to clarify the new Semi-Custom win that Lisa just referenced and you just discussed with her is out in time. It's not a second half 2015 inventory item. And then going back to your specific observation on the inventory being up from a Q2 to Q3 standpoint, it is a support the second half product ramp and Semi-Custom sales in particular, and really the second half being stronger than the first half from a revenue standpoint leads to that inventory going up from Q2 to Q3. And we continue to manage it and I fully expect that inventory comes down after we get past the Q3 timeframe.

Christopher A.J. Rolland
FBR Capital Markets & Co.

Q

Okay. And, Devinder, while I have you, just on the back of some of the gross margin questions, there's so many moving parts. I think we're all having problems kind of modeling over the next year. So how can we think about it, just high level and directionally, with all of these moving parts, as game consoles roll off, as new Semi-Custom wins might roll on, and as we transition to 14-nanometer; just sort of directional insights here, just so that we don't get blindsided?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think if you look at it from a viewpoint of Q3, the drivers are obviously the mix of the products within the segments, but also Q3 in particular, the higher mix of the Semi-Custom as Lisa referenced is a peak quarter from a Semi-Custom revenue standpoint. After that, obviously the continuing trajectory that we have from the client PC group, as well as the Graphics piece getting into the Q4 timeframe. And so that's something that I look at from a second half standpoint. Out in 2016, you're right, there are a lot of factors that will come into play, Semi-Custom, as well as the PC products that we have. But I don't want to venture right now where that will be at this moment.

Christopher A.J. Rolland
FBR Capital Markets & Co.

Q

Okay. Thanks so much, guys.

Operator: Thank you. Our next question comes from the line of Stacy Rasgon with Bernstein Research. Your line is open.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC

Q

Hi, guys, thanks for taking my questions. First, I just want to dig into this a bit. You said Q3 obviously is a peak for Semi-Custom. You said Q2 was the trough for the company for the year, which it implies in Q4, Semi-Custom should be down, which means a pretty big ramp of the Computing Graphics business into Q4. I mean, high double digits, at least, if not more. I guess, what gives you confidence that that's going to happen and what are the consequences if that ramp doesn't come to play, given than you're building a ton of inventory that's supposed to sell out in Q4?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I'll start and then Lisa can add. I think if you look at what happened with the actions that we took going back several quarters, one thing we have done and we feel good about that is in the PC space and the channel inventory in particular, all of the actions that'll be started in the Q4 timeframe and Q1, Q2 largely completed. And as we said, the channel sales quarter-on-quarter were up and we feel good about that. Those are very directed actions taken in an aggressive manner by us. And in Q2, we did have the impact on the OEM APU sales in particular with our transition of [ph] Indostan (39:07).

And as we get to the second half, especially with the new products, we think we can ramp those products and the Q3 guidance as Lisa said earlier, takes into account an improvement both on the EESC segment, as well as the CG segment. Q4, we're not providing guidance, but as you get to the Q4 timeframe, we think the PC market continues to stabilize and that helps us from that standpoint. And that's the way we have it baked in.

On the inventory question that you have, as I explained earlier to another question, it is up from Q2 to Q3, but we are actively working with our partner, GLOBALFOUNDRIES, to go ahead and re-profile those commitments that we made earlier this year. And I think that should help from an inventory standpoint to go ahead and manage it, to where we think it's more comfortable and in line with the revenue outlook.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC

Q

Right. I guess – I mean, you're telling me you feel good about Q4, but I mean, let's be honest, you haven't been able to forecast a month and a half out, let alone two quarters. It just seems to me like there's a setup here for more bad things to happen if that market doesn't stabilize. And even if it does stabilize, I mean, your business has been – let's be honest, it hasn't been stable, versus where the market's been either. I'm just wondering what the risk is, given the way you're setting up inventories and setting up expectations for that Q4 ramp.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Stacy, so look, that's a fair comment. I'll take that. Now if I tell you what I see going forward, we'll give you the best information we have at this point in time. So the Semi-Custom business, Q3 will be the peak. We need a few more data points to really call Q4 correct. But so far, what we see is a solid market on the Semi-Custom side. On the Computing and Graphics side, there are – basically think about it as four pieces to the business. So we have OEM processors, we have channel processors, we have graphics, consumer graphics and then we have professional graphics.

So amongst those four segments from what we see, we are being a bit cautious on Q3, just given we need to see exactly how the OEMs ramp; the Windows 10 launch, we think Windows 10 is a good product, but we need to see how that launches. As we go into holiday, we believe we'll make progress in graphics. We believe we'll make progress in professional graphics. I've said that the channel looks like it's healthier for us and we need to see how the OEM demand looks. But those are the ways I think about Computing and Graphics. So clearly we're not happy with the performance in Q2 but as we look forward, we need to manage the business the way we see it and this is how we see it today.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC

Q

Got it. Thank you. That's helpful. For my follow-up, I just wanted to see what other options you have besides OpEx cuts to arrest cash burn if that growth doesn't come back. We've already gone through, I guess, selling assets. You've stretched out your cash conversion cycle significantly this quarter. You've maxed out half of your revolver. What are your other options above and beyond that if the OpEx cuts themselves aren't enough, if the environment doesn't recover?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

I think there are always options. I think everything you just said in terms of managing the working capital and managing the cash, managing the inventory, making sure that's in line with the revenue profile from an outlook standpoint allows us to do that. And from a standpoint of cash, we've done a good job managing the cash over the last several quarters and several years. And I have confidence of doing that on a go-forward standpoint. And we'll monitor and see what is needed. And as I said earlier if the need arises, we will access the capital market. I still have the ABL availability as you just observed, and we'll do what's needed to continue to fund the business.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC

Q

Capital markets means raise equity if you needed to, or debt?

Devinder Kumar
Chief Financial Officer & Senior Vice President
A

I'm not going to get into the details on this call, Stacy, but I'm sure we can access capital markets if the need arises.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC
Q

Got it. Thank you very much, guys.

Operator: Thank you. Our next question comes from the line of John Pitzer with Credit Suisse. Your line is open.

John W. Pitzer
Credit Suisse Securities (USA) LLC (Broker)
Q

Yeah, good afternoon, guys. Devinder, just a quick follow-up or clarification on my part on the cash comments; you guided to cash levels in the September quarter around $700 million. I think to an earlier question you said that you'd still feel comfortable operating below $600 million. I guess what I'm trying to figure out, is $700 million kind of what you envision to be the trough? Because with inventory coming down in Q4 and maybe the presumption of some sequential revenue growth, shouldn't cash grow from September to December? If you can just help me understand those dynamics, it'd be helpful.

Devinder Kumar
Chief Financial Officer & Senior Vice President
A

Yeah, so the fact is, I think, if you look at it from a cash standpoint for the rest of the year, in Q3 with the cash guidance of $700 million, the way our debt maturity profile is, the cash interest payments happen in two quarters, in Q1 and Q3 to the tune of about $70 million. So there is a disproportionate impact of cash in Q1 and Q3 of our fiscal year, just the way the cash payments go out, even though the accounting is done on a pro rata even basis for the year.

And then you're right, we're managing the inventory and re-profiling some of the commitments that we have should help from a cash standpoint and we're very focused to go ahead and do that. Like I said, after we get through the Q3 timeframe, in Q4 we don't have the cash interest payments, and with the revenue being up in the second half, is what we are expecting starting with Q3, we think that it'll benefit the cash situation as we get to the end of the year.

John W. Pitzer
Credit Suisse Securities (USA) LLC (Broker)
Q

That's helpful. And then, guys, maybe a little bit more clarification on the profile of inventory you are holding right now. I understand the need to grow inventory, Q2 to Q3 for new product launches, but the inventory growth in Q2, to what extent was that new product driven versus just demand on older products kind of not being there? And do we carry an obsolescence risk on any of the inventory going into the back half of the year?

Devinder Kumar
Chief Financial Officer & Senior Vice President
A

Two parts to it, for the Q3 growth, new products as well as the Semi-Custom business has been higher in the second half compared to the first half. And that's specifically what is taking the inventory from about $800 million to the $850 million levels, that we are guiding to.

John W. Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Harlan Sur with JPMorgan. Your line is open.

Harlan L. Sur
JPMorgan Securities LLC

Q

Hi. Good afternoon. Thanks for taking my question. On the current Semi-Custom business or game console business, I know the team is focused on operating profitability but one way to drive that is through better gross margins. I think you obviously have a targeted cost curve that you are trying to drive. Hopefully that's faster than your negotiated ASP declines. If you can just give us an update on what the team is doing to drive the cost profile. And then I guess at some point, given the relatively long product life cycle for these products, any opportunities for die shrinks to drive a step function shift lower in cost per chip?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, Harlan, so certainly we would like to drive both gross margins as well as operating margins. So the ASP declines are fairly well understood. Those are pre-negotiated. Relative to what we're doing to drive overall cost or COGS down, it's the usual things. It's yields, it's test times, it's procurement savings and those kind of things. I would say it's been largely as expected. These products are now several years into their life cycle.

To your follow-up question about die shrinks, I think if you look at the history of game consoles, you will normally see a die shrink, but that will happen out in time, and we'll discuss it at that point.

Harlan L. Sur
JPMorgan Securities LLC

Q

Great. Thanks for that. And then on the server and data center side, there's been a lot of focus on the Intel-Altera deal and the potential to marry a CPU with a programmable parallel processing architecture to help with computational acceleration. Given that the GPU is a parallel processing engine, is it fair to assume that you guys already have the capabilities to offer either in a standalone form or in integrated form alongside your x86 or ARM-based server processors a similar type of solution and is that something that you have on your roadmap?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, so the idea of marrying a processor with some type of accelerator, whether it's a GPU or an FPGA I think is definitely important in the data center. We view that we do have the ability to do both integrated with our APUs, as well as in different packages, offering both CPU and GPU together. So I think the idea of using accelerators is definitely important in data centers. We agree with that. Different people will do it different ways, and certainly our approach will be to get very high-performance CPUs and GPUs that can interoperate.

Harlan L. Sur
JPMorgan Securities LLC

Q

Thank you.

Ruth Cotter
Senior Manager-Investor Relations

A

Operator, we'll take two more questions, please.

Operator: Thank you. Our next question comes from the line of Kevin Cassidy with Stifel. Your line is open.

Kevin E. Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Thanks for taking my question. My question is related to Seattle. Have you announced design wins or can you give us an idea of what that product ramp looks like?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so I think Seattle is a good offering for 64-bit ARM servers, and if you look at what we've said up until now, we have a number of companies both in the ecosystem, as well as users developing software on Seattle and looking at how it operates in the environment. I would say that the overall revenue of Seattle will be modest, as ARM ramps will take a bit of time, but the importance of building the ecosystem is there. So that's our focus with Seattle and working with key customers.

Kevin E. Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Okay. Thanks. As just as a follow-up, what percentage of the market do you think that can address, Seattle?

Lisa T. Su
President, Chief Executive Officer & Director

A

I think we've said before and my view on this is that the overall ARM server market or let's call it ARM in data center markets will take some time to develop. So let's call it the three-year to five-year timeframe. So in terms of today's market, we actually believe that the x86 will be the majority of the market.

Kevin E. Cassidy
Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you.

Operator: Thank you. Our last question comes from the line of Vijay Rakesh with Mizuho. Your line is open.

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Yes, hi, guys. Just on your 14-nanometer FinFET transition. How do you see the ramp? I mean, when do you see the crossover on that as you go through 2016?

Lisa T. Su
President, Chief Executive Officer & Director

A

When you say crossover, Vijay, you mean volume crossover or...

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Yes, volume crossover or shipment crossover.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes. We will be bringing different parts of the product line into FinFET at different points in time, so I don't think I have an exact answer for that. I think what we've said is graphics will certainly utilize FinFETs as well as our new Zen processors and so they will roll out over the quarters in 2016.

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Got it. And on the Semi-Custom side, obviously, June quarter grew sequentially, but the operating margins declined significantly. What are you guys doing there to improve those operating margins there? I know you've been asked a couple of questions already, but, again, give some thoughts there.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yes, I can comment. If you are looking specifically at Q1 to Q2, the operating margin decline has the $33 million charge. There was a charge associated with the technology node transition from 20-nanometer FinFET, that's in the segment operating margin results. So if you neutralize for that, I think you'll see a different operating margin profile from a quarter-to-quarter standpoint.

Vijay R. Rakesh
Mizuho Securities USA, Inc.

Q

Oh, okay. Got it. Thanks.

Ruth Cotter
Senior Manager-Investor Relations

Operator, thank you, and that concludes our conference call this afternoon.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2015 Earnings Call for 16-July-2015 5:30 PM ET
Tuesday, July 07, 2015 02:30:08 AM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2015 Earnings Call for 16-July-2015 5:30 PM ET.

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Event Type: Earnings/Results
Industries: Semiconductors
Primary Identifiers: AMD-US
Regions: US
Related Identifiers: AMD-US

16-Apr-2015

Advanced Micro Devices, Inc. (AMD)

Q1 2015 Earnings Call

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Ian L. Ing
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for your patience. You have joined AMD's First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference may be recorded.

I'd now like to turn the call over to your host, Ruth Cotter, the Corporate – Vice President of Corporate Communications and Investor Relations. Ma'am, you may begin.

Ruth Cotter

Senior Manager-Investor Relations

Thank you, and welcome to AMD's first quarter conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and accompanying slides. If you've not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President and Chief Financial Officer. This is a live call, and will be replayed via webcast on amd.com.

I would like to take this opportunity to highlight a few dates for you. AMD will host its Financial Analyst Day on May 6 in New York. Devinder Kumar will present at the Jefferies 2015 Technology, Media and Telecom Conference on May 13 in Miami. And our second quarter quiet time will begin at the close of business on Friday, June 12, 2015.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

As a reminder, beginning in the first quarter of 2015, our non-GAAP results exclude the impact of stock-based compensation. Additionally, please note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary posted on our website. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information, and you'll also find detailed discussions about our risk factors in our filings with the SEC, in particular AMD's annual report on Form 10-K for the year ended December 27, 2014.

Now with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director

Thank you, Ruth, and good afternoon to all those listening in today. Under the backdrop of a weaker than expected PC market, our first quarter results demonstrate that we continue making progress in some areas of our business, but still have work to do to improve our overall financial performance.

First quarter revenue of $1.03 billion decreased 17% sequentially, primarily due to reduced client and graphics product sales and a seasonal decrease in semi-custom System-on-Chip sales. In our Computing and Graphics segment, revenue decreased 20% sequentially in what was a challenging market environment, compounded by currency issues.

We saw OEM demand in the quarter below seasonal expectations as our customers actively managed inventory levels amid uncertain end user demand. We also reduced downstream channel inventory levels and remain on track to return to normal inventory levels by the end of the second quarter. As a result of soft PC demand, and our work to re-balance our channel inventory, desktop processor and GPU revenue decreased significantly from the year-ago period.

On the positive side, we did see progress in several of our strategic initiatives. Mobile APU ASPs and revenue increased from the year-ago period, highlighted by increases in commercial client APU shipments and revenue from the fourth quarter, setting a record for commercial client processor sales. Our focused commercial client strategy is gaining momentum, and our investments are driving awareness and generating pull with commercial and government buyers.

We delivered record FirePro server unit shipments in the quarter, driven by enterprise wins and AMD professional GPUs now being offered in the world's highest volume server, HP's DL380. We also successfully passed several key milestones in the quarter as we prepared for the introduction of our new 2015 APU and GPU products, including first revenue shipments of our next-generation Carrizo family of notebook APUs in advance of system launches planned for the second quarter.

Carrizo is a standout product that delivers better graphics performance than competitive offerings as well as all-day battery life, driven by the largest generational performance per watt improvement we have ever delivered with our mainstream APUs.

Now turning to our Enterprise, Embedded and Semi-Custom segment. Revenue declined 14% sequentially, largely driven by lower game console royalties and a seasonal decrease in semi-custom SoC console sales. Embedded processor sales were roughly flat from the year-ago period, with weaker than expected thin client demand offset by continued adoption of our embedded APUs across targeted market segments.

Samsung introduced a new AMD-powered digital signage solution, and both Fujitsu and GE Intelligent Platforms released new industrial computing boards powered by AMD embedded SoCs in the quarter.

At the corporate level, we continue aligning larger portions of our R&D investments to take advantage of long-term growth opportunities across our EESC segment. As we prioritize our R&D investments and simplify our business, we made the decision in the first quarter to exit the dense server systems business as we increased investments in our server processor development. We retained the Fabric technology as a part of our overall IP portfolio.

We see very strong opportunities for next-generation, high-performance x86 and ARM processors for the enterprise, data center and infrastructure markets, and we will continue to invest strongly in these areas.

Looking forward in the year, given the ongoing macroeconomic and currency uncertainties, it is hard to predict when the PC environment will normalize. We expect that the overall PC market will remain a challenge as our OEM customers and channel partners focus on carrying lean inventories based on the uncertain market conditions. However, we are preparing for a better second half of the year, with Windows 10 and our new product offerings as catalysts for the business.

Regardless of market conditions, we are taking important steps to improve our CG business by completing our channel inventory rebalancing, introducing strong new APU and graphics products and continuing to grow commercial client sales.

I remain optimistic about our long-term opportunities, but realistic that the next several quarters will be challenging due to the market environment. Our strategy to improve our financial performance is to focus on our strengths by continuing the investments in the technology and IP that will drive product innovation and differentiation.

I look forward to talking in more detail about our long-term strategy and growth opportunities at our Financial Analyst Day in May, and I hope many of you on the call would join us for that event.

Now, I'd like to turn the call over to Devinder to provide some additional color on our first quarter financial performance. Devinder?

Devinder Kumar
Chief Financial Officer & Senior Vice President

Thank you, Lisa, and good afternoon, everyone. Q1 was a challenging quarter with disappointing financial results as we faced the weaker than expected PC environment. We made good progress on rebalancing the channel inventory and took actions to further streamline our focus on the opportunities for long-term growth.

Let me move to the specifics of the quarter where I'll be referencing non-GAAP figures, except for revenue, which is on a GAAP basis. Revenue was $1.03 billion, down 17% sequentially driven primarily by lower sales of our client and graphics processor products and seasonally lower semi-custom sales. The year-over-year decline of 26% was driven primarily by decreased client and graphics sales. Gross margin was 32%, down 2 percentage points from the prior quarter, primarily due to product mix and lower game console royalties in the first quarter.

Operating expenses in the first quarter were $357 million, down $9 million from the prior-quarter, due primarily to lower sales and marketing spending in line with the lower revenue in the quarter. Operating loss was $30 million, and net loss was $73 million or $0.09 per share calculated using 777 million shares.

Our first quarter results include restructuring and other special charges amounting to $87 million, of which $75 million are charges related to the exiting of the dense server systems business. And another $12 million was related to facilities activities and severance charges under the fourth quarter 2014 restructuring plan. All, but $16 million of these charges are non-cash. These charges are excluded from our segment results, and are included in the all other category. They're also excluded from our first quarter non-GAAP earnings per share calculation.

Net interest expense, taxes and other income was $43 million in the quarter, up from $34 million in the prior quarter, primarily due to a non-recurring tax credit and gain on debt repurchases in the fourth quarter. Adjusted EBITDA was $13 million, down from $96 million in the prior quarter, and our trailing four quarter adjusted EBITDA was $379 million.

Now turning to the business segments. Computing and Graphics revenue was $532 million, down 20% sequentially, primarily due to decreased desktop and notebook revenue. Computing and Graphics operating loss was $75 million compared to a $56 million loss in the prior quarter, primarily due to lower desktop and notebook processor sales partially offset by lower operating expenses.

Enterprise, Embedded and Semi-Custom revenue was $498 million, down 14% from the prior-quarter, primarily due to seasonally lower sales of our semi-custom SoCs, and the operating income of this segment was $45 million, down from $109 million in the prior-quarter, driven by lower semi-custom SoC revenue, lower game console royalties and product mix. As planned, R&D investments in the Embedded, Enterprise and Semi-Custom segment increased sequentially as we invest for more growth in this segment.

Turning to the balance sheet, our cash, cash equivalents and marketable securities balances total $906 million at the end of the quarter, down $134 million from the prior quarter primarily due to lower sales and debt interest payments in the quarter. Inventory was $688 million, essentially flat from the prior quarter.

We entered into a fifth amendment to our Wafer Supply Agreement with GLOBALFOUNDRIES. Under the terms of the agreement, we expect to purchase approximately $1 billion of wafers in 2015 on a take-or-pay basis. In the first quarter, we spent $161 million on wafer purchases with GLOBALFOUNDRIES.

Debt as of the end of the quarter was $2.27 billion. Separately, we have amended and restated our $500 million asset-backed credit facility with more favorable terms. As we have indicated in the past, this ABL affords us with additional financial flexibility as and when needed. Free cash flow in the first quarter was negative $195 million.

Now, turning to the outlook. For the second quarter of 2015, AMD expects revenue to decrease 3% sequentially, plus or minus 3%. Non-GAAP gross margin is expected to be approximately 32%. Non-GAAP operating expenses are expected to be approximately $355 million as we continue to invest in new products.

Interest expense, taxes, and other to be approximately $45 million and inventories expected to be approximately up $100 million from first quarter levels in support of second half semi-custom product revenue, and the ramp of new products.

For the full year 2015, we expect non-GAAP operating expenses to be between approximately $340 million and $370 million per quarter, in line with expected revenue profile. Taxes of approximately $3 million per quarter; cash, cash equivalents and marketable securities balances to be within a range of $600 million to $1 billion, capital expenditures of approximately $100 million and inventory to be approximately flat year-over-year.

In closing, while we are navigating some difficult industry challenges in the PC market, and made progress in improving our general inventory levels in the first quarter, we continue to invest in our product roadmaps and look forward to updating you on our long-term strategy at our upcoming Financial Analyst Day.

With that, I'll turn the call back over to Ruth. Ruth?

Ruth Cotter
Senior Manager-Investor Relations

Thank you, Devinder. Operator, we'd now be happy for you to pull the audience for questions, please?

QUESTION AND ANSWER SECTION

Operator: Thank you, ma'am. [Operator Instructions] Our first question comes from the line of Mark Lipacis of Jefferies. Your line is open.

Mark J. Lipacis
Jefferies LLC

Q

Thanks for taking my questions. The first one, I guess is, maybe it's for Lisa, the Computing and Graphics revenue declines have accelerated in each of the last four quarters and down 38% year-over-year. I understand there's some channel flush going on, but based on the guidance, it looks like it will be down between 30% and 40% year-over-year.

So I guess, I'm wondering is – does that revenue trajectory create a motivation to look more aggressively at M&A or joint venture opportunities, and maybe you could just review the AMD strategy or philosophy around M&A and JV opportunities? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Sure, Mark. So thanks for the question. So let me start with maybe a backdrop on the Computing and Graphics business, and what's been happening in the market. So certainly, the Q1 results are impacted by the fact that the PC market was weaker than we originally expected. We expected, when we started in January that we would have a weak first quarter due to some of our channel inventory issues. The channel business actually performed pretty close to our expectations with the exception of some of the currency issues in Europe.

On the MNC business, we did see some weaker-than-expected results as a result of some of the commercial hangover and the hangover from Q4. On the broader question of the Computing and Graphics business, we have significant product technology and IP that serve this market very well. I think it's important for us to focus on the areas where we can differentiate and innovate. Frankly, the portions of the business that are more commodity-like are less attractive to us, and so we have really focusing on managing the business for improved profitability and improved differentiation.

So going forward, we'll continue to do that. You had a question about the second quarter guidance. It is important for us to ensure that, we're managing the business in a disciplined way. Given some of the uncertainties in the market, we are being more cautious in the second quarter. We do expect the second half to be better than the first half as we go forward.

And then, relative to M&A and sort of the questions there, I think we're always looking at opportunities to optimize the business, but the Computing and Graphics business and the Enterprise, Embedded and Semi-Custom business share a lot of synergistic IP, particularly around the processor cores and – the graphics IP technology. So we continue to believe that we can differentiate in these areas as we accelerate some of our product investments.

Mark J. Lipacis
Jefferies LLC

Q

Thank you. And a follow-up, if I may. As you look into 2015, which of your businesses you think have the best chance to post revenue growth, and as part of that, could you give us an update on the pipeline in the semi-custom business? You announced several design wins late last year. Are those still on track? Is the pipeline getting bigger on semi-custom? Thank you very much.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, so relative to growth and what we see, I think the second half of the year, I would say across the board for all of our businesses will be stronger than the first half. Some of that is seasonal, and some of that is opportunities that we see to improve our market share, particularly in the Graphics business, as well as we ramp our semi-custom sales into the second half of the year. So those are the key areas there. Was there another question?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

The pipeline.

Lisa T. Su
President, Chief Executive Officer & Director

A

Oh, the pipeline, yes. On the semi-custom pipeline, the semi-custom wins that we announced at the end of last year are on track. We expect revenue in 2016 really starting in the second half of 2016 for those. Relative to the overall pipeline, I think we continue to get a nice mix. Particularly as we're focusing more on the enterprise and embedded space, we're seeing a nice continuum of, I would call it, standard product to custom product opportunities.

Mark J. Lipacis
Jefferies LLC

Q

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thanks, Mark.

Operator: Thank you. Our next question comes from the line of David Wong of Wells Fargo. Your question, please.

David M. Wong
Wells Fargo Securities LLC

Q

Thanks very much. Lisa, can you give us some idea of what your server processor efforts are? Is your work primarily to offer semi-custom capability in servers in the future, or are you making active investment in creating standard x86 and ARM server processors as well?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, David. So relative to server, we see data center, whether cloud or enterprise networking, to be an important growth area for us going forward. We are making significant investments in server processors, both standard as well as the IP for semi-custom opportunities. So think of it as x86, ARM, the technologies required to make competitive server products.

David M. Wong
Wells Fargo Securities LLC

Q

Okay. Great. And Devinder, have you identified any additional assets that you might be interested in selling to raise cash?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

If you look at the cash situation, David, from a cash management standpoint, we've managed pretty well over the last couple of years to stay in the $600 million to $1 billion range, which is what we've targeted for the several quarters as we have pursued our strategies from a long-term standpoint. We did do some asset sales, if you recall, in the 2013 timeframe. But at this point, I don't see the need to do that from an overall cash management standpoint. So really, nothing to talk about right now.

David M. Wong
Wells Fargo Securities LLC

Q

Okay. Great. Thanks very much.

Operator: Thank you. Our next question comes from the line of Harlan Sur of JPMorgan. Your question, please.

Harlan L. Sur
JPMorgan Securities LLC

Q

Hi, good afternoon. Thanks for taking my question. As it relates to the Q2 guidance for revenues to be down about 3% sequentially, can you just kind of help us understand directionally on the relative decline of your two segments, Computing and Graphics versus your Enterprise, Embedded and Semi-Custom segments? On one hand you're – it seems like you'd be ramping Carrizo, and I would assume you're already starting to ramp your semi-custom chipsets ahead of the console build, but yet on the other hand, it still seems like you're burning through some channel inventory. So lots of moving pieces. Any help from you guys would be great.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, sure, Harlan. So our second quarter guidance, we would expect that the semi-custom units will be up compared to the first quarter, I would say modestly up. Relative to the Computing and Graphics business, I think we will complete the burn-off of our channel inventory in Q2, based on the current pace that we see. And then on the ramp-up of Carrizo, we will start shipping – we started shipping, actually, in Q1 a small volume of units. We'll increase that as we go to Q2. What we also are factoring in is, with the Windows 10 launch at the end of July, we're watching sort of the impact of that on the back-to-school season and expect that it might have a bit of a delay to the normal back-to-school season inventory buildup.

Harlan L. Sur
JPMorgan Securities LLC

Q

Great. Thanks for that. And then a question for Devinder, given the sort of current depressed revenue run rate, is the team expecting to burn cash again in Q2? And then just given the overall kind of muted compute demand environment, what's sort of your view? Or maybe you can give us a range of your cash balance potentially exiting this year.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, so if I step back and look at it, and if you look at the balance sheet even in Q1, despite the lower revenue from a year ago and also last quarter, we've managed the balance sheet across the board pretty well. If you look at the Q1 inventory, we managed to keep it flat despite the lower revenue, [ph] although AP (23:14) is down quarter on-quarter-quarter rather significantly.

We've managed the cash, as I said earlier to the earlier question, between the $600 to $1 billion, and I feel we can do that in the Q2 timeframe. And the other thing is, you might have read about the ABL facility that we have to the tune of $500 million. In fact, we just renewed that with more favorable terms just recently, and announced that today. So from my standpoint, the takeaway for you should be we've managed cash between the $600 million and $1 billion target.

Harlan L. Sur
JPMorgan Securities LLC

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Ross Seymore of Deutsche Bank. Your question, please.

Q

Hi. This is [ph] Sydney Hill (24:01) for Ross. Thanks for taking the question. Regarding the embedded question, if my math is right, I think your first – in Q1 and Q2, your year-over-year growth are both negative. Are you still expecting this business to grow for the full year? I guess it depends on what the – the gaming side of things as well?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, so I think your question is probably about the Enterprise, Embedded and Semi-Custom segment and the segment revenue. So relative – Q1 year-over-year, I think, we've mentioned that the semi-custom SoC sales were down a bit, as well as embedded was relatively flat.

As we go full-year, we haven't given full-year guidance at the segment level yet, so I think what we've said before, which I still believe is true, is that the semi-custom units will likely be up year-over-year. The ASPs are known. We just have to see how the second half of the year develops relative to overall demand.

Q

Okay. Then my follow-up question is related to gross margin. I think you're planning to build about $100 million of inventory for semi-custom revenue in the back half. Does that mean all else equal because semi-custom has lower margins? That your overall gross margin will come down in the back half? Or maybe it's just a broader way of asking the same question? How should we think about the gross margin trajectory for the remainder of the year? And what are some of the puts and takes to think about?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, I think, first of all, let's take Q2, first of all, from a guidance standpoint. We're guiding flat to Q1. I know the market environment, especially on the PC side, is uncertain. Product mix would be the main driver for the gross margin, and obviously, as Lisa remarked earlier, we're very focused on disciplined execution of the business, and we'll continue to do that, in particular, correcting the channel inventory situation that we're trying to get done within the Q2 timeframe.

Longer-term, if you ask me from an overall standpoint, obviously our goal is to grow on an accretive basis, the margin opportunities that embedded and server and pro-graphics affords us, as well as a richer mix of business in the client PC space as we introduce the new products that we've talked about.

And the other thing I would encourage you to do is, we are going to lay out more details on our longer-term standpoint on our Financial Analyst Day that's coming up on May 6, and that's where we will share more details in terms of the longer-term model.

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Stacy Rasgon of Bernstein. Your line is open.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. First, I had a question on OpEx. You have a range of $340 million to $370 million and that's supposedly based on the revenue outlook. So given your revenue trajectory, I'm surprised that you're not taking OpEx down more towards the lower end of that range. Can you tell us, I guess, what products you're investing in. And where would revenues actually need to go before you felt the need to take OpEx down to the lower range?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, so if you go back and look at the OpEx, and in particularly we were just talking about the Enterprise, Embedded and Semi-Custom area, if you look at the OpEx, first of all from a Q4 to Q1 standpoint, the OpEx is down. Sales and marketing specifically is down about 9% quarter-on-quarter.

R&D is up slightly, and I can tell you that the R&D, without getting to the specifics has been targeted towards those areas where we feel, afford us the best longer-term opportunities from a growth standpoint, and the best opportunities from improving the financial performance standpoint.

And obviously we are in a very targeted manner investing in the Enterprise, Embedded and Semi-Custom area, which is where we've had very good traction in 2014. Design wins continue in 2015 with revenue, as Lisa talked about earlier in 2016. And in pursuit of those businesses we'll go ahead and invest in those areas.

As far as your question about modulating the expenses in the areas that are more related, I guess to the business, CG for example, the revenue is down. I have said many times that we modulate our expenses in line with the revenue profile, and even with the sales marketing decrease quarter-on-quarter is very much in line with that profile.

However, the one thing I think we have to be mindful about, is about the R&D investments. We do want to fund for the future in terms of investing in the product roadmap, so that we do not, in the short-term take action that sacrifice the long-term future both of the company and the product roadmap. And that's why I think your observation is right with the revenue down 3% on a guided basis, expenses are flat, but primarily it's targeted towards the R&D areas.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC
Q

Got it. Got it. That's helpful. For my follow-up, I had a question, I guess, on the trajectory of the console revenue. So I got to say, I was a little surprised at the level of guidance, and even in the current quarter. Your foundry supplier for consoles had kind of consumer revenues in Q1 up quite a bit. And we don't seem to be seeing that in your revenue guide.

I know last year, we had a bit of a stronger console profile in the first half, and then it was kind of flattish, I think a little lower than what expectations have been in second half. It sounds like now maybe you're expecting that profile to reverse, and you're seeing a stronger console presence in the second half than the first half. Can you just give us some color based on those drivers on how you see that trajectory moving through the year?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yes, Stacy. So we do expect that the – it's hard to call console seasonality as we're – each year is somewhat different. So last year, if you remember, the first half was coming off of a very strong holiday season where there was still, let's call it unsatisfied demand.

As we go from sort of the second half 2014 into the first half 2015, I think the demand is more normalized. There is an expectation that the second half of 2015 will be stronger in terms of units and that's what we see from our customers right now. We're very in tune with them in terms of their forecasts. And so – that's what we see at the moment.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC
Q

But why would it be stronger? Don't they need to build in front of the holidays?

Lisa T. Su
President, Chief Executive Officer & Director
A

They do, but the peaks – the peek quarter for semi-custom is always going to be the third quarter, because that's when they will build ahead of holidays.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC
Q

Okay.

Lisa T. Su
President, Chief Executive Officer & Director
A

What we saw in the first half of 2014 was more, I would say, demand that was not satisfied from the previous holiday.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC
Q

Got it. And it's fair to say that the pricing will be down, year-over-year, correct?

Lisa T. Su
President, Chief Executive Officer & Director
A

It's fair to say there are some ASP decline. That's correct.

Stacy A. Rasgon
Sanford C. Bernstein & Co. LLC
Q

Got it. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Christopher Rolland of FBR Capital Markets. Your question, please.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.
Q

Hey, guys. Thanks for the question. So the move to Win 10 might be important for you guys, even more important than your competitor, given the sort of consumer PC profile there. Also, your competitor has been really back-end loading sales for the year, particularly due to some channel inventory dynamics where we kind of clear the decks to make room for Win 10. And then we have that initial channel build ramp to support Win 10 when it comes out. So I guess, first of all, do you guys see the same channel inventory effects? And then also, do you see that same back-end loading of the year as well for a PC?

Lisa T. Su
President, Chief Executive Officer & Director
A

Sure. So Chris, what I would say is, we do see some of the same dynamics, particularly in the near-term as we're going from the first quarter into the second quarter. I do think OEMs are being somewhat cautious, any inventory build now ahead of Win 10. As you go forward into the second half of the year, I think – first of all, I think we're all optimistic that Win 10 can be a catalyst and a driver for the market. However, to what extent will depend on some of the macro conditions that we talked about. I think the currency issues in Europe have to clean up some, I think the – the Win 10 launch has to be strong, and then we'll see how the second half shapes up.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.
Q

Okay. Great. Your inventory was flat in 1Q. That's probably a quarter where that should have been down. I imagine some of that was maybe to support some upcoming product launches. Then of course, you guided inventories up another $100 million next quarter, but you've left your 2015 inventory guidance unchanged. So what has to happen there? What are your expectations there to kind of aggressively ramp down inventory into the back half of the year?

Devinder Kumar
Chief Financial Officer & Senior Vice President
A

So a good question. I think two parts to it: if you go back and look at our inventory profile even in 2014, in particular with the significant revenue we're getting in the semi-custom space, the semi-custom customers that we have, we have to supply the product for them, essentially a quarter ahead of when they build their parts, and therefore they are seasonally high sales up in Q4.

We build the product and supply it in Q3, but we have to get the wafer supply and the inventory up in Q2, and fundamentally, the increase from Q1 to Q2 is to support the semi-custom ramp, as well as what we said earlier about the second half being stronger than the first half, and obviously, we need to be prepared for that.

So I think from an overall standpoint, despite the challenges we talked about in the PC market, managing inventory flat in Q1 was good. And we followed the same profile like we did in 2014, which is our plan. You should see inventory go up during the year to support the ramp of the semi-custom and then supplying the product, and at the end of the year, being able to manage down to flat inventory year-on-year.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.

Q

Great. Thanks, Devinder.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

You're welcome.

Operator: Thank you. Our next question comes from the line of Hans Mosesmann of Raymond James. Your question, please.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Thanks. Lisa, if you can clarify, in the second half of this year, you expect roughly seasonal trends in the PC-centric parts of your business due to Win 10?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes. So Hans, I think we would see that the second half would be roughly seasonal. I think we have to see how it fully develops over time.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay. I just wanted to get that, because your competitor is suggesting that it will be stronger than seasonal. The follow-on question, if I may, can you give us a timeline in terms of Seattle and ARM server ramps, and when it becomes relevant or meaningful in terms of sales?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. And Hans, I want to just go back to that other question. I would love for it to be greater than seasonal, but I think it's very hard to call at this point in the year. So relative to Seattle; Seattle, we continue to sample, and customers are continuing to develop both systems and software. Relative to the production ramp or volume shipments, I think we'll see that the second half of this year.

Hans C. Mosesmann
Raymond James & Associates, Inc.
Q

Okay. Thank you.

Lisa T. Su
President, Chief Executive Officer & Director
A

Thanks, Hans.

Operator: Thank you. Our next question comes from the line of Vivek Arya of Bank of America. Your line is open.

Vivek Arya
Bank of America
Q

Thank you for taking my question. Lisa, just a quick clarification. I think you mentioned semi-custom wins are second – the revenue is second half 2016. I just wanted to make sure that wasn't a change from what you had before, and then I had a question.

Lisa T. Su
President, Chief Executive Officer & Director
A

Yes, Vivek, it's actually not a change from what we had before. It's probably more specificity. We've probably before said 2016, and now it's second half of 2016 and it's just a little bit more detail.

Vivek Arya
Bank of America
Q

Got it. And then do you think PC gaming is a growing or a declining market? And you mentioned that you expect some share gains in the back half. What specifically do you think will help you regain that market share?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yes, so thanks for the questions, Vivek. That, I do believe PC gaming, and gaming in general is a growth opportunity in the market and a growth opportunity for AMD. So as I look forward, we're launching Carrizo on the APU side, and we're also launching some graphics products in the second half of this year. So I think from the standpoint of being able to capture more of the market and increase more to where our normal shares are in graphics, I think that's something that we believe we can make progress towards.

Vivek Arya
Bank of America
Q

Got it. And just one last one for Devinder. Devinder, did you say Q2 cash burn would be better or worse than Q1? And is $1 billion the right level for the Wafer Supply Agreement given your sales outlook in the first half? Thank you.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah. So first of all, I didn't give a cash guidance for Q2 but what I said specifically is we'll manage, within the $600 million to $1 billion balance, the range that we have provided, the target minimum versus the optimal.

On the WSA, the $1 billion that we talked about and signed in the WSA that we just confirmed with GLOBALFOUNDRIES, there is a mix of revenue there, just as a reminder. And I think you know this, but the large portion of the amount that we have is a good mix of product across PC, graphics, and semi-custom as opposed to if you go back two years ago. So I would say it's very much in line with our expectations of how the market is going to evolve this year, in particular in the semi-custom space.

Vivek Arya
Bank of America

Q

Thank you, guys. Good luck.

Operator: Thank you. Our next question comes from Sanjay Chaurasia of Nomura. Your line is open.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Devinder, first question, on the semi-custom operating income, it seems like it was significantly below the average of last four quarters, five quarters. I was just wondering if you could highlight where the compression came from and if that goes away in the coming quarters.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, I think if you look at it from an overall standpoint at the segment level, semi-custom being part of the Enterprise, Embedded and Semi-Custom segment, the impact to the operating income in that was really three factors. If you look at the game console royalties based on the Q4 to the Q1 transition, lower game console royalties in Q1, the product mix obviously had a play in that. And then the other thing that we referenced earlier, and Lisa talked about higher R&D spending where we are targeting more spending in that area to pursue more opportunities. And all of those three factors combined caused a lower operating income percentage for the quarter.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Okay. And as a follow-up, if I may, Lisa, you made comments on x86-based server opportunity. And as you put out in your roadmap, I was just wondering if you guys still want to compete the way you had competed with Intel earlier or you're narrowing your set of opportunities? Any color would be appreciated, thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So Sanjay, I think when we look across our portfolio and our priorities, we are very focused on the places where we can differentiate and innovate. So relative to x86 opportunities, clearly the x86 server market is a very large market, and it is one where we have historically been successful. So I do believe that it's an area that we can grow over the medium-term, and when we talk about additional investments in Enterprise, Embedded and Semi-Custom, many of those investments are directed at the server and the embedded markets.

Ruth Cotter
Senior Manager-Investor Relations

A

Okay. Operator, we'll take the next question, please.

Operator: Thank you. Our next question comes from the line of John Pitzer of Credit Suisse. Your line is open.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah, good afternoon, guys. Thanks for letting me ask the question. Devinder, just to follow-up on the WSA, do you have a forecast for what payments to GLOBALFOUNDRIES might look like in the June quarter? And just help me understand, to get from the run rate in Q1 to kind of the full-year guide of $1 billion, how should we think about kind of the linearity of those payments?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, I think Q2 amount, I won't get in the quarterly profile, but if you listen to the comments we were making in terms of some of the actions we are taking in Q1 and Q2, the first half of the year, relative to the PC market and then you listened about the semi-custom profile, first half to the second half, while the purchases in the first quarter are at the $161 million level, you can expect that it's going to follow the trajectory of the business, second half being stronger than the first half, the semi-custom ramp happening in the second half, a significant portion of the $1 billion is semi-custom products, and that's exactly how it goes throughout the year.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

That's helpful. Then Lisa, I guess as my follow-up, granted that it's difficult enough to look out 90 days and have an accurate forecast given the volatility in PCs, let alone the full year, but if you just grow seasonally in the back half of the year, your PC business is going to be down at probably greater than 20% year-over-year for the full year.

So I'd love to kind of get your sense of what you think the market for PCs is doing this year. Is the gap between that and kind seasonality share loss or more importantly, when do you think you're going to be positioned with these new products to actually gain back some share in the market?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So John, good question. So for clarification, the comment about the market was really the one on, it's hard to call that the market will be substantially better in the second half than the first half. I think it will be better due to seasonality. Relative to our business, our business certainly in the first quarter and in the second quarter is not really relative to seasonality.

I would say, we had some inventory issues that I want to correct as soon as possible so that we get our new product stream fairly clean into the market. So as we go into the second half of the year, we would like to see some regain of share in both the desktop and the notebook business. I've talked about Carrizo being a strong product for us.

I've talked about some of our graphics launches that we'll talk about later this quarter. So from our standpoint, I would say, the first half of the year, we had some, let's call, some of our issues that we were correcting in terms of the channel, and then a weaker than expected market environment. In the second half of the year, I think we would like to see our products take a strong position, as well as, hopefully the market gets stronger as well.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Perfect. Thanks, Lisa. I appreciate it.

Operator: Thank you. I'm Sorry? Thank you. Our next question comes from the line of Matt Ramsay of Canaccord. Your line is open.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

Yes. Thank you very much for taking my questions. Expanding on some of the questions that have been asked on the PC business, declines in share, declines in the market, declines of the inventory and the channel, it looks for the – give or take for the first half of the year, your pc and graphics – or the Computing and Graphics business is going to be down maybe 30%, 40% from a first half over first half perspective from last year.

Maybe, Lisa, could you help us at all figure out how much of that is due to burning through stuff in channel versus the market being down versus share losses? Any kind of ballpark figures would be really helpful.

Lisa T. Su
President, Chief Executive Officer & Director

A

Let's see, Matt. Let me think about the best way to answer that question. Okay, so let's say it this way. I think, we gave you a couple of pointers when we talked about the first quarter year-over-year. We actually saw mobile revenue go up relative to first quarter 2014, desktop revenue was down. I think from that standpoint, there was a good piece of that desktop reduction that was channel inventory correction, and then some of that was the desktop market being weak.

When you talked about market share, you're often talking about unit share, and from the standpoint of unit share, we have selectively decided that there are some pieces of business that we're not going to service because they're very unprofitable. And that is some of the share decline that you've seen.

Relatively speaking, we've kept ASPs pretty solid, and we would be looking for – forward-looking to really improve our mix going forward and getting both the revenue as well as the ASP and mix up. So I know that's not exactly answering your question, but what I'm trying to give you is the context for, is – the desktop market probably took a larger hit first-half to first-half, just given what's happening in the market in desktops as well as our channel inventory problem. I think the notebook business, we've made some progress. I think we have a very strong product coming out in Carrizo, so we would expect to make more progress.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

I really do appreciate the color, and I think that's helpful. As a follow-up, I wanted to jump into a little industry perspective in the server market. A couple of questions there. One, obviously the decision to exit the SeaMicro business from a platform perspective, maybe you could talk a little bit in detail about what's changed there and led to that decision?

And second, it seems a lot of the questions that I hear are focused on the server opportunity as maybe we all think about the server market. But I think what's interesting is, is also how the line between server and enterprise networking is blurring a bit through NFV and SDN. Maybe talk about some of the opportunities in markets where it's not a traditional AMD versus Intel fight, but more new markets that are server TAMs that are opening up as an opportunity for your business. Thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah, absolutely. So let's talk about investments and priorities. So I've been on the job about six months, and I've really been looking at the overall portfolio, where do we think we can make measurable gains that are sustainable, and what the priorities should be. It is clear that we have a lot of technology, but we need to focus our resources on the places that I would say are stickier pieces of business.

So relative to the SeaMicro business, that was a strategic decision to really exit the system's business. And if you think about SeaMicro, it was really specializing in micro servers, and micro servers have not developed at the pace that we might have thought a couple of years ago. From the way we look at the market, our core competency is really in processors, and being able to service that business through either standard or semi-custom products is the way we'll address the server business.

Going forward, I think the longer-term question, when you look at our IP, whether you talk about our processor IP or some of our packaging and system IP know-how. I think additional servers is one place; certainly dense servers, clouds, enterprise are important. And then as you state, the blur between traditional enterprise and networking is there.

So, I think we are repositioning our portfolio. Repositioning the portfolio always takes a bit of time, and so we're working to that repositioning, but we will give more color on some of the target markets at the Financial Analyst Day. And certainly Forrest Norrod, who has recently joined us, has a lot of thoughts on where we think we can win in these spaces.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

Thank you very much. Look forward to hearing more in a couple of weeks.

Ruth Cotter
Senior Manager-Investor Relations

A

Operator, we'll take two more questions, please.

Operator: Yes, ma'am. Our next question comes from the line of Chris Danely of Citigroup. Your question, please.

Christopher Brett Danely
Citigroup Global Markets, Inc. (Broker)

Q

Hey. Thanks for letting me ask the question, guys. Lisa, you talked about currency impact in Europe. Can you just elaborate on that, and maybe when you think it's going to stop or stabilize or go away?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So Chris, we did see the effect of currency in Europe. I guess the way I would describe it is, Eastern Europe, just fairly very low demand. We did see that very clearly. Western Europe, actually, the demand is okay, but what the currency issues have done is they've resulted in our partners and customers carrying fairly lean inventories just given all of the fluctuation. I think it's hard to say when it's going to stabilize, but we certainly have clear signals as we look at sell-through on a weekly basis, and all of those things.

Christopher Brett Danely
Citigroup Global Markets, Inc. (Broker)

Q

Great. And for my follow-up, I guess just a clarification on the WSA. So you said it's $1 billion this year. What was it last year? I think it was pretty close to $900 million, or $1 billion. And I guess I thought that most of that or a good portion of that was the CPUs. And given that CPUs are going to be down substantially this year, can you just help me with the math as to how $1 billion works for this year revenue when it's going to be down substantially?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

So I think you're asking about 2014: the WSA, I think it was about $1.1 billion, so it's slightly lower this year than last year at the $1 billion level. And the $1 billion mix of revenue semi-custom, graphics, and PC; I talked earlier about purchasing $161 million in Q1, and expect that the purchases will be in line with our business growth in the second half of the year, and obviously you heard the comment about inventory being up $100 million quarter-on-quarter from Q1 to Q2 is our anticipation in support of the new product introductions, as well as the semi-custom ramp in the back half of the year.

Christopher Brett Danely
Citigroup Global Markets, Inc. (Broker)

Q

Got it. Okay. Thanks, Devinder.

Operator: Thank you. And our final question comes from the line of Ian Ing of a MKM Partners. Your question, please.

Ian L. Ing
MKM Partners LLC

Q

Yes. Thanks for fitting me in. Just some clarifications on the SeaMicro exit. So for the June quarter, are there any sequential revenue or gross margin impacts from the exit? And SeaMicro, has that been fully written down at this point or are there any assets or IP that you can perhaps monetize? I know at the time Freedom Fabric looked kind of interesting on the interconnect side.

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Sure. [indiscernible] (51:33) two-part question. If you look at our GAAP charges that we took in Q1, $87 million, the bulk of that is related to the SeaMicro systems business exit. $75 million, the bulk of that is non-cash intangible assets, and obviously, there's some severance related activities and expenses that are cash. As far as the Fabric is concerned, the IP is still available for us as needed. But that's the way I would leave it.

Ian L. Ing
MKM Partners LLC

Q

Okay. And impact on June quarter?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

It's already accounted for. We went ahead and booked the expenses. We made the decision to exit the systems business, and those expenses are all already accounted for in the charges we took in Q1. So there will be – no impact or negligible impact in the Q2 financials as to the guidance that we have provided.

Ian L. Ing
MKM Partners LLC

Q

Okay. I understand. And then lastly, currency challenges in the regions, do you have any sort of natural cost hedging with overseas manufacturing, whether it's front-end wafer supply, or back-end packaging and test, that can help out?

Devinder Kumar
Chief Financial Officer & Senior Vice President

A

Yeah, we have operations in [ph] on-port (52:48) on the engineering side as well as on the manufacturing side in China and Malaysia, engineers in India, China, Canada. And we do the typical hedging programs in terms of forecasted expenses on an OpEx basis and go ahead and hedge that. And have been largely successful in mitigating the impact of the currency overall to the P&L from an OpEx standpoint.

Ian L. Ing
MKM Partners LLC

Q

Okay. Thanks, Devinder.

Ruth Cotter
Senior Manager-Investor Relations

Great. Operator, that concludes today's earnings conference call. If you could close the call, and we'd like to thank everybody for participating.

Operator: Thank you, ma'am, and thank you, ladies and gentlemen, for your participation. That does conclude AMD's first quarter earnings conference call. You may disconnect your lines at this time. Have a great day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2015 Earnings Call for 16-April-2015 5:30 PM ET
Thursday, April 09, 2015 12:10:06 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2015 Earnings Call for 16-April-2015 5:30 PM ET.

To obtain complete event details, subscribe to FactSet CallStreet. For additional information contact your FactSet representative or FactSet support at support@factset.com or call 1-877-FACTSET.

Event Type: Earnings/Results
Industries: Semiconductors
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20-Jan-2015

Advanced Micro Devices, Inc. (AMD)

Q4 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Thank you for standing by and welcome to AMD's Fourth Quarter Annual Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference to our host, Ruth Cotter, Vice President of Corporate Communications and Investor Relations.

Ruth Cotter

Senior Manager-Investor Relations

Thank you, and welcome to AMD's fourth quarter and year-end earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you've not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Joining me on the call today are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President and Chief Financial Officer. This is a live call and will be replayed via webcast on amd.com. I'd like to take a moment and highlight a few dates for you. Devinder Kumar will present at the Goldman Sachs Technology and Internet Conference on February 10 and at the Morgan Stanley Media and Telecom Conference on March 3. Our first quarter quiet time will begin at the close of business on Friday, March 13, and AMD will host its financial analyst day on May 6 in New York.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Additionally note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary, posted on our website at quarterlyearnings.amd.com. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC, and in particular, AMD's quarterly report on Form 10-Q for the quarter ended September 27, 2014.

Now with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su

President, Chief Executive Officer & Director

Thank you, Ruth. Good afternoon to all those listening in today. In the fourth quarter, we made good progress diversifying our business into new markets, ramping PC and embedded design wins with key customers, and improving our overall balance sheet. This progress was offset by ongoing weakness in our PC business due to higher than optimal desktop and AIB inventory levels in the channel and our overconcentration in consumer PCs.

The Computing and Graphics segment revenue decreased 15% sequentially, largely driven by weak channel sales. We took some key actions in the fourth quarter to reposition our product stock and reduce downstream desktop and AIB channel inventory. While these corrective actions are resulting in short-term pressure in the business, they are integral to building a stronger and more profitable business going forward.

We did have some success in the quarter continuing to reshape our OEM business. We drove a richer mix of higher end products, expanded our presence in the commercial market and increased adoption of our discreet graphic solutions. Mobile APU unit shipments, ASPs, and revenue, all increased sequentially as our higher end A8 and A10 APU shipments increased.

We also achieved strong double-digit percentage revenue growth for notebook GPUs in the quarter as strategic wins like Apple's iMac with retina 5K display began to ramp. We clearly have more work to do to improve the overall revenue and financial performance of this segment. We must apply the same rigor and discipline that led to the improvement in our OEM business to stabilize and then grow our channel. I am confident we are taking the right actions to return this segment to a healthy trajectory starting in the second quarter.

Turning to our Enterprise, Embedded and Semi-Custom segment, as expected, Semi-Custom unit shipments decreased sequentially as we supplied a significant amount of product to Microsoft and Sony in the third quarter as a ramp to support the holiday demand spike. We are pleased with the full year performance of the Semi-Custom business and the strong sell-through reported by our customers. Nearly 30 million Sony and Microsoft consoles have now shipped. Our Semi-Custom unit shipments more than doubled in 2014 which fueled excellent full year performance for this part of our business.

Embedded processor revenues also increased for the third straight quarter as we continued to successfully execute our strategy to gain share in targeted vertical markets where our high performance CPU and GPU IP are differentiated. In target markets such as network storage, avionics and medical devices, we had several customers launch new AMD embedded powered solutions that take advantage of our high performance CPU and GPU IP including Airbus, QNAP and Analogic.

Our work to lead the industry's transition to 64-bit ARM also gained momentum in the quarter. We have secured multiple design wins for our upcoming Opteron A-Series and the first systems are expected to launch later this year.

Taking a step back and looking at our annual 2014 performance, it is clear we made progress across a number of strategic fronts. Annual revenue grew for the first time since 2011. Annual EESC segment revenue increased by 50%, growing to a $2.4 billion business with strong momentum in pipeline, we ended the year with more $1 billion in cash and making significant progress re-profiling our debt; and most importantly, we delivered full year non-GAAP profitability and continued to build a good foundation for future long-term profitable growth as we invest in the innovations to drive future success.

In my 100 days as AMD's CEO, I've had the opportunity to spend significant time with our customers, partners and employees. The consistent theme is that AMD is at our best when we are delivering differentiated technology and innovation to our customers. There are clearly significant opportunities for us to accomplish this, both in our traditional PC business as well as in new growth markets, but we must think differently in 2015 about our market approach and investment priorities.

First, we see a path to reversing the declines in our PC business. The PC market is expected to stabilize with low single-digit percentage decline in 2015. We have right sized our investments in this business and taking actions to reduce our downstream channel inventory in the fourth quarter. We will continue these corrective actions into the first quarter to aim for return to growth starting in the second quarter. We are correcting the inventory position quickly, which is contributing to our revenue guidance in the first quarter. We believe this will position us well when we begin to ramp new products later this year.

We plan to introduce a strong 2015 product portfolio, punctuated by the launch of Carrizo in the second quarter. Consumer and commercial design win momentum for Carrizo continued to gain momentum because it will deliver the largest ever generational leap in performance per watt for our mainstream APUs. Carrizo is a good example of how the innovations we are making at the chip-in system level through differentiated design capabilities, translate into meaningful improvements into the user experience and battery life.

Second, we will increase our R&D investments in Enterprise, Embedded and Semi-Custom. AMD is the only company in the industry that can offer a full continuum of high performance standard and customs solutions, spanning both the ARM and x86 ecosystems and we must leverage this position to drive differentiated and innovated solutions for our customers.

Our server partners have increasingly told us they want to see AMD playing a much larger part in this business. Although the server design cycle is longer, this is an important vector for long-term revenue and margin expansion, and we are designing new x86 and ARM based leadership products for this space powered by our next generation ARM and x86 course.

Our third priority will be to continue diversifying our revenue base and growing in new markets. We saw good momentum with significant revenue and design win growth in 2014 across all of our new businesses. For instance, embedded and professional graphics revenue both increased by more than 20% in 2014. We have a robust pipeline in these businesses, as well as with our Semi-Custom engagements and we will continue that focus through 2015.

In summary, I am optimistic about our long-term opportunities, but realistic about our short-term challenges. In the near-term, we will take significant steps to normalize our business as we sharpen our focus on our key priorities of building great products, deepening our customer relationships, and simplifying our business. Longer-term, we have a tremendous opportunity to apply our technology and IP to differentiate and innovate with our customers, and further strengthen our financial foundation and performance.

Now I'd like to turn the call over to Devinder to provide some additional color on our fourth quarter financial performance and first quarter guidance. Devinder?

Devinder Kumar
Chief Financial Officer, Senior Vice President

Thank you, Lisa, and good afternoon, everyone. In 2014, we improved our non-GAAP financial performance and met the financial goals we laid out at the beginning of the year despite continued weakness in our Computing and Graphics business. Specifically, we continue to transform and position ourselves for long-term growth and we delivered our first full year of non-GAAP profitability since 2011. We grew revenue 4% to $5.5 billion for the year and further diversified our business as we completed the first full year of our Semi-Custom game console shipments and derived approximately 40% of revenues in 2014 from high growth adjacent markets.

Specifically in 2014, we also reduced non-GAAP operating expenses by 11% from the prior year, while investing in our new products in support of our ARM and x86 strategy and growth areas, continued our focus on financial performance and reported non-GAAP net income in every quarter during 2014, delivered positive free cash flow for 2014 excluding the special payment of $200 million made to GLOBALFOUNDRIES early in 2014 related to the 2012 WSA Amendment, maintained a strong balance sheet ending the year with over $1 billion in cash, cash equivalents and marketable securities, and finally, we made significant progress in re-profiling our term debt pushing out the majority of term debt maturities to 2019 and beyond, while also decreasing our interest expense run rate year-over-year.

Moving to the specifics of the fourth quarter, where I'll be referencing non-GAAP figures except for revenue which is on a GAAP basis. Revenue was $1.24 billion, down 13% sequentially and 22% year-over-year, primarily driven by lower desktop processor, GPU and Semi-Custom SoC sales. Gross margin was 34% down one percentage point from the prior quarter. As a reminder, third quarter gross margin of 35% included a $27 million or two percentage point benefit from revenue related to technology licensing. Operating expenses in the fourth quarter were $382 million, down $46 million from the prior quarter due primarily to reduced employee bonuses, restructuring actions, and ongoing expense controls. Operating income was $36 million and net income was $2 million, with breakeven earnings per share calculated using 781 million diluted shares.

During the fourth quarter, we had a number of accounting items that I'd like to address. As part of our annual review of goodwill and primarily due to the decline in AMD's stock price, we determined that the total non-cash $233 million carrying value of goodwill related to our Computing and Graphics business was impaired. We also had a lower of cost or market inventory adjustment of $58 million in the quarter related to our second-generation APU products. We expect to sell this inventory over the next several quarters, and this adjustment aligns the carrying value of the inventory with market pricing.

Lastly, we had restructuring and other special charges amounting to $71 million, of which $59 million is expected to be paid in cash. This primarily includes the previously disclosed $57 million of restructuring and $10 million related to our former CEO's departure. The aforementioned accounting items I excluded from our segment results and I included in the All Other category. They are also excluded from our fourth quarter non-GAAP earnings per share computation.

Net interest expense, taxes, and other income was $34 million in the quarter, down from $46 million in the prior quarter, primarily due to the benefit of term debt repurchases of $75 million in the fourth quarter, interest rate swap transactions executed in the third quarter and a tax credit of $3 million. Adjusted EBITDA was $96 million, down $37 million from the prior quarter. And for 2014, adjusted EBITDA was $505 million.

Now, turning to the business segments, Computing and Graphics revenue was $662 million, down 15% sequentially, primarily due to lower desktop processor and GPU sales. Computing and Graphics operating loss was $56 million compared to a $17 million loss in the prior quarter, primarily due to lower channel sales partially offset by lower operating expenses. Enterprise, Embedded, and Semi-Custom revenue was $577 million, down 11% from the prior quarter, primarily due to a decrease in sales of our Semi-Custom SoCs, and the operating income of this segment was $109 million, essentially flat from the prior quarter driven by lower Semi-Custom product sales, offset by higher royalties.

Turning to the balance sheet; our cash, cash equivalents, and marketable securities balances totaled $1.04 billion at the end of the quarter, up $102 million from the prior quarter. Inventory was $685 million, down $212 million from the prior quarter including the impact of the lower of cost or market inventory adjustment. Excluding that adjustment, inventory was down 17% quarter-on-quarter. Our total purchases from GLOBALFOUNDRIES in 2014 were approximately $1 billion, lower than the previously estimated $ 1.2 billion, due to lower fourth quarter purchases.

The fourth amendment to the WSA is complete, with no associated special payments or penalties. We are currently negotiating our 2015 WSA Amendment in line with our business expectations. That, as of the end of the quarter, was $2.2 billion. During the quarter, we repurchased an aggregate amount of $75 million of 2020 and

2022 term debt in the open market, paying approximately $0.96 on the dollar and funded these with our asset backline of credit which carries a significantly lower interest rate. Free cash flow in the fourth quarter was $94 million, an improvement of $105 million from the third quarter of 2014.

Before turning to the outlook, let me highlight that as of the first quarter of 2015, in line with many of our technology peers and more reflective of our ongoing operations, we will be excluding approximately $20 million per quarter of employee related stock-based compensation from our non-GAAP financial results.

As outlook for the first quarter of 2015, AMD expects revenue to decrease 15% sequentially, plus or minus 3%. Gross margin is expected to be approximately 34%. Non-GAAP operating expenses I expect it to be approximately $350 million excluding approximately $20 million of stock-based compensation as per our revised non-GAAP definition. Interest expense, taxes and other to be approximately $48 million and inventories expected to be essentially flat from fourth quarter levels.

As outlook for the full year 2015, we expect to be profitable on a non-GAAP basis. Non-GAAP operating expenses to be between approximately $340 million to $370 million per quarter in line with expected revenue profile. Taxes of approximately $3 million per quarter, cash, cash equivalent and marketable securities balances to be in the optimal zone of $1 billion. Capital expenditures of approximately $100 million and inventory to be approximately flat year-over-year.

In closing, as we begin a New Year, we look forward to overcoming our short-term challenges by stabilizing our Computing and Graphics segment, and continuing to improve long-term financial performance by diversifying our business and driving through our profitability toward while maintaining a healthy balance sheet.

With that, I'll turn it back to Ruth? Ruth?

Ruth Cotter
Senior Manager-Investor Relations

Thank you, Devinder. Operator, we'd now like you to poll the audience for questions please?

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from Harlan Sur of JPMorgan. Please go ahead.

Harlan L. Sur
JPMorgan Securities LLC

Q

Good afternoon, and thank you for taking my question. On the Q1 revenue guidance, can you just provide us with a bit more color for the 15% sequential revenue decline? How much of the revenue decline is due to continued channel inventory work downs in your Computing and Graphics segment versus continued game console seasonality in your embedded and Semi-Custom segments? What I'm trying to figure out is, if both segments are going to be down double-digit sequentially, or is one going to drive more declines than the other?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Harlan. So thanks for the question. Let me give you some color on that. So if you take typical PC seasonality would be about minus 7% or so and typical game console seasonality is probably a little bit more than that, what we said in the prepared remarks is that we are taking an opportunity to correct the channel inventory in Computing and Graphics, so overall, down minus 15%. That is more heavily weighted towards Computing and Graphics than towards Enterprise, Embedded and Semi-Custom.

Harlan L. Sur
JPMorgan Securities LLC

Q

Okay. Thanks for that, Lisa. And then on the Embedded segment which grew nicely in Q4 in fall of 2014, as you think about your pipeline in 2015, does the team expect Embedded will continue to grow by double-digits year-over-year? And if so, what end markets would be the biggest contributors to that growth?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So, if you look at the overall Enterprise, Embedded and Semi-Custom business, it was very good for us in 2014. I'm actually quite pleased with the progress. Certainly, the majority of that was the Semi-Custom or game console unit shipments which increased significantly. We did also see, as we said, improvements in the Embedded business and that grew over 20%. As we go into 2015, it's a little bit early for full year guidance, but I think we would say that we would expect Embedded to continue to grow. I think on Semi-Custom, we believe that units will grow as they typically do in the third year of the console ramp, and exactly what that will amount to will depend on how the market behaves in 2015.

Harlan L. Sur
JPMorgan Securities LLC

Q

Thanks, Lisa.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thank you, Harlan.

Operator: Our next question comes from Ian Ing from MKM Partners. Please go ahead.

Ian L. Ing
MKM Partners LLC

Q

Yes. Thanks for taking my question. Just wanted to step to the revenue and segment assumptions to actually guide to non-GAAP profitability this year excluding stock comp. When I look at the OpEx ranges and gross margins about flat, I'm getting just low single-digit quarters of growth for the rest of the year.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

I think it depends on how you look at it from an overall standpoint. Obviously, you have the numbers in terms of our guidance for Q1 2015. But you do want to take into consideration one change that I highlighted in the prepared remarks in terms of the OpEx guidance that I gave. That on a non-GAAP basis, we are excluding the non-cash stock comp expense from the guidance for the OpEx and that's running about $20 million per quarter for stock-comp expenses overall, so about $80 million for the year. But I think the rest of it, from an overall standpoint; we're not giving other than what I have given for 2015 color on the non-GAAP profitability. From where I sit right now, with a continued control of expenses and the gross margin obviously in Q1 at 34%, we'll give color more about 2015 as we get through Q1 and into Q2. And in particular, we have an analyst day that's scheduled on May the 6, where we'll lay out obviously a more detailed model for the year and for the longer-term outlook.

Ian L. Ing
MKM Partners LLC

Q

Okay, great. And then, Lisa you talked about the launch of Carrizo highlighting HSA support. Could you talk about the applications for HSA implementations? I mean who's writing code right now in the HSA development environment, what kind of customers can we have potentially in the future? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So we are enthusiastic about our Carrizo launch that will take place in the second quarter. I think if you look at the improvements that will come with that, HSA is one of them. We'll also have significantly improved performance in battery life in Carrizo. Relative to HSA applications, I think there're number of applications both in the consumer space related to video that will perform quite well with Carrizo, as well as in other areas. We expect Carrizo to be beneficial for Embedded and other businesses as well.

Ian L. Ing
MKM Partners LLC

Q

Okay. Thanks. That's all I had.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thanks, Ian.

Operator: Our next question comes from Mark Lipacis from Jefferies. Please go ahead.

Mark J. Lipacis
Jefferies LLC

Q

Hi. Thanks for take my question. On your expectation for a healthy trajectory in the PC and Graphics business in 2Q, what are the – can you help us understand to what extent is that driven by your improvement in the commercial side versus consumer business? Can you help us with, roughly, what's the split between these to two? And does that – does healthy trajectory – does that mean sequential growth in that business in 2Q or does that mean in line with normal seasonal patterns? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thanks, Mark. Let me try to answer that and give you color on the various segments. So as I mentioned in our MNC business, we've really made nice progress overall in terms of improving our mix, improving our design wins, especially going into the second quarter and the second half of the year with our new product launches. I think we feel very good about where we're positioned there. Commercial will definitely be important as well as improving our overall mix. And then, relative from Q1 to Q2, I think the largest improvement will be around the channel health. We have had this channel problem for a couple of quarters and it's important for us to correct that. As we look at the downstream channel, we definitely reduced some inventory in Q4, and we will take significant action to reduce that inventory in Q1. And that will give us an opportunity to return to a more normal desktop channel business which has been relatively successful for us in the past.

Mark J. Lipacis
Jefferies LLC

Q

Thank you. A follow-up, if I may. I think you noted two to three new Semi-Custom design wins in the last earnings call. Can you remind us of the timing and nature of those design wins by end market or application? And, can you describe or characterize the pipeline after those two or three design wins? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes. So on the Semi-Custom design wins and pipeline, at the end of last year we reported two new Semi-Custom wins. They included both x86 and ARM. Timeframe for that revenue is we start NRE – we started NRE last quarter and we'll have NRE revenue in 2015. You'll see production revenue in 2016.

Mark J. Lipacis
Jefferies LLC

Q

Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Thanks, Mark.

Operator: Our next question comes from Matt Ramsay of Canaccord Genuity. Please go ahead.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

Yes. Thank you for taking my questions. First, Lisa, you had mentioned in the prepared remarks, pull from the server customer base sort of excited or urging AMD to get back into that market, both on [ph] x86 (28:26) and

ARM. Maybe you could talk a little bit more about the nature of that pull? Is it more ARM, more x86 based and how your design teams are set up to address that challenge given your history in the server business in the past?

Lisa T. Su
President, Chief Executive Officer & Director

A

Sure, Matt. So, there's no secret that we've lost a lot of market share in the server business. But if you look at fundamentally what's important to those server customers, it is about knowledge of the enterprise. It is about high performance compute capability, reliability, all the system capability and those are things that AMD can uniquely very capable of. So when we look at ARM and x86, I would say the majority of the market will still be x86 for quite some time because of all the legacy applications that exist. ARM offers a new opportunity in some of the dense server markets, and so we continue to look at that as a growth opportunity where new business will grow. So it's really, I would say, separate parts of the market. I think where we add value is that we're able to look at that in totality, and optimize the server ecosystem for that.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

All right. Thank you. And then, Devinder, as a follow up it's been mentioned a couple times in detail that you guys are going to change the sort of excluding the stock comp from the non-GAAP numbers. I don't know how much you want to comment here today, but just for year-over-year comparison purposes, are you guys – do you forecast being non-GAAP profitable including the stock comp, or just by excluding it? Thanks.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

It's excluding the stock comp. It is about $20 million of non-cash stock comp expenses, very much in line within a lot of technology peers, and kind of more comparative basis. So I think when you look at the OpEx guidance, for example, that we are providing in Q4, that excludes the stock comp expense of about $20 million, and that's non-cash. It'll show up from a segment reporting standpoint in our All Other category, very consistent like I said with several of other technology peers.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

Got you. I was just trying to say do you think you'll be non-GAAP profitable, if you sort of reverse that new change to the reporting structure, so under the old method?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Well, our guidance is non-GAAP profitable excluding the stock comp expense for 2015.

Matt D. Ramsay
Canaccord Genuity, Inc.

Q

All right. Fair enough. Thanks.

Operator: Our next question comes from Joe Moore of Morgan Stanley. Please go ahead.

Joseph Moore
Morgan Stanley & Co. LLC

Q

Great. Thank you. I wonder if you can clarify within the PC CPU business, what's the split between channel and OEM at this point, or just qualitatively? And you've mentioned, for the last couple quarters, this inventory compression. Is there a demand aspect to this as well? Do you think you're losing share in the channel versus just an inventory correction in the channel?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah, Joe. We don't talk about the exact split between our channel and our MNC business. It's fair to say our MNC business is larger, though. So what we ship into our OEM customers is larger than the channel business. Relative to the inventory versus demand, I think the desktop channel is an area where, if you look at it, it's heavily concentrated in China, and has had more impact on some of the dynamics in China, especially as you look at the entry level part of the business. I will say though that, as we look at it overall, I think the channel will still be a very good business for us going forward. It's just we need to correct the inventory levels.

In the AIB business, or the Graphics channel, it's a little bit more complicated in that. In the first half of 2014, we had actually an unusually strong AIB channel because of the Bitcoin effect, and then we needed to correct some of that. There are some competitive dynamics in the Graphics AIB channel as well. I think from where I see it going forward, we are very focused on correcting the channel and normalizing that business. I think we have some good products that are coming out for it. So I do see opportunities for a return to a more healthy channel business going forward.

Joseph Moore
Morgan Stanley & Co. LLC
Q

Great. Thank you. And then, Intel had mentioned on their call having had some excess Bay Trail inventory at the end of Q3 that they burned off during Q4. Do you think that had any effect on you guys, and do you think that situation's cleared up for you?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. I don't think it particularly had an effect. I mean one of the comments that I made earlier, our ASPs have really come up nicely with our mix in the OEM business. So from that standpoint, I didn't see a particular effect.

Joseph Moore
Morgan Stanley & Co. LLC
Q

Thank you very much.

Lisa T. Su
President, Chief Executive Officer & Director
A

Thank you.

Operator: Our next question comes from John Pitzer of Credit Suisse. Please go ahead.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)
Q

Yeah. Good afternoon, guys. Thank you for letting me ask the question. First question, Devinder, just as a clarification; no impact from under-spending on the WSA in 2014, or might that carryover to 2015? And just broadly, how do we think about the parameters for the 2015 WSA?

Devinder Kumar
Chief Financial Officer, Senior Vice President
A

Yeah. John, you're right. No impact whatsoever. No penalties, no special payments, which is I think what your question is. As we reduce the supplies and the purchases to end 2014. 2015, we are in discussions, that's in progress, to go ahead and close the 2015 supply agreement.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)
Q

And then, Lisa, in the prepared comments, you talked about OpEx kind of between a range of $340 million to $370 million per quarter. I'm just kind of curious, is the goal here to try to operate the business at kind of a non-GAAP breakeven level? And if we do get revenue upside, will you just let that drop through to OpEx? And to kind of ask just a broader question, how do you think about prioritizing spending as you try to maintain non-GAAP breakeven? And is that even the right goal to think about given that you already have $1 billion of kind of released growth cash on the balance sheet. Are you under-investing in certain areas right now to try to maintain that non-GAAP breakeven?

Devinder Kumar
Chief Financial Officer, Senior Vice President
A

I'll take the first part on the financials, and I'll let Lisa comment on your second question, which is a good one. I think, overall, when you look at it from an overall standpoint, we've been very disciplined from an OpEx standpoint. But the question that always comes up internally, and Lisa obviously and Mark Papermaster watch that very carefully in terms of making sure that we continue to invest in the R&D area, especially for the products and the technology and all of the future stuff that we're doing. But John, you're right, we do want to manage from a viewpoint of overall cash and the P&L, that's important. The breakeven P&L has come down significantly as we have managed the OpEx. But the R&D investments, especially with the roadmap that we are projecting for 2015 and 2016 continue. And you're also right from an OpEx standpoint getting down to the, call it, $350 million level that we are guiding to for Q1, that would go up within the range of the $340 million, $370 million depending on the revenue profile. And obviously my desire is to drop that as much as possible to the bottom line as long as we continue to invest in the R&D areas. But I'll let Lisa comment for the R&D investments.

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah, John, so the way I would answer it is something like this, certainly, we strive to do better than non-GAAP breakeven on a medium-term basis. However, when I look at the OpEx and what we're trying to drive, it is really important for us to make the right technology investments and invest in the products that are going to fuel long-term growth. So we made some decisions in the fourth quarter, we announced some restructuring actions. I think those were the right set of actions because they were really around streamlining our business and making sure that we were making some priority calls in places. As I look forward, Q4, Q1, we've talked about lower than expected revenue due to some of the channel issues. As we go into Q2 and beyond, we're really focused on growth, and it's really all about the products and customers and getting our products out into the marketplace. So that's really my focus.

John William Pitzer
Credit Suisse Securities (USA) LLC (Broker)

Q

Thank you, guys.

Operator: Our next question comes from Vivek Arya from Bank of America Merrill Lynch. Please go ahead.

Vivek Arya
Bank of America Merrill Lynch

Q

Thank you for taking my question. One for Devinder and then one for Lisa. Devinder, the $212 million payable to GLOBALFOUNDRIES, that will be paid in Q1. So that will bring cash down to the $800 million or so, and then you expect a recovery to get back to the $1 billion optimal zone. Do I have that right?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

If you're talking about the $212 million as the AP balance that's associated with GLOBALFOUNDRIES on the balance sheet, then obviously those are purchases that we have made in 2014 before the year ended, and that cash obviously is due to GLOBALFOUNDRIES to be paid, call it, in the first quarter of 2015, is when that cash will be paid.

But from a purchases standpoint, the way it works with WSA is the wafers get delivered. And like I said, against the $1.2 billion that we expected when we close the 2014 WSA, we purchased $1 billion worth of wafers. As we ended 2014, we made a mutual decision to reduce the supply and purchases based on market conditions, and the 2014 WSA is complete. We are in discussions about the 2015 WSA. The supply continues based on the good relationship we have with our partner. There's no issue there, but we are working on the details to fully finalize and sign the 2015 WSA.

Vivek Arya
Bank of America Merrill Lynch

Q

But Devinder, you expect when that payment is made for the cash to perhaps temporarily dip below the $1 billion optimal zone and then to pick back up again in later quarters? I'm just trying to understand the trajectory of your gross cash during the year.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Yeah. No, I understand, I understand the question. I think you're saying, okay, you've got money due to GLOBALFOUNDRIES, but I have other accounts payables and accounts receivable due too. So net-net, the goal is to manage our cash balances in the optimal zone of $1 billion. So from my standpoint, as we end Q1, when we are sitting here in April talking about the Q1 cash balances, I expect to be in the optimal zone of over $1 billion. And, Vivek, you have seen that over the last many, many quarters, despite some challenges off and on, we've been able to manage the cash pretty well in the optimal zone and well above the target minimum of $600 million.

Vivek Arya
Bank of America Merrill Lynch

Q

Got it. And then maybe for Lisa, as you mentioned that game console units could grow somewhat this year, I'm interested in understanding what happens to your ASPs now that you're in the third year of launch, should we think of your ASP – AMD's ASPs be sort of flattish or could they be up or down this year? What happens typically during the third year of this kind of very prominent launch?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So Vivek, we have long-term agreements with our customers relative to ASPs. So there is some ASP decline. It's fair to say that it's less than it was in the early years.

Vivek Arya
Bank of America Merrill Lynch

Q

Got it. And just one last thing to look at the bigger picture here, Lisa, you're doing a very good job managing cost and AMD has always had good technology. But I'm trying to understand how you get out of this perennial restructuring mode and start growing again because it appears to me that all the benefits of all the pipeline you're building in Semi-Custom continue to be offset by some of the pressures on the traditional PC and the GPU market. Is it that you expect those traditional markets to start recovering, or do you think we might be underestimating the benefit that you might get on the Semi-Custom side? Thank you.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So Vivek, I mean, if I just take a step back and just talk about what we're trying to do overall in our strategy, we really are a technology company, it's all about our IP and our products and what we put into the marketplace. If you look at our two businesses, I think we've shown that we can grow a business. The Enterprise, Embedded and Semi-Custom growth, very nice growth, very predictable, profitable. I'm confident that's on the right track. And in terms of what we're going to do across those market segments, I will say, if anything, we want to make some bolder technology bets in that area to fuel that growth.

And then on the Computing and Graphics business, I do believe that we will stabilize this business. I mean, the last couple of years have been difficult, some relative to market conditions, some relative to things that we could have done better. But overall, it's 300 million units. That's a big market. And so most every customer would agree that AMD can add value in that space, and we're focused on making sure that our products really add value to that ecosystem.

Vivek Arya
Bank of America Merrill Lynch

Q

Thank you.

Operator: Our next question comes from Hans Mosesmann from Raymond James. Please go ahead.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Thanks. Hey, Lisa, some clarification on really the second half of last year. Was the inventory situation that you're dealing with now, is that – how much of it is the competitive dynamic and how much of it was just end demand being weakened in China, for example?

Lisa T. Su
President, Chief Executive Officer & Director

A

I think it's different in the different markets. I think with desktop, it's more end demand relative to China and perhaps we were a little bit long on inventory earlier in the year. I think in the Graphics channel, again, I said it was a bit volatile in the first half of the year. Some of that is due to competitive dynamic, but I think some of that is, as I said, due to the fact that the first half of the year was so strong.

Hans C. Mosesmann — Q
Raymond James & Associates, Inc.

Okay. Thanks. And then as a follow-up on the ARM side of the equation, you mentioned that you expect shipments later this year. It seems there's somewhat of a delay. What's going on there specifically with Seattle and how it got sampled and how it's being adopted?

Lisa T. Su — A
President, Chief Executive Officer & Director

Yeah. So we have Seattle actually sampled in a number of different customers and ecosystem partners. I think with the – the good news is that the ecosystem is designing on AMD silicon, so I think that's good. Relative to the overall ramp, we always thought of this as a slow ramp. And so we'll see production shipments in 2015, but primarily we've seen a lot of ecosystem partners spending quite a bit of time on the software on our silicon.

Hans C. Mosesmann — Q
Raymond James & Associates, Inc.

Okay. Super. Thanks.

Lisa T. Su — A
President, Chief Executive Officer & Director

Thanks, Hans.

Operator: Our next question comes from Christopher Rolland from FBR Capital Markets. Please go ahead.

Christopher Adam Jackson Rolland — Q
FBR Capital Markets & Co.

Hey, guys. Thanks for the question. So looks like Samsung and GLOFO are potentially making some headway here on the foundry side towards 14-nanometer. Can you guys talk about your plans to leverage that or to avoid that and what we can expect through the year for leading-edge silicon? Thanks.

Lisa T. Su — A
President, Chief Executive Officer & Director

Yeah. So Chris, we are actively designing a number of products in 14-nanometer, the 14-nanometer technology. I think FinFET will be very important for us from a competitive standpoint. So it's important technology for us.

Christopher Adam Jackson Rolland — Q
FBR Capital Markets & Co.

Okay. And then also if you can provide any details on timing, I'd love that, but outside of that, can you talk about the slide in PC operating profits and when you expect to sort of return to breakeven? And whether that OpEx step-down we get in Q1, is that all coming from Compute and Graphics? Thanks.

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. I'll take the first part of that and I'll let Devinder take the second part of that. So relative to timing on FinFET, yeah, we will be talking more about our long-term roadmaps at our financial Analyst Day. So I'll hold that question there. And, Devinder, you want to take the OpEx?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Yeah. On the OpEx side, obviously with the decline in the business and in particular with the guidance we provide in Q1 here, the OpEx has come down as you observed. And I would say two things: Lisa said in the prepared remarks that we are investing on the R&D side for the Embedded, Enterprise and Semi-Custom business. With the things that we talked about on Embedded, it's growing pretty nicely. The Enterprise side on the server piece, we need to make the investments for the customer so that we can return higher market share from an overall standpoint. And then the Semi-Custom side, in addition to the design wins that we have, we have a healthy pipeline and we want to continue to grow that business.

So I think overall, when we look at the OpEx side of the house, it is probably true that on the CG side is where the expenses are coming down more than probably in the Embedded, Enterprise and Semi-Custom. But overall, we're managing the OpEx in line with revenue while protecting the investments on the R&D.

Christopher Adam Jackson Rolland
FBR Capital Markets & Co.

Q

Great. Thanks, guys.

Operator: Our next question comes from are Ross Seymore of Deutsche Bank. Please go ahead.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Hi. I guess first question is for Lisa. On the inventory side of the equation, what are you guys planning to do differently if anything going forward? You've already answered a little bit about what you thought the causes of the excess inventory would be. Is there anything you would do in retrospect differently? And looking forward, does that mean you keep the channel tighter than before? Are there any business implications that we should be aware of?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yes, Ross. So on the channel, I mean I think in general, it's much better to keep supply sort of in line with demand. And certainly that will be important for us going forward. Secondly, the sell-through velocity I think will be modulated by our products, and as we put new products into the channel over the next couple of quarters I think that will increase sell-through velocity. I did mention China as one of the areas where we have to just see how that develops and how the DIY market in particular develops. But again, I think this is about just matching supply with demand and not getting out of sync there.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

And I guess as a follow-up, one for Devinder. In the EESC segment, you mentioned that the operating income was pretty much flat sequentially and it sounded like royalties were the cause of that. Can you give us a little bit of color on what were those royalties? Is that just a seasonal effect that goes away or how should we think about those going forward?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

I don't think they go away. They were obviously very nice in the Q4 timeframe based on some technology licensing that we have related to royalties that we collect, but they don't go away. They continue into 2015.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

So it's not just a seasonal effect?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Well, I would say in Q4 it was nicer than what I would otherwise expect.

Lisa T. Su
President, Chief Executive Officer & Director

A

It is somewhat related to end shipment. So because of the end shipments were higher in Q4, they were higher in Q4.

Ross C. Seymore
Deutsche Bank Securities, Inc.

Q

Okay. Great. Thank you.

Operator: Our next question comes from Sanjay Chaurasia from Nomura. Please go ahead.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Hi, Lisa. A question on gaming console. You indicated 30 million shipments this year. And if I go back historically when these gaming consoles were launched, I think the first year sales were roughly between 15 million and 20 million. My question is, it seems like this higher sales could be because of expanded availability in different regions. And as you look into next year, what gives you confidence that you could grow this in terms of units, or in terms of your revenue into 2015? And then I have a follow-up.

Lisa T. Su
President, Chief Executive Officer & Director

A

Sure. So Sanjay, let me just clarify. In terms of the unit shipments, those are unit shipments from our customers to end users and most of that is publicly available data from what Sony and Microsoft have published. So relative to historical, I think most people will say that historically the game console shipments in this generation are higher than in the previous generation. And you can come up with all kinds of reasons for that. Some of that is sort of the price points that they've chosen. I think that certainly help the holiday season. Some of that is – it's software titles that are available at a given point in time.

I think the main thing is, as we look at any holiday season, we want to make sure that there's not a lot of inventory that's sitting with our customers, and we see that that's fairly well balanced. And so that gives us confidence as you go into 2015 and you see new titles that are launched and those come out, that it should be a fairly normal market.

Sanjay Chaurasia
Nomura Securities International, Inc.
Q

And a question on desktop, seems like sales declined 30% sequentially and kind of declining at a similar level, agreed you indicated inventory is a factor here. But key question is that we're still – you're not saying that the demand decline was because of a roadmap issue or a vacuum in the product stack. Going forward, given that this has declined so much, do you have enough OEM support to carry these desktop SKUs with OEM? Or would OEM ask you to burden greater portion of the R&D costs associated in carrying these SKUs because this has really become a very – the scale of this business has become really small. And so question essentially is, what kind of challenges do you see when you have the right product to revive the desktop market?

Lisa T. Su
President, Chief Executive Officer & Director
A

Sure. So the way I would say it is something like this. It's clear that our mobile products are very competitive. We've invested heavily in mobile, and you see that with some of the successes that we've had. Relative to desktop, mobile and desktop actually share a lot of technology. So certainly, there's a lot of sharing there in terms of the cores and the IP and the designs. There are things that we will do to improve the competitives of our desktop products as we go forward. And so again, I view it as a market that we know well. And within the spend envelope that we've already defined, we will continue to compete in both the desktop and mobile markets.

Sanjay Chaurasia
Nomura Securities International, Inc.
Q

Thank you so much.

Operator: Our next question comes from Cody Acree from Ascendiant Capital. Please go ahead.

Cody G. Acree
Ascendiant Capital Markets LLC
Q

Hey, guys. Thanks for taking my question. Lisa, regarding the inventory excesses, I guess as you look at not just the consumer side but also the Enterprise side, what level of visibility you think you have comfort with about this cleaning up in Q1? And then on the Enterprise side, knowing that it looks as though maybe the Microsoft XP upgrade cycle is tailing off a bit, how much are you counting on share gains in the Enterprise side to help out?

Lisa T. Su
President, Chief Executive Officer & Director
A

Yeah. So relative to the channel inventory, it is primarily consumer and it's primarily, as I said. the DIY channel that we're highlighting. Relative to Enterprise, I think our progress in Enterprise is less due to the overall market and more due to just having products that are more capable in the Enterprise. If you think about how our products have evolved from, let's call it, fairly low end to now as we get to our higher end products, are very competitive. I think that plus the design wins that we have give us some optimism about commercial.

Cody G. Acree
Ascendiant Capital Markets LLC
Q

And then just as you look around the rest of your businesses, with some of your Semi-Custom wins not really expected to kick in until 2016, Embedded grew nicely, but it does have pretty long tails as well. I guess, as you look into the second half of this year, what are you doing now that really might be able to drive surprises in the second half, or does a lot of this growth become more of a 2016 story?

Lisa T. Su
President, Chief Executive Officer & Director

A

I think the key for us, as I said, is on EESC, the Enterprise, Embedded and Semi-Custom, I think we have a good path. Some of it will depend on what the market does with game consoles and we'll just have to see how that develops over time. I think on the Computing and Graphics business, we can improve our execution, and there is a lot of focus, at least from my standpoint to ensure that our 2015 product launches are quite strong. So that's important for us to really stabilize that business and that will certainly be key to our second half performance.

Cody G. Acree
Ascendiant Capital Markets LLC

Q

Great. Thanks, guys. Good luck.

Ruth Cotter
Senior Manager-Investor Relations

A

Operator, we'll take one more question please.

Operator: Our final question comes from Stephen Chin of UBS. Please go ahead.

Stephen Chin
UBS Securities LLC

Q

Great. Thanks for squeezing me in. Lisa, first question for you if I could. In terms of the strategy for the PC market, both Processors and APUs, can you help me better understand little more of how we should think about growth over the course of this year? When we look at unique products such as Carrizo, even though it's [indiscernible] (53:47) main competitor, you guys are definitely driving in the value and pulling on the traditional technology levers. But in terms of consumer market and even Enterprise corporate to certain degree, your main competitor there is pushing new form factors, fabless designs as well as kind of new user interface technologies such as 3D cameras to help kick start interest there and continue growing. What gives you the confidence, or just give me metrics that can help us match up the new technologies you're driving in the market this year with growth either in the consumer market and/or corporate?

Lisa T. Su
President, Chief Executive Officer & Director

A

Yeah. So for the Computing and Graphics business, I think the most important thing for us to do is to continue the work that we've done on selling up our stack and improving our mix. And we've demonstrated that in 2014 with our OEM customers. As we go into the new product cycle for both consumer and commercial, there are some key feature sets that we will offer. I think you'll find that although we are in 28-nanometer technology, the performance and the battery life as well as some of the features will be quite differentiated, especially around video and some of these multimedia applications.

And then as you look in commercial, I think we're quite under-represented today. And so it is an opportunity to grow just based on the design wins that we have seen and the form factors that we will be in, in 2015, that we were not in, in 2014. So we certainly have to demonstrate that over the next couple of quarters, but we're doing all the key things to make sure that we get these products further into the market.

Stephen Chin
UBS Securities LLC

Q

Okay. Got it. And one question for Devinder. On the OpEx side, you mentioned the $340 million to $370 million per quarter range for OpEx this year. Any color on kind of quarter-to-quarter variability which you see on that spending at the high or the low end of that range, whether it's product tape-outs or marketing expenses [indiscernible] (55:57)? Thank you.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Yeah, I think that both of those points are right. As we get to the second half, typically the business is stronger obviously with the revenue profile. There may be some additional marketing-related expenses. And then we do have product tape-outs and some engineering work that kicks in, and that could take the expenses higher. I expect to manage within the range of the $340 million to $370 million throughout the year, and in particular manage it tightly in the first half of 2015 including Q1 where we pegged it at about $350 million.

Stephen Chin
UBS Securities LLC

Q

Perfect. Thank you.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Thank you.

Ruth Cotter
Senior Manager-Investor Relations

Operator, that concludes our call. If you could wrap it up, please? Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you for your attendance. You may now disconnect. Everyone, have a great day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2014 Earnings Call for 20-January-2015 5:30 PM ET
Thursday, December 18, 2014 09:42:09 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2014 Earnings Call for 20-January-2015 5:30 PM ET.

To obtain complete event details, subscribe to FactSet CallStreet. For additional information contact your FactSet representative or FactSet support at support@factset.com or call 1-877-FACTSET.

Event Type: Earnings/Results
Industries: Semiconductors
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Corrected Transcript

16-Oct-2014

Advanced Micro Devices, Inc. (AMD)

Q3 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, thank you for standing by. And welcome to the AMD Third Quarter 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I'd now like to turn the conference to our host, Ruth Cotter. Ma'am, you may begin.

Ruth Cotter

Senior Manager-Investor Relations

Thank you and welcome to AMD's third quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's call are Lisa Su, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President and Chief Financial Officer. This is a live call and will be replayed via webcast on amd.com.

I'd like to take this opportunity before the call begins to highlight several dates for you. Mark Skinner, our Corporate Vice President and General Manager of the Graphics Business Unit will present at the UBS Technology Conference on November 18th in California. Devinder Kumar will present at the Credit Suisse Technology Conference on December 3rd in Arizona and at the Raymond James IT Supply Chain Conference on December 8th in New York. Mark Papermaster, our Senior Vice President and Chief Technology Officer will present at the Barclays Global Technology, Media and Telecommunication Conference on December 8th in San Francisco.

Our fourth quarter quiet time will begin at of close of business on Friday, December 12. And lastly, we expect to announce our fourth quarter earnings results on January 20, 2015.

Please note that we are now reporting two new financial segments beginning the third quarter. Computing and Graphics segment primarily includes desktop and notebook processors and chip sets, discrete GPUs and professional graphics, and the Enterprise, Embedded and Semi-Custom segment primarily includes server and embedded processors, gen servers, semi-custom SoC products, engineering services and royalties.

Additionally note that non-GAAP financial measures referenced during this call are reconciled to most directly comparable GAAP financial measures in the press release and CFO commentary which are posted on our website at quarterlyearnings.amd.com.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Please refer to the cautionary statements in today's earnings press release and CFO commentary for more information.

You'll also find detailed discussions about our risk factors in our filings with the SEC and in particular, AMD's quarterly report on Form 10-Q for the quarter ended June 28th, 2014.

Now with that, I'd like to hand the call over to Lisa. Lisa?

Lisa T. Su
President and Chief Executive Officer

Thank you, Ruth, and good afternoon to all those listening in today. I'm pleased to be here on my first earnings call as CEO. In addition to covering our quarterly results, I also want to use this opportunity to provide some details on my initial priorities and the steps we are taking to continue transforming and strengthening AMD.

Our third quarter results highlight the progress we have made in diversifying our business as we delivered our fifth straight quarter of non-GAAP profitability.

While our Enterprise, Embedded and Semi-Custom segment had a strong quarter, we did face some challenges in our Computing and Graphics business due to ongoing weakness in the consumer PC market. We know what we need to do to improve performance going forward and are taking the appropriate actions. So let me give you some more color on each of the segments.

Our Enterprise, Embedded and Semi-Custom segment delivered sequential and year-over-year revenue and operating profit improvement. We had strong embedded processor revenue growth and secured multiple new design wins across our priority markets.

For instance Arista, a leader in software-driven cloud networking, began ramping production of new switches powered by our Embedded G-Series SoC. Our customers also began ramping a number of new retail and educational digital signage wins in the third quarter. We also started sampling our first embedded ARM SoC in the quarter and at ARM Techcon Conference we demoed the industry's first ever 64-bit ARM powered network function virtualization solution. The demo won best in show software product and is a great example of how our leadership ARM and x86 offerings are generating increased interest from telecom and networking customers.

Our work to lead the industry's transition to 64-bit ARM servers also gained momentum in the quarter. After seeding Opteron A-Series development kits with key ecosystem partners earlier this year, we expanded availability to software developers and system integrators. We continue building out the 64-bit ARM server ecosystem in advance of system launches expected next year.

This quarter, we also had public demonstrations of community versions of Red Hat's Fedora and SUSE's openSUSE 64-bit ARM Linux operating systems running Oracle JDK, an enterprise-class Java platform, on our upcoming Opteron A-Series SoC. Based on the widespread availability and silicon status of our Seattle development boards, we're also seeing a number of our partners and customers using the AMD platform as their lead ARM 64 development vehicle.

The highlight of our quarter was in our strong semi-custom business where we shipped a record number of units for our game console customers. Q3 will be our peak unit shipment quarter for the year as Microsoft and Sony prepare for the holiday season. And relative to our new semi-custom design win pipeline, I am very pleased to announce that we have secured two new wins accomplishing our goal to close one to two new semi-custom wins this year.

These new semi-custom SoCs are expected to deliver a combined total lifetime revenue of approximately $1 billion over approximately three years. Design work for these opportunities has started and we anticipate first silicon revenue in 2016. Although I can't go into details on the customers or the specific products, it is important to note that we are diversifying our semi-custom business beyond gaming.

These wins also mark another significant milestone for us as one of the wins is our first 64-bit ARM-based semi-custom design building on our growing ARM 64 momentum in the embedded and server markets. Our semi-custom design win pipeline remains strong and we continue to have good opportunities to deliver future growth for this important part of our business.

Now, turning to our Computing and Graphics segment. The Computing and Graphics business remains very important to us and is an evolving area of the company where we have started a substantial amount of work to transform and strengthen this business.

Earlier this year, we laid out several important objectives to improve the financial performance of this segment. These include expanding in the commercial client market, improving our mix in consumer notebooks, gaining share in professional graphics, and increasing component and AIB channel sales.

We met our goal to double our commercial client design wins from last year and are pleased with the initial progress we are making to build a richer mix in our PC business. New commercial client offerings from Dell, HP and Lenovo have started ramping resulting in approximately a 50% increase in our commercial APU shipments from the second quarter.

We also improved our notebook APU mix in the quarter as our [ph] varied (08:30) processors ramped in mobile design wins and our higher end mobile processor unit shipments increased nearly 50% from the second quarter.

Mobile discrete GPU unit shipments also increased from the second quarter as new design wins entered production. And earlier today, Apple announced a number of new iMacs powered by our Radeon GPUs. Included in the wins is the new 27-inch iMac with 5K retina resolution, which highlights the ongoing move to higher resolution displays. This trend plays well to our strengths in discrete GPUs.

And in the professional graphics market, we believe this remains an area where we see the opportunity for ongoing growth. In the third quarter, channel sales increased sequentially and we secured several new design wins with Dell and HP that will reach market early next year.

Now turning to the desktop processor and graphics performance in the quarter. Although we increased overall desktop processor unit shipments from the previous quarter, our performance in the component and graphics channel was weak. We saw sell-out momentum slow particularly in China and believe there was some downstream inventory build in the quarter causing our distributors to be more cautious managing their inventories.

We are committed to these markets and have started taking actions in conjunction with our channel partners to improve sell-through in the coming quarters. Now let me turn to some of my initial priorities and our strategic actions.

As I said on our call last week, the strategy we outlined two years ago remains the right one for AMD. But to strengthen AMD and better position us for success, we must take some targeted restructuring actions to align our investments in resources with our highest priority opportunities. These actions are not about how we manage the business in the short-term, but about how we re-engineer the company for the long-term and position both of our Computing and Graphics and Enterprise, Embedded and Semi-Custom segments for profitability and growth.

As part of the plan, you will see us continue to invest in the talent and skills required to develop our world class technologies and products as well as add new skills in areas like software and application engineering that will help us drive into new markets. While we will protect our engineering investments, we will also take the opportunity to streamline parts of the organization to better align them with our highest priority opportunities. Reducing head count is never easy but these actions will enable us to become a stronger and more nimble company.

In summary, as I step into the role as CEO, I firmly believe we're one of the few companies with the market position and capabilities to deliver world class technologies and great products that will lead the industry forward.

My near-term priorities are very clear. First and foremost, we will focus our energy on delivering great products. We will also ensure that we continue to deepen our customer relationships and continue to simplify and streamline our organization.

We have a unique opportunity in front of us and I'm very much looking forward to the future. Now I'd like to turn the call over to Devinder to provide some additional color on our third quarter financial performance, fourth quarter guidance, and details of our transformation plan. Devinder?

Devinder Kumar
Chief Financial Officer, Senior Vice President

Thank you, Lisa, and good afternoon to all those listening in today. We continue to make progress on our strategic transformation and delivered non-GAAP profitability for the fifth straight quarter despite a weak consumer PC environment. We manage operating expense, reduce inventory and shipped record quarterly semi-custom SoCs. Now, let me cover the specifics of the third quarter.

Revenue was $1.43 billion, flat sequentially and down 2% year-over-year primarily driven by lower chipset and GPU sales, partially offset by increased sales of semi-custom SoCs. Third quarter revenue included $27 million related to the licensing of technology.

Gross margin was 35%, flat from the prior quarter and included $27 million or a 2% benefit from revenue related to licensing technology.

Non-GAAP operating expenses in the third quarter were $428 million, down $3 million from the prior quarter. For the fifth quarter in a row, non-GAAP operating expense to revenue ratio was 30% or better. Non-GAAP operating income was $66 million and non-GAAP net income was $20 million with non-GAAP earnings per share of $0.03 calculated using 785 million diluted shares. Third quarter non-GAAP earnings per share excludes amortization of acquired intangible assets of $3 million.

Interest expense, taxes and other expenses were $46 million in the quarter. During the quarter, AMD entered into interest rate swap transactions. These transactions effectively converted $250 million of AMD's fixed rate, 6.75 senior notes due 2019 to a variable interest rate. Based on current interest rates, we anticipate quarterly interest savings from these transactions to be approximately $1 million beginning in the fourth quarter of 2014. The remaining $250 million portion of AMD's 6.75% 2019 debt as well as all the other term debt on the balance sheet has a weighted average fixed interest rate of 7.1%.

Adjusted EBITDA was $133 million, down $4 million from the prior quarter, and for the trailing four quarters, adjusted EBITDA was $574 million.

Now, turning to the business segments. Computing and Graphics revenue was $781 million, down 6% sequentially primarily due to lower chipset and GPU sales. Computing and Graphics operating loss was $17 million compared to a $6 million loss in the prior quarter. This was driven primarily by lower revenue.

Enterprise, Embedded and Semi-Custom revenue was $648 million, up $35 million or 6% from the prior quarter primarily due to an increase in sales of our semi-custom SoCs.

Operating income was $108 million, up from $97 million in the prior quarter primarily driven by higher sales of our semi-custom SoCs.

Turning to balance sheet. Our cash, cash equivalents and marketable securities balance totaled $938 million at the end of the quarter, essentially flat from the prior quarter. Inventory was $897 million, down $63 million or 7% from the prior quarter. We remain focused on maintaining appropriate levels of inventory and plan to manage inventory levels down again in the fourth quarter.

Debt as of the end of the quarter was $2.2 billion. Accounts payable at the end of the third quarter was $498 million, down slightly from $511 million in the second quarter. We had negative free cash flow of $11 million in Q3 2014, an improvement of $40 million from the prior quarter.

As Lisa stated in her opening remarks, we are working to build a stronger and diversified company as we continue our strategic transformation. We are ensuring we have the right resources deployed in concert with the evolution of our business model as we rightsize and strengthen our Computing and Graphics segment resources in line with the market realities of today and further invest in our Enterprise, Embedded and Semi-Custom segment focused on our growth opportunities.

To that end, we are taking actions and implementing operational efficiencies while also reducing head count and further streamlining our global real estate assets. We expect to reduce our workforce by approximately 7% with the majority of actions completed by the end of the fourth quarter.

We anticipate aligning our real estate footprint starting in the fourth quarter and continuing into the first half of 2015. Associated with these actions, we expect to record restructuring and impairment charges of approximately $57 million in the fourth quarter of 2014 consisting primarily of severance-related charges and approximately $13 million in the first half of 2015 primarily related to real estate actions.

We expect to make cash payments of approximately $34 million in the fourth quarter of 2014 and approximately $20 million in the first half of 2015 associated with these actions.

Based on these actions, we anticipate operational savings primarily in operating expenses of approximately $9 million in the fourth quarter of 2014 and approximately $85 million in 2015.

Now, turning to the outlook and guidance for the fourth quarter of 2014. AMD expects revenue to decrease 13% sequentially, plus or minus 3%, due to lower Semi-Custom revenue and a weak consumer PC environment. Gross margin is expected to be approximately 35%. Non-GAAP operating expenses are expected to be approximately $385 million, below our prior 2015 quarterly operating expense guidance range of approximately $420 million to $450 million in line with expected revenue and savings from our restructuring and transformation initiatives.

Interest expense and other to be approximately $46 million. Inventories expected to decrease from third quarter levels. And finally, free cash flow is expected to be positive in the fourth quarter and for the full year 2014 negative in the range of $200 million to $250 million including the impact of the $200 million special payment to GLOBALFOUNDRIES earlier this year.

In summary, while there is more work to be done as we continue our transformation journey, we are positioning AMD to execute our current set of strategic transformation priorities while focusing on sustainable profitability and driving enhanced returns for our shareholders.

With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter
Senior Manager-Investor Relations

Thank you, Devinder. Operator, we'd be happy for you to poll the audience for questions, please?

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question comes from Vivek Arya from Bank of America Merrill Lynch. Please go ahead.

Vivek Arya Q
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Thank you for taking my question, and, Lisa, congratulations and good luck in your new role. My question is on the restructuring that you're doing. Which areas will you de-prioritize given this restructuring? Do you think you can afford to focus on the same number of markets or is it time to narrow the focus?

Lisa T. Su A
President and Chief Executive Officer

Thank you, Vivek, for the question and for the kind thoughts. Relative to the restructuring, we have been looking at all of our markets across the company and all of the things that we do both from an engineering side and a go-to-market side.

From this standpoint, we are very much protecting the key engineering skills and the key engineering investments. But as we look across our businesses and as we diversify from being a pure PC company into a much more diversified business, and we found opportunities to streamline particularly on the Computing and Graphics side as we look at our go-to-market and our infrastructure around that.

So as always, I think it's difficult to take these actions, but these will certainly be important steps to help us simplify and operate more efficiently.

Vivek Arya Q
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Got it. And as a follow-up, I understand the semi-custom wins should start helping you in 2016 and maybe it's a little early to talk about 2015, but I'm just curious that if the semi-custom only hits from 2016, what happens in 2015 as you continue to see a somewhat sluggish PC and graphics market? How are you managing the – how do you plan to manage the business in that timeframe? And maybe as part B of that question for Devinder, are there any implications if the market – PC and graphics market stays the way it is, are there any implications on your wafer supply agreement with GLOBALFOUNDRIES? Thank you.

Lisa T. Su
President and Chief Executive Officer

A

Yeah. Let me take the first part of that, Vivek; and Devinder, will take the second part. So relative to how we're managing the business, I mean, certainly, if you look at it, we've been very focused on improving the operational performance of the business. I think we've made strong progress in 2014. And we will continue to do that in the coming years.

In terms of the markets that we're in, the semi-custom wins are exciting and important for us. They're part of our long-term growth strategy. We also have growth that we highlighted in embedded and professional graphics and some of our other growth markets.

And in the traditional PC market, the key areas for us are really changing the mix of the product and focusing on the places where we're more differentiated. So commercial is an early start for us and we're starting from a low base, but we have seen progress there, and we expect that into 2015 as well as well as some of the work that we're doing in the graphics space like you saw with the Apple win today.

So again, I think from an overall market standpoint, we know where to focus and we're going to continue focusing on those areas that play to our differentiation.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Thank you, Lisa. Vivek, good question on the business. I think what you have seen, even over the last couple of years as we had the difficulties in the 2012 timeframe, that we have shown the ability to manage the business in line with revenue to manage the operating expenses, focus on the areas that Lisa talked about as priorities, and continue to diversify our revenue; but at the same time, making sure that we protect our investments in the core IP and technologies, which is really going to fuel the future growth and long-term profitability of the company.

Your question on GLOBALFOUNDRIES and whether from an inventory standpoint we are on track. Very much on track as we end the third quarter here. And as I said in the prepared remarks, we'll be on track to meet those obligations, inventories down Q2 to Q3, and I expect it to be down in Q4 despite the lower revenue between Q3 and Q4.

Vivek Arya
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from Mark Lipacis from Jefferies. Please go ahead.

Mark J. Lipacis
Jefferies LLC

Q

Thanks for taking my question. Devinder, maybe for you, a couple of the income statement questions. The 13% decline that you expect for next quarter, do you – you mentioned, I think, Computing and Embedded business both declining. Is that split evenly between the two? Is it both business you expect to decline about that much, or will it be weighted one or the other? And when you look at your OpEx savings you expect of $85 million next year, is that $21 million a quarter, or does that kind of ramp through the year, and you exit the year something higher than that?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

The first question, I think if you ask me overall from a viewpoint of the decline of 13%, given the peak quarter that we had in semi-custom, it's weighted towards the semi-custom. So as you look at our segment reporting we just changed effective this quarter Computing and Graphics and the Embedded, Enterprise and Semi-Custom I would say that the decline quarter-on-quarter is more weighted towards the EESC segment as for the Computing and Graphics.

Mark J. Lipacis
Jefferies LLC

Q

Okay that...

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

And as far as the OpEx is concerned, I can share with you Q4. I'll tell you that in Q4 – as you look at Q3 to Q4, the decline in OpEx is about $40 million plus. Some of it comes from the transformation initiatives that we've been working on. Lisa talked about simplification of our structures within the company, getting closer to the customer. We also have actions that we took today and that's going to save about $9 million within the quarter. We had some product tape outs in Q3 that don't repeat in Q4. That's some savings.

And overall, we've been very focused on managing the OpEx in line with our revenue expectations and revenue profile and that is where the rest of the savings are coming from.

Mark J. Lipacis
Jefferies LLC

Q

So the...

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

You try to get – sorry, Mark. You tried to get into 2015 and maybe asked a question about that, but I'm not prepared to get into the 2015 discussion at that point. We can have a little bit more of a discussion about 2015 when we come to the Q4 earnings call in January.

Mark J. Lipacis
Jefferies LLC

Q

Okay. Fair enough. And then if I may, one more on the Computing side. In 2013 the Computing business was running around $900 million a quarter and this year it was $800 million a quarter. So it's running lower than that exiting this year. And given, Lisa, that you seem to be streamlining more on the Computing side, should we think about this business as being an ex-growth business or a low double-digit growth or a low double-digit -sorry, low single-digit growth or low single-digit decline business? Thank you.

Lisa T. Su
President and Chief Executive Officer

A

Yeah. So, Mark, to your question on the Computing and Graphics segment, look, it's a very important business for us. I think it's a little early to talk about longer term guidance for the business. Clearly, our goal is to strengthen it and improve its profitability particularly in the couple of areas that I talked about earlier.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

And I'll add, Mark. I think you talked about the numbers in terms of the revenue ranges in 2013 and 2014. You're exactly right. If you look at the details that we have provided whereby we have not only provided the new segment information for Q3 of 2014 but also recast the historical data, Computing and Graphics on the one hand and Enterprise, Embedded and Semi-Custom on the other.

And if you go look at the year-to-date numbers 2013 nine months versus 2014 nine months, the revenue is down as you observed from the $900 million plus to the $800 million plus, 13% down. But the losses – there were losses in the first three quarters of 2013, was close to about $19 million and if you add up the last three quarters of 2014, it's more in the $20 million range.

So we have improved the financial performance. And the actions that we are taking today and the focus that we are bringing in the Computing and Graphics business is obviously focused on continuing to improve the financial performance in line with whatever revenue expectations they are.

Mark J. Lipacis
Jefferies LLC

Q

Fair point. Thank you, Devinder.

Operator: Our next question comes from David Wong of Wells Fargo. Please go ahead.

David M. Wong
Wells Fargo Securities LLC

Q

Thanks very much. Devinder, do any of the restructuring actions that you're planning bringing cash into AMD? For example, might you get any meaningful accounts – amounts of cash from real estate to other asset sales?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

They might, David. They might. I think some of the restructuring actions as I talked in the prepared remarks are 2015 first half. And as you can imagine, most of the assets, in our case, we don't own the assets, but there are some that we own. Those projects are in flight, too early to tell whether they bring in a cash and how much they bring in, but at least we quantify it, in terms of the first half of 2014 what the actions would be of getting out of the space, because we know what the obligations are, whether they're sitting on our balance sheet or the lease expenses.

So too early to tell. And I think as we get to the 2015 timeframe, because the head count actions have to be taken before we can act on the real estate part, as you can imagine. So it'll be in the 2015 timeframe that I'll be able to share more detail on that.

David M. Wong
Wells Fargo Securities LLC

Q

Okay, great. And Lisa you have touched on this, but just ask the questions explicitly, will the restructuring involve discontinuing future development of any specific product line that you know about at the moment?

Lisa T. Su
President and Chief Executive Officer

A

Yeah, David. I think it's really around streamlining our investments and ensuring that we're on the highest growth opportunities. So relative to discontinuing a particular product line, we are not discontinuing a product line at this time.

David M. Wong
Wells Fargo Securities LLC

Q

Great. Thanks so much.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Thanks, David.

Operator: Our next question comes from Hans Mosesmann from Raymond James. Please go ahead.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Thank you. Lisa, can you comment about your larger competitor talking about normal seasonality going into the end of the year? You're saying that there's significant consumer weakness. What's driving the different view of the markets? And are you just losing market share?

Lisa T. Su
President and Chief Executive Officer

A

Sure, Hans. So I think the way to think about the market, because when we look at the market, there is certain segmentation. So when we look overall, clearly the strength in the PC market has been around commercial, primarily. When we look at consumer, it's still choppy and we see – it's weak and there is a competitive dynamic in there.

From our standpoint, we tend to have more exposure to some of the emerging geographies, particularly in the channel. And so we are seeing some weakness in China and the emerging geographies.

Relative to our MNC business or the large OEMs, I think that business is relatively as expected. So I think it's our view, our segmentation in the PC market is different from our competitors'. And if you look at normal seasonality, I think Q4 is usually a high sell-out quarter. But from a sell-in standpoint, it is typically a little bit down.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay, thank you. And if I can follow up with one more. Your competitor on the tablet side has a very ambitious and aggressive strategy and they're, in some cases, perhaps giving away these chips for free in tablets. Is that impacting, perhaps, some part of your business, maybe at the low end of the consumer PC market?

Lisa T. Su
President and Chief Executive Officer

A

Yeah, Hans. We've discussed this a little bit before. I think it is definitely true that there are some aggressive competitive dynamics, particularly in the low end. A couple of quarters ago we made a decision about how we're managing that. We are certainly competing in the low end, but we are not going after business that's not profitable.

And so if you look at the mix of our business, you see our ASPs up in mobile. And the reason for that is we're actually making good progress at the higher end of the product stack; and at the very, very low end, we're choosing not to go after bad business.

Hans C. Mosesmann
Raymond James & Associates, Inc.

Q

Okay. Fair enough. Thank you.

Lisa T. Su
President and Chief Executive Officer

A

Thanks, Hans.

Operator: Our next question comes from JoAnne Feeney of ABR Investment Strategy. Please go ahead.

JoAnne Feeney
ABR Investment Strategy LLC

Q

Yeah, thanks for taking my question. And again, welcome, Lisa, to your first earnings call. I was hoping if you could give us a little bit more detail on the graphics business, particularly the consumer graphics business, how that works out for you in the third quarter and what you're seeing into the fourth. Because typically the fourth is a bit seasonally stronger. Wondering if that's what you're seeing, or if the new offerings out by your competitor have given you a more cautious outlook on this quarter.

Lisa T. Su
President and Chief Executive Officer

A

Sure, JoAnne, thanks for the question. So overall in graphics, I think we've made progress in certain segments of the graphics market, certainly in mobile for sure. And you see that with some of our OEM wins as well as the recent announcements.

On the AIB channel it has been a little bit weak for us. And if you recall, AIB started in the first quarter very strong around cryptocurrency. And then as we went into the second quarter and with some of the market dynamics there, it was weaker.

Relative to the competitive environment, I would agree that Q4 tends to be a stronger seasonal quarter for our graphics as we go into the holiday season. We've certainly adjusted to some of the competitive dynamics and we have made some positioning changes as well as some new marketing activities that you will see from us in the fourth quarter.

JoAnne Feeney
ABR Investment Strategy LLC

Q

So does that suggest that you're looking it, for it to be up or to be down in terms of consumer graphics in the fourth quarter?

Lisa T. Su
President and Chief Executive Officer

A

Well, when we look overall at the CG business, we've said that it will be down. I think there are certain segments within the business that will be up based on the seasonality.

JoAnne Feeney
ABR Investment Strategy LLC

Q

Okay. And then, Devinder, curious about your latest move with the interest swaps. Obviously, it's a benefit shorter-term to switch to variable interest rates for that $250 million, but it seems like you're taking a risk here with the U.S. economy at least improving, that interest rate will be going up. And if I heard you correctly, you don't get a benefit from that until the end of the 2015 year. So do you plan to be able to pay that back before that risk really becomes a concern? Or are you assuming that these market interest rates are simply going to stay low for long enough for you to pay it back eventually?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Well, yeah – thank you, JoAnne. That's a good question. I think overall from the way we have crafted the swap, interest rate swap transaction, there is a benefit at the way we've set it up to the tune of about $1 million a quarter. And what you talked about, the increased interest rates from some standpoint there is no risk there for the life of the debt that we have on the balance sheet for $250 million of the fixed rate that we have on the 2019. We have essentially swapped that out and there is some hedging that gets into place. I can get into the details offline with you to go ahead and explain to you how it works and the confidence level that we have from a viewpoint of where we sit with that particular debt transaction.

JoAnne Feeney
ABR Investment Strategy LLC

Q

Okay. That would be great. And then if I could sneak in one last question. With your reorganization of the two segments, I was hoping perhaps you could give a sense of how gross margins compare across those segments and also how perhaps operating expenses compare? The Compute and Graphics segment obviously showing losses for most of the last eight quarters – sorry, most of the last five quarters or six quarters, I'm wondering whether that's attributable to gross margin difference or if it's really the R&D expense on the C&G side that's driving that and where you think that's going to go over time?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

I think it's a combination of factors. So I am not going to provide, JoAnne, unfortunately, granularity from a gross margin and a segment level. We do share the revenue and the operating income. The thing that you probably know based on the business model for the semi-custom in particular, we have been clear that that is below the corporate average from a gross margin standpoint. But that's where you get a benefit from the [ph] NRE (36:38) model of how products are designed together with the customers, how we get the funding for those products, and then when we go to silicon production.

There are no sales and marketing dollars. There's a little bit of R&D on an ongoing basis and the G&A is essentially a fixed cost. So if you scale the revenue, the operating margin benefits. And that's why you have seen the results as you observed for the EESC segment whereby there's profitability at the 15%, 16%, 17% of operating income level.

As far as the computing and graphics, you are right. If you look back the last five quarters, two of the five quarters we made money and three quarters we lost money. Revenue is down as the previous question observed. And that's what we are doing in terms of managing for long-term profitability at the company level and redistributing the resources and redeploying resources potentially from one segment to another; but by the same token, managing them in line with the revenue expectations for the future.

JoAnne Feeney
ABR Investment Strategy LLC

Q

That's helpful. A quick follow-up to that. Just wondering whether there is room in the C&G segment to make the kinds of cuts you need to make to turn that profitable, or if the competitive pressure you're under is constraining your prices so much, and the demands on the research side are so much that you're really in a difficult spot to cut those costs and raise that operating profit. Can you speak to how you would get that done?

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Yeah, I can address that and allow Lisa to address how we are – this is very methodical. I think you probably recall and maybe that's what you're referring to. A couple of years ago when the PC market went down pretty dramatically in the 2012 timeframe, we did a reset restructure. And I would say having participated in both of those at the CFO level, those were more across the board. But these are very targeted, very methodical protecting the core technology, as I talked about, and making sure that we do not, in any way, disrupt the future technology, and making sure that the long-term growth at the company-level is assured protecting the technology.

Lisa, you want to comment on that?

Lisa T. Su
President and Chief Executive Officer

A

Yes. JoAnne, this is a really important point. So when you look at our strategy and the model that we are trying to build, it really is around developing leadership IP, that core CPU and graphics IP, it's actually used across both segments. And that's very critical and it's being entirely protected in this restructuring action.

When we look specifically in the Computing and Graphics business, relative to the overall infrastructure that was built around these two businesses, the businesses are smaller than they were before. And so there is significant opportunity to streamline how we operate, how we go to market and just the overall infrastructure that we have.

So from an R&D standpoint, very clear that those are the most important investments and ones that will fuel long-term growth in both segments. And so those will continue. And we do believe that there is opportunity to streamline in the operations side.

JoAnne Feeney
ABR Investment Strategy LLC

Q

Okay. Thanks for the help.

Devinder Kumar
Chief Financial Officer, Senior Vice President

A

Good luck.

Lisa T. Su
President and Chief Executive Officer

A

Thanks, JoAnne.

Operator: Our next question comes from Ian Ing from MKM Partners. Please go ahead.

Ian L. Ing
MKM Partners LLC

Q

Yeah, thanks a lot. First question is in GPU inventories. It looks like the AIBs aren't really reselling or refurbishing their returns. It looks like they don't want to put excess product into the market. So I read the filings, are there any implications on price protections as the AIBs try to monetize their inventory?

Lisa T. Su
President and Chief Executive Officer

A

Yeah. Maybe I'll start with that, Ian. So really relative to the AIBs, we work closely, very closely with all the channel partners. I did mention that there is some – there was some cautiousness in the distribution channel as we were going through the third quarter. Part of that was just the new products from both ourselves as well as from our competitor. We see that fourth quarter is typically a stronger quarter for the AIB channel, and we would expect that the distributors will have the inventory on hand necessary for the holiday season.

Ian L. Ing
MKM Partners LLC

Q

But there's not an excess level of price protections at the moment, then?

Lisa T. Su
President and Chief Executive Officer

A

There's nothing unusual.

Ian L. Ing
MKM Partners LLC

Q

Okay. Great. And then, Lisa, more of a high-level question. So now that you're the CEO of AMD, I mean what should we think of as your imprint on the company if the strategy is not changing too much? Is it really executing to the product road maps? Is there any sort of senior management you'd like to bring on board to help meet your goals?

Lisa T. Su
President and Chief Executive Officer

A

Well, I think, Ian, thanks for that question. The strategy is something that I believe very much in. It's something that we put together as a leadership team and it really is about taking the technology assets that we have as a company and applying them to higher growth segments. So at a high level, that is absolutely what we're doing.

Now, relative to what I would like to do, I am really going to focus on the leadership products and differentiation. I mean that is the core of what I think will make us successful as a company as well as our deeper customer relationships and the simplification we've talked about. I think there's a lot of opportunity here. This is a multiyear transformation that we're going through, but relative to some of the technology bets that we're making, they will pay off in the next couple of years. So I think you'll see perhaps a little bit more focus on the technology and the products.

Ian L. Ing
MKM Partners LLC

Q

Okay. Thanks so much.

Operator: Our next question comes from Christopher Roland from FBR Capital Markets. Please go ahead.

Christopher Rolland
FBR Capital Markets & Co.

Q

Hey, guys, thanks for the question, and Lisa, congrats again. Looking forward to seeing your changes at AMD. First, Fairchild, I apologize, we're in the middle of a fire drill. Fairchild said today that Microsoft really had ordered all their components ahead of 4Q, that build and that they really weren't reordering. So APUs might be a different story here, I understand that, but are there any sort of shadows in the story there? Are you seeing a pretty marked sort of decrease in builds in 4Q? Thanks.

Lisa T. Su
President and Chief Executive Officer

A

Thanks for the question, Chris. So relative to Microsoft, or actually the game console customers, our lead times are fairly long for the APUs. And so we synchronize our forecasts with the customer forecasts in that time period. So we don't see anything unusual. I think our expectations for the fourth quarter are very much in line with the customer demands.

Christopher Rolland
FBR Capital Markets & Co.

Q

Okay. Great. And then also, if we could talk about the Bitcoin mining situation, I guess you guys said you thought that that was going to be a one-quarter event. Basically, we're sort of wondering here, we do see some channel inventory out there, some parts on eBay and stuff like that in the gray market. Would you say that you guys are still through that or would you say that there's maybe a few more quarters to go here?

Lisa T. Su
President and Chief Executive Officer

A

Yeah, I think, Chris, if I just take the overall channel, both the desktop and GPU channel, I think there's some dynamics in there. I think the Bitcoin or the crypto currency thing really started in the second quarter, flowed through the third quarter. There were some used or second-hand cards that were out there in the market. I would say that what we're looking at now is really working through some of the product positioning as we go into the fourth quarter. So with most channel inventory issues, it does take a couple quarters to work through, and we are working through those. But I think relative to the crypto currency, I think that's lesser of a factor at this point in time.

Christopher Rolland
FBR Capital Markets & Co.

Q

Okay. Great. And thanks and congrats, again.

Lisa T. Su
President and Chief Executive Officer

A

Thanks, Chris.

Operator: Our next question comes from Matt Ramsay of Canaccord Genuity. Please go ahead.

Matt D. Ramsay
Canaccord Genuity, Inc.
Q

Yes. Thank you. Lisa, I want to ask a quick question about sort of the boundary side with 14 nanometer launching from your competitor. You guys are in a position now for period of time where some products could be a couple [ph] of nodes (45:06) behind. I just want to comment on how that's affecting you when you interface with customers and partners, and how you think that sets you up in a competitive position for the next several quarters until that gets launched at your foundry partner?

Lisa T. Su
President and Chief Executive Officer
A

Sure, Matt. So on the technology side, it's certainly important and we are doing active designs in FinFET for sure. From our product differentiation standpoint though, if you look at the APUs, it tends to be more of an architectural statement versus a process technology statement. So with our launch of Kaveri and the amount of compute cores that we have on Kaveri, I think that's something that has been attractive to the market. And as we go into our next generation APUs in 2015, they will have added features and functions, some of our heterogeneous software architecture as well. So I think the net of it is clearly the technology's important. And we're designing in FinFETs, and they're going to be an important node for us as we go forward. But there are many things that we're doing on the architectural and power management side to ensure that we provide differentiated products.

Matt D. Ramsay
Canaccord Genuity, Inc.
Q

All right. Great. And then as a follow-up, you've talked about the gaming business being down in 4Q, which you had talked about last quarter. And I think the stance, obviously it's too early to guide a lot of things for next year, but I think the stance the company has taken as distribution of the gaming console sort of ramped from your partners there, that that business should grow on a year-over-year basis next year. Maybe you could talk to the detail that you can about what can we expect in the gaming business for seasonality in Q1? And what next year looks like on an annualized basis and the fact that the new wins that you just got are 2016 revenues. Thanks.

Lisa T. Su
President and Chief Executive Officer
A

Yes. Okay. So let me try to frame it in this way. It is a little bit early to talk about 2015 revenue and units. What I will say is that from what we see, the game console business looks strong. We just had one of our partners, Microsoft launch in China and that looked like it was successful. I think everything that we see is just shaping up to be a solid holiday season. Relative to 2015 seasonality, it is a consumer business, and so we would expect that the first half would be lower than the second half. And we'll have to see how all of that shakes out through this holiday season.

Matt D. Ramsay
Canaccord Genuity, Inc.
Q

Thanks very much.

Lisa T. Su
President and Chief Executive Officer
A

Thank you.

Operator: Our next question comes from Kevin Cassidy of Stifel, Nicolaus. Please go ahead.

Dean Grumlose
Stifel, Nicolaus & Co., Inc.
Q

Hi. This is Dean Grumlose calling in for Kevin. Thank you very much for taking my call. But could you comment on your traction in professional and server GPU markets?

Lisa T. Su
President and Chief Executive Officer
A

Sure. So the professional graphics market is important to us. I think in this quarter we've certainly improved in the channels. And we had some quarter-over-quarter growth in the channel and professional graphics as well as some new design wins from several of the large OEMs. I think, in general, professional graphics is a longer sell cycle than some of the consumer graphics. And so we're spending quite a bit of effort in both business development and software and ISV development to ensure that we grow that business on a go-forward basis.

Dean Grumlose
Stifel, Nicolaus & Co., Inc.
Q

And as a follow-up, going forward, what do you view as your key differentiating advantages in various GTU markets?

Lisa T. Su
President and Chief Executive Officer
A

Again, I think on the graphics side, it is about graphics performance, performance per watt and compute capabilities. So there is certainly a competitive market. But from our standpoint, I think we have very competitive products. And as we – as in professional graphics the ISV certifications are quite important, it's really about the investments in those ISV certifications.

Dean Grumlose
Stifel, Nicolaus & Co., Inc.
Q

Thank you very much.

Operator: Our next question comes from Srini Pajjuri from CLSA. Please go ahead.

Srini R. Pajjuri
CLSA Americas LLC
Q

Thank you. Lisa, just wondering the game console business as we look into the next year, when do your prices typically get reset. And also are you expecting any process node transitions in 2015? And in general I'm just trying to understand how I should think about the overall profitability versus this year assuming that the units are relatively flat?

Lisa T. Su
President and Chief Executive Officer
A

Sure. So the ASPs that we negotiate with the customers are negotiated in advance, so they are certainly booked into our business model. There are ASP declines year-on-year. And then relative – I'm sorry you said relative to operating profits. I think we will of course work very, very hard on ensuring that we get the cost reductions relative to the ASP reductions as well. So I think from an overall game console business we view it as a very strong business for us.

Srini R. Pajjuri
CLSA Americas LLC

Q

And are you expecting any process node migrations in this business?

Lisa T. Su
President and Chief Executive Officer

A

There will be process node migrations and we'll talk about them at the appropriate time.

Srini R. Pajjuri
CLSA Americas LLC

Q

Okay. Great. And then you mentioned the two new design wins that are expected around sometime in 2016. Is there a way to think about the overall opportunity relative to what you're getting from the semi-custom today?

Lisa T. Su
President and Chief Executive Officer

A

So, the two new semi-custom design wins that we talked about – relative opportunity around $1 billion over a three-year lifetime. The reason we really like these types of businesses obviously is because they're sticky. Once you win them, the recurring revenue is there. I view that there's quite a bit of opportunity for us in semi-custom. The pipeline is strong. It's across a variety of different markets and it's an area that we will continue to differentiate given our IP and SoC design capability.

Srini R. Pajjuri
CLSA Americas LLC

Q

Okay. And do you expect the margin profile and the profitability to look similar?

Lisa T. Su
President and Chief Executive Officer

A

So if you look at the overall business I think we would like to talk about the EESE business versus specific design wins. And the EESE business you can see has good profitability and we will continue to work on improving that.

Srini R. Pajjuri
CLSA Americas LLC

Q

Great. Thank you.

Ruth Cotter
Senior Manager-Investor Relations

A

Operator, we'd like to take two more questions, please.

Operator: Certainly. Our next question comes from Michael McConnell of Pacific Crest Securities. Please go ahead.

Michael C. McConnell
Pacific Crest Securities LLC

Q

Thank you. I just wanted to clarify on the graphics side with your sell-through commentary in the on-board markets and the inventory commentary. Is that a market issue or is that an AMD issue?

Lisa T. Su
President and Chief Executive Officer

A

So relative to the AIB channel I thought the commentary was the third quarter was slow. Some of that was m arket and some of that was the – sort of our product positioning. As we look into the fourth quarter, we think the market will be a normal quarter and certainly we view the opportunity to improve in the AIB channel.

Michael C. McConnell
Pacific Crest Securities LLC

Q

Okay. And then and you – just to clarify you did say channel inventory will be – you're expecting channel inventory overall for the market to be normalized by Q4?

Lisa T. Su
President and Chief Executive Officer

A

No. I think what we said was that there was nothing unusual in the channel inventory relative to the third quarter. The previous question was about whether the distributors would have enough inventory to support the fourth quarter. Relative to overall channel inventories, our goal is to normalize channel inventories over the next several quarters.

Michael C. McConnell
Pacific Crest Securities LLC

Q

Thanks for the clarification.

Operator: And our final question comes from Sanjay Chaurasia from Nomura. Please go ahead.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Oh. Hi, Lisa. I have a question on servers. As you have laid out your strategy and the fact you have moved servers into semi-custom business, could you talk about how would you defend my estimates more than $0.5 billion in server revenue? It does look like based on these cost cuts there's not much significant focus on improving x86 performance as it relates to servers. So what happens to this business? Is it defendable or does it continue to go down?

Lisa T. Su
President and Chief Executive Officer

A

Okay. So maybe let me talk about servers a bit more generally and we can clarify some of the specifics. From a general standpoint, the server market is a big large TAM so we are certainly interested in gro wing in servers. From where we are today, our product, our portfolio in x86 is several years old, and we are certainly looking at updating that over the next couple of years. And then as we look at the opportunity in server, particularly in dense server, I think there's an opportunity for both x86 and ARM, and so we're going after the newer markets in server versus some of the traditional enterprise.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Okay. And as a follow-up, if I exclude your gaming business in semi-custom, what would be the mix of x86 and ARM in your semi-custom design wins? And also, the two new design wins you talked about, are these x86-based or ARM-based?

Lisa T. Su
President and Chief Executive Officer

A

So if you're asking about the semi-custom revenue today, the semi-custom revenue today is all x86-based. As we move forward, we believe ARM will become more important in that business. And then specific to the two new semi-custom opportunities, one of them is in ARM and one is in x86.

Sanjay Chaurasia
Nomura Securities International, Inc.

Q

Thank you so much.

Lisa T. Su
President and Chief Executive Officer

A

Thank you.

Ruth Cotter
Senior Manager-Investor Relations

Operator, thank you. That concludes today's call. If you could wrap it up, we'd appreciate it. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your attendance. You may now disconnect. Everyone, have a great day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2014 Earnings Call for 16-October-2014 5:30 PM ET
Thursday, September 18, 2014 09:12:04 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2014 Earnings Call for 16-October-2014 5:30 PM ET.

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Corrected Transcript

17-Jul-2014

Advanced Micro Devices, Inc. (AMD)

Q2 2014 Earnings Call

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Lisa T. Su
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Thank you for standing by. And welcome to the Advanced Micro Devices Q2 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference to our host, Ms. Ruth Cotter, Corporate Vice President of Investor Relations.

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's second quarter earnings conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com. Speakers on today's conference call are Rory Read, our President and Chief Executive Officer, and Devinder Kumar, our Senior Vice President and Chief Financial Officer. Lisa Su, our Senior Vice President and Chief Operating Officer, will be present for the Q&A portion of the call.

This is a live call and will be replayed via webcast on amd.com. I'd like to take the opportunity to highlight a few dates for you. Devinder Kumar will attend the Jefferies' Semiconductor, Hardware, and Communications Infrastructure Summit on August 27 in Chicago. Rory Read will attend the Deutsche Bank Technology Conference on September 9 in Las Vegas. Our third quarter quiet time will begin at the close of business on Friday, September 12. And lastly, we intend to announce third quarter earnings on October 16.

Please note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary posted on our website at quarterlyearnings.amd.com.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Please refer to the cautionary statements in today's press earnings release and CFO commentary for more information.

You'll also find detailed discussions around our risk factors in our filings with the SEC and, in particular, AMD's quarterly report on Form 10-Q for the quarter ended March 29, 2014.

Now with that, I'll hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. The second quarter capped off a solid first half of the year for AMD. We have made significant progress in transforming our company. This was highlighted by our second quarter results, including revenue of $1.44 billion, an increase of 24% from the year-ago period, and non-GAAP EPS of $0.02, an improvement of $0.11

compared to the same period last year. We are clearly executing our strategy, building a stronger AMD business model, and enhancing our ability to deliver consistent performance.

We have diligently managed expense, and lowered our cost structure, significantly reducing operating expense, while strategically investing in innovations that will fuel our future growth. At the same time, we have relentlessly focused on improving and consistently executing, hitting our key product milestones, and ensuring we deliver on our commitments to our customers. We have improved our balance sheet by re-profiling debt at lower rates, which we expect will reduce our interest expense with no significant debt coming due until 2019.

We have driven our AMD leadership processing and graphics technology into new markets, and we are currently on track to generate approximately 40% of our revenue from these high-growth markets for the full year 2014, and we also remain on track to deliver 50% of our revenue from these high-growth markets by year-end 2015. As a result, for the first six months of 2014, AMD's revenue increased 26%, and our non-GAAP EPS improved by $0.26, compared to the first half of 2013. We have now delivered four consecutive quarters of non-GAAP profitability, and we remain on track to deliver on our commitment of non-GAAP profitability and revenue growth for the full year 2014.

Now let's turn our attention to our business achievements in the second quarter. Semi-custom SoC shipments increased from the prior quarter as we continued to see strong demand for AMD-powered game consoles. We had record semi-custom unit shipments in the second quarter, and we expect to continue to ramp shipments into the third quarter, our peak quarter, as Microsoft and Sony prepare for the holiday cycle.

In our embedded business, revenue increased by double-digit percentage from the previous quarter, as new design wins started to ramp in this key growth market. We launched several new products in the quarter, and announced wins with HP's thin clients, as well as Boeing's next-generation advanced cockpit display systems, to name just a few. Most importantly, looking at our embedded pipeline, our design win momentum accelerated in the first half of this year across our key target markets of thin client, gaming, and industrial controls.

In our professional graphics business, unit shipments increased significantly from the prior period as we continued to grow our FirePro business with Apple, Dell, and HP. We look forward to driving even more share gains in this margin accretive market.

In our dense server business, first half 2014 revenues more than doubled compared to the year-ago period, and we are actively sampling Seattle, the industry's first 28-nanometer, 64-bit ARM server processor, and remain on track for launch in the fourth quarter.

Now let's turn to the PC market. The overall PC market has shown signs of improvement, largely driven by the commercial refresh cycles. However, the consumer market remains under pressure, and we expect the overall PC market is going to continue to be down by 5% to 7% for the year 2014. In the second quarter, AMD's overall microprocessor unit shipments increased sequentially for the first time in four quarters, driven by the introduction of new notebooks from Acer, Dell, HP, Lenovo and others, powered by our latest Beema and Kaveri APUs. We also launched AMD's PRO A-Series APU in the quarter and remain on track to more than double the number of AMD-based commercial offerings available by the end of the year.

HP has already announced a full range of Elite commercial offerings powered by AMD, and additional OEMs will begin rolling out AMD-powered commercial offerings this quarter. In the desktop space, demand for our desktop APUs was strong from our OEMs. However, the desktop component channel was softer than we expected. We believe that with the expansion of our A-Series APU portfolio and continued ramp of our first low-powered socketed desktop APU, this business will strengthen over the coming quarters.

Overall, we saw the first sequential revenue increase for our Computing Solutions segment in four quarters. Our PC strategy remains focused on delivering profitability by diversifying into the commercial, stabilizing the overall PC business, and leveraging the channel to deliver profitability.

Now, let's turn to graphics. In graphics, we saw a strong growth in our notebook GPUs as OEM design wins began to ramp in the quarter. This was offset by a decline for our enthusiast class offerings in the AIB channel as demand from cryptocurrency miners abated. We expect to increase GPU shipments this quarter as market pricing for our R7 and R9 offerings become more consistent, and as we head into what is typically the stronger second half of the year for GPUs. Regaining graphics market share remains a priority, and we are confident that our products, go-to-market programs, and design wins can drive gains throughout the coming quarters.

Today, we're more than halfway through our three-step transformational strategy. I'm pleased with the progress that we have made, as shown by the significant turnaround in our results, and our strong continued momentum. We still have more work to do. In the second half of the year, we are focusing on delivering non-GAAP profitability in 2014 and full-year revenue growth by continuing the following: the ongoing ramp of our semi-custom SoCs to meet the strong game console demand; driving sales for the expanded number of design wins we have secured in the commercial space, which is clearly the strongest performing part of the PC market; return to growth in our channel business and gain share in discrete graphics; and continue growth in the embedded and professional graphics markets, and securing additional design wins.

We also remain on track to secure one to two additional semi-custom design wins that will help accelerate our transformation throughout the coming years.

So, in summary, we're demonstrating that our three-step transformation is driving solid progress and results at AMD. To help drive continued success in the next phase of our transformation, last month, we realigned several internal functions to create a single market-focused team designed to strengthen our traditional PC business, and drive future growth in adjacent markets where our leadership IP provides AMD with a competitive advantage.

We appointed Lisa Su as Chief Operating Officer to lead this new organization, and she will oversee daily operations of our product roadmap strategy and execution to help drive long-term growth.

Our three-step transformation will take us through 2015, at which time a different AMD will have a diversified portfolio, consistent execution, and our next-generation technology which will take us to the next phase.

Our strategy is working, and we look forward to updating you on our progress and success as we forge ahead.

With that, let me turn the call over to Devinder. Devinder?

Devinder Kumar

Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory, and good afternoon to all those listening in today. We had good financial performance in the second quarter, capping off a solid first half of 2014. We grew revenue sequentially, and realized our fourth straight quarter of non-GAAP net income. We also continued to make progress on our strategy to transform AMD and saw traction in our growth businesses, as evidenced by the strong performance of our semi-custom professional graphics and embedded products.

Turning to the specifics for the second quarter, revenue was $1.44 billion, up 3% sequentially, driven primarily by strong sales of our semi-custom SoC and notebook offerings and up 24% year-over-year, primarily driven by strong sales of our semi-custom SoCs offerings.

Gross margin was 35%, flat from the prior quarter despite higher semi-custom SOC sales, which have a lower than corporate average gross margin, offset by a richer mix of notebook products.

Non-GAAP operating expenses in the second quarter were $431 million, up $10 million from the prior quarter. We continue to manage operating expenses in line with revenue to meet our profitability goals, and for the fourth quarter in a row, the non-GAAP operating expense to revenue ratio was 30% or better.

Non-GAAP operating income was $67 million and non-GAAP net income was $17 million with non-GAAP earnings per share of $0.02, calculated using 764 million diluted shares. Second quarter non-GAAP earnings per share excludes $49 million of loss from debt redemption in the quarter. Adjusted EBITDA was $137 million, down $2 million from the prior quarter, and for the trailing four quarters, adjusted EBITDA was $594 million.

Now, turning to the business segments. Computing Solutions segment revenue was $669 million, up 1% sequentially due to higher notebook and embedded processor sales, offset by lower desktop processor and chipset sales. Computing Solutions operating income was $9 million, an improvement from an operating loss of $3 million in the first quarter. This was driven primarily by improved gross margin from a richer mix of notebook processors.

Graphics and Visual Solutions segment revenue was $772 million, up $38 million, or 5% from the prior quarter, primarily due to an increase in sales of our semi-custom SoCs. Operating income was $82 million compared to an operating income of $91 million in the prior quarter, primarily driven by lower GPU revenue.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities balance totaled $948 million at the end of the quarter, down $34 million sequentially, primarily due to the timing of sales and related collections during the quarter. Inventory was $960 million, up $91 million, primarily driven by increased level of our latest 28-nanometer microprocessor products and lower shipments to channel distributors. We remain focused on maintaining appropriate levels of inventory and plan to manage inventory levels down throughout the rest of the year.

Debt as of the end of the quarter was $2.2 billion, up $72 million from the prior quarter due to our most recent debt re-profiling activities. In the second quarter, we issued $500 million in principal amount of 7% Senior Notes due in July 2024, utilizing the proceeds to fully extinguish our 8.125% Notes due in December 2017. By executing these debt transactions, we have further extended our term debt maturities and have no significant term debt maturities for approximately five years. Additionally, we expect to reduce interest expense by approximately $3 million per quarter starting in Q3 2014.

One housekeeping note: the remaining $41 million, net, of our 6% convertible Senior Notes due in May 2015 have now been reclassified as short-term debt on the balance sheet. Accounts payable at the end of the quarter was $511 million, up slightly from $483 million in the first quarter.

We had negative free cash flow of $51 million in Q2 2014, an improvement from the first quarter of 2014, which included a $200 million cash payment to GLOBALFOUNDRIES related to the reduction of the take or pay wafer obligation commitments for 2012.

Now turning to the outlook. The overall PC market has strengthened largely driven by the commercial space, although there is continued weakness in the consumer PC market. In our semi-custom business, based on our strong first half shipments, we anticipate semi-custom revenue being more evenly spread across the year.

Guidance for the third quarter of 2014 is as follows: AMD expects revenue to increase 2% sequentially, plus or minus 3%; gross margin is expected to be approximately 35%; non-GAAP operating expenses are expected to approximate $435 million; interest expense to be approximately $42 million, and the total of interest expense, taxes, and other is expected to be approximately $50 million; and inventory is expected to decrease from second quarter levels.

In summary, we are pleased with the performance we delivered in the first half of 2014, in line with our commitments, and are singularly focused on continuing to transform the company by executing the plans we have outlined. We remain on track to meeting the financial commitments we set for the year, including continued operating expense discipline while growing revenue year-over-year, achieving non-GAAP net income profitability, and positive free cash flow generation for 2014.

With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we'd be happy for you to poll the audience now, please, for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Mark Lipacis from Jefferies. Please go ahead.

Mark J. Lipacis
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. The first question, I guess, is on the seasonality of the game console business. I guess if you look at historically the shipments of the game consoles, they're more back-end weighted in the year, maybe two-thirds, one-third, or something like this, but it sounds like you're expecting the revenues from game consoles to be even through the year. So I was hoping you could help me reconcile that. Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, one of the things, Mark, we focused on was to create a more balanced business execution throughout the year. You saw strength in our first half result because there was clearly some pent-up demand in terms of the gaming, the new country launches. And obviously that launch was in the second half of last year.

This year has gone very well in terms of the semi-custom game console work. It's strong. It's up. It's going to continue to ramp in third quarter, but we're seeing a more balanced kind of role. You'll see a little bit more strength in 3Q, but we did profit and take advantage of a more balanced first half of the year. Lisa, did you want to add any more color?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, no, Mark, I would say that since we're still in the first three or four quarters of the game console ramp, it's really hard to call seasonality as they're still bringing on new game titles and new regions. So the best way to look at it is as a whole, the semi-custom business is going to be a strong business for us. We're going to see great growth year-over-year.

You will see more systems ship in the second half of the year versus the first half of the year. There's a bit of a timing phenomena between when we ship and then when our customers manufacture and sell-through. So, overall, a strong business but a little bit more balanced than what you might expect three or four years from now.

Mark J. Lipacis
Analyst, Jefferies LLC
Q

Thank you. That's helpful. And a follow up question, if I may. On the semi-custom programs, could you give us a sense of how many you have in the pipeline? Last time you talked about the potential to announce one or two more this year. Where are the most likely areas where we could see your success in that business? Thank you.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Absolutely. So, on the semi-custom pipeline, we continue to make good, positive progress in the quarter. We are on track to announce one or two confidential design wins in 2014. I think in terms of markets, the traditional market where we're quite strong is obviously gaming, but we've seen a lot of activity in mobility, as well as several new opportunities in networking that are quite interesting, as well.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And there's definitely a market trend and interest in terms of this capability, so we've seen an increase in the pipeline over the past 12 months. I don't think there's any question about that. And we're moving those through it with good interaction and good communications with those customers. So, again, we're on track for one to two wins in 2014.

Mark J. Lipacis
Analyst, Jefferies LLC
Q

Thank you.

Operator: Our next question comes from David Wong of Wells Fargo. Please go ahead.

David M. Wong
Analyst, Wells Fargo Securities LLC
Q

Thanks very much. Do you have any major new Computing Solutions processor family launches scheduled for the second half of this year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

You know, we've seen a really good uptake, David, in terms of what we did with Beema and Kaveri in the first half. They have been very nice launches. That's part of the reason we've seen that stabilization in our PC business. As you know, David, the PC market is more positive – I got that – but overall, still down. That positive drive is from the commercial part. We're over-indexed to consumer, obviously. Those new products we're introducing are giving us that stability and that's something I think all of you've been looking for over the past almost two years, for us to show that stabilization of that business. And the strategy for us to go after commercial I think Lisa can add some nice color in terms of the progress that we're making there. It's a more balanced set of PC solutions that we're delivering. And then Lisa, also maybe David in terms of the follow-on introductions and the channel for the socketed parts and any other family processors you want to hit.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, absolutely, David. So in terms of what we're doing in the overall Computing Solutions business, we just in the second quarter launched our Beema, Kaveri mobile, Mullins product lines. Those are doing very, very well. Kaveri, in particular, in mobile is going into our commercial solutions so we've talked about the AMD PRO A-Series. That has gone nicely. HP announced a set of EliteBooks around that and you'll see more systems in the second half of the year. You'll see us announce more channel offerings as well in the desktop channel as we fill out our APU product line there. And then on the server side, we talked about sampling Seattle earlier this year. You'll see that move to the production stage towards the end of the year.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Okay, great. And a quick one for Devinder. Devinder, if I understand correctly your guidance suggests cash balances will go up in the third quarter?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I didn't give cash balances up in the third quarter, but, David, you can assume with the guidance that we have given, that will be close to the optimal zone of about $1 billion from that standpoint.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Okay, great. Thank you.

Operator: Our next question comes from John Pitzer of Credit Suisse. Please go ahead.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah, good afternoon, guys. Thanks for letting me ask the question. Rory, first just a clarification to make sure I heard you right. I think in your prepared comments you called out Q3 as the peak quarter, but I'm not sure if you were just referring to the custom gaming or the overall business? And, in general, how do we think about seasonality between Q3 and Q4, especially given that you're in the midst of this gaming ramp?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So, John, the comment was based on the semi-custom game console in terms of where that is. You would expect us to ship into those key suppliers, Sony and Microsoft, in that late third quarter kind of very early fourth quarter in terms of the peak. That's why I commented on that.

If you look at the business, what we're trying to do, and what we've been very focused on is to try and create consistent revenue across each quarter so that we can deliver profitability. That's really important to the strategy to be able to consistently deliver that revenue that matches the cost structure and gives us the base to consistently deliver the bottom line. And I think that's what's nice about the diversification of what we've been doing in terms of getting that nice mix of growth businesses with the traditional. That gives us a buffer and support if one part of the business is a little bit different in a particular quarter. But because of the diversity, we get the mix.

In terms of seasonality, we wanted to focus on 3Q here. We'll talk about 4Q in the next one, but clearly we would expect the PC business to continue to traditionally be the same or slightly up. You can piece together each piece of it, but the peak for gaming is definitely in 3Q.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

That's helpful, Rory. And then guys, maybe as my follow up for either Rory or Lisa, just conceptually relative to the repositioning of the company, how important now going forward is kind of the Moore's Law treadmill? And I sort of asked the question because perception is perhaps that you're not moving down nodes as quickly. I know that you've talked about kind of your 20-nanometer roadmap but you really haven't said much at least to my knowledge on FinFET and I guess given some of the difficulties or puts and takes that we here out in the investment community are going through with what foundry is doing what and having success at FinFET. I'd be kind of curious, how important going forward to your success is kind of that Moore's Law curve? And how do you guys think about 20-nanometer FinFET and beyond?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure, John. So let me take a stab at that. I think when you look at what's important to us, I mean, clearly, process technology is an important element but we have invested quite a bit in architecture, design techniques, new IP, software, so I wouldn't say that process technology is the first and primary determinant for us. It is important that we are on competitive technology so we've said before and I'll say again that the 20-nanometer is an important node for us. We will be shipping products in 20-nanometer next year. And as we move forward, obviously, FinFET is also important. So if you look at our business, it is quite a bit more balanced between the semi-custom embedded sort of commercial pro-graphics growth portions, as well as the more traditional sort of client and graphics pieces of our business. So technology plays in all of those businesses.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, and we're going to move down the curve, John, there's not any question, but there's a lot of legs in 28-nanometer. You're going to see a nice mix across it because of the nice price points you can get there in terms of the business and the mix that we're driving.

But, clearly, we know that we're going to move 20-nanometer. 20-nanometer is a nice incremental improvement in terms of its technology and Fins are obviously going to play big – a key role in terms of as we move, but we want to make sure that it's not just technology for technology, that we get the balance, the crossover point, between the profitability, the cost of the technology, and the cost of the product that we can sell, so that we're delivering the bottom line and the balanced results that we've talked about.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Thanks a lot, guys.

Operator: Our next question comes from Ross Seymore of Deutsche Bank. Please go ahead.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks for letting me ask a question. I guess when we look into the third quarter guidance, the first question is can you give us a little bit of an idea of the puts and takes of what your expectations are for your Computing Solutions Group and then your standalone traditional graphics business, in kind of sequential growth, how that builds into your overall guidance, et cetera?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so one of the things, Ross, that we talked about is that we see this stabilization, actually some improvement in the coming quarters in the compute. We like the technology that we brought to market with Beema, Mullins, the Kaveri solution, the movement into commercial. I think those are positive puts, and you saw that in terms of the notebook space.

The area that I saw – we saw softness in the second quarter, and I think continued a little bit into the third quarter is in the graphics segment, in particularly the enthusiast, we saw that cryptocurrency as we'd expected to abate, but it was sharp because of the failure of some of those exchanges, and we also saw then because of its sharpness, a follow-up in terms of second-hand cards flooding into the market in that period of time based on that whole crypto event.

Now, on the PC side, I think there's no question that the PC channel also was softer than we expected. We think with the introduction of the products that we're talking about, Lisa touched on them a second ago on an earlier question, that will position for that to improve. But I think what you're seeing is, for us, it's mostly about consumer. That's still a tough, tight market. With the new parts of the business that we're going in, like commercial, it's early, really nice signs, some really nice marquee wins. We're going to see that continue, but we've got to be realistic in terms of how fast that ramps and then we've got that channel to start to move in a positive direction again, on both parts, both graphics, enthusiast, and on the desktop channel.

That's kind of the puts and takes, and that's kind of why you see that kind of move in a positive but muted direction.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

I guess as my follow-up on the gross margin side of things, to the extent you're guiding it flat sequentially, what are the dynamics that allows that to happen? Because it seems like mix is going to move very largely in favor of your semi-custom gaming SoCs. Is that still carrying a lower – substantially lower gross margin or is the gross margin improving on that side or is there some other mix dynamic we need to appreciate?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

The only thing I want to be careful on that, I don't want to say that there's a major shift in gaming. We've had a very strong gaming business all year long, and we expect it to be strong. It's going to peak in 3Q, but I wouldn't say major. That's not the right terminology.

And I think because we've got a nice balanced business there, we're not seeing some of the sharp changes in terms of the mix, and like nice balanced mix from quarter to quarter to quarter, so that we can maintain that. Devinder, do you want to add some color?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Sure. As Rory said earlier, we do see the peak from a semi-custom unit standpoint in Q3 and obviously as you observed the gross margin is lower than corporate average. However, we do have the offset of the products that Lisa just talked about, embedded, we have momentum, professional graphics, we have momentum, some commercial PC. And that obviously offsets it and that allows us to guide to a flat gross margin compared to the last quarter.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And again, it's really about driving a consistent execution and a consistent operation. That's what we're trying to create, a different AMD with a diverse set of portfolios, and that's why the strategy is working.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Our next question comes from Christopher Rolland of FBR Capital Markets. Please go ahead.

Christopher Rolland
Analyst, FBR Capital Markets & Co.

Q

Hey, guys. Thanks for letting me ask a question here. So I guess when it comes to the GPU side, is it fair to say that we'll see double-digit sequential growth in gaming APUs and double-digit declines on the GPU side due to the Litecoin, altcoin meltdown?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

You want to take it?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, let me start with that, Chris. The way we should think about the different businesses, so let's talk about GPUs themselves and the transitions there. When we looked at the GPU market, we have desktop and notebook GPUs, then we have the channel market and then we have the pro-graphics business, we've actually made very nice progress in the desktop and notebook GPUs. We saw a ramp of some of the design wins that we told you about earlier in the year, happened in the second quarter. We see that continuing as we go into the second half of the year.

The AIB or the cryptocurrency mining thing is a very specific phenomena around that enthusiast segment. We saw some – Rory mentioned earlier, some instability in the market as the quarter progressed because we had a bunch of, let's call it, used cards come into the market, and that added to the inventory in place.

We do see that lessening as we go into the second half of the year, and our focus is on really getting the gamers and ensuring that the gamers are very much on sort of our Radeon graphics. And then on pro-graphics, we see that as a growth opportunity. We saw some improvement in the second quarter and we expect to see some improvement in the second half. So, the GPU business has a bunch of different components. I think we've made progress in certain areas, the desktop, AIB channel, will continue to improve in the second half of the year.

Relative to the APUs that you're asking about, I think Beema and Kaveri APUs, we believe that those will do well as those businesses continue to ramp in the second half of the year.

Christopher Rolland Q
Analyst, FBR Capital Markets & Co.

Okay, great. And perhaps you guys can size up the odds on the semi-custom parts, maybe the first one that you guys might announce. Is it closer to a Beema, Mullins type of semi-custom part here with a smaller die size or should we think of something closer to the gaming GPU, APUs, the console APUs? And with the margin structure on the smaller parts, could you still hit something resembling your gaming console APUs?

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

One of the things that's really important in the semi-custom space is these are confidential. The customer really wants to create a differentiated solution. As I talked about the first wins several quarters ago, I talked about them as confidential wins. We really can't get into that specific, because this is a real customer advantage that they're building.

You know, I think it's fair to say that each of those areas, we're making very good progress in terms of the kinds of pipeline opportunities we look at, both in the traditional strength of gaming but also in the living room, also in other parts of the segment, and that looks interesting.

Lisa, on the margin thing, one of the key things that you've been focused on is mixing potentially – it's not necessarily staying where it traditionally has been.

Lisa T. Su A
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

Yeah, the best way to think about it is the margin structure will somewhat reflect the market where the semi-custom SoC is going into. So I mentioned a couple of the markets where the opportunities are today in gaming, mobility, and several opportunities in networking. You'd expect a different margin profile depending on which market they are in.

Christopher Rolland Q
Analyst, FBR Capital Markets & Co.

Great. Thanks, guys.

Operator: Our next question comes from Joe Moore of Morgan Stanley. Please go ahead.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. For your existing console businesses, can you give us some idea of the pricing trajectory over time? Is it – over the next 12 months, is that going to stay constant? Is there some downward pressure? And is there – if there's downward pressure, how does it work? Is there a volume step function that we should think about or just generally how should we think about pricing?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Joe, I think the best way to think about pricing is these are long-term agreements that we have with our customers, so we have a cost take-down curve. I think we're motivated to help our customers get that – get the cost out of the system. And so the way you should think about it is it's quite predictable for us, and we continue to work on improving yields and test times, and all of the things to ensure that we can improve the margins.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And usually, Joe, based on history, what you've seen in the other previous gaming ramps, is the peak in terms of volume tends to be in year two and a half, year three and a half out. So we are still very early in this ramp, just a year in.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And then secondly, when you talked about the new GLOBALFOUNDRIES agreement, you talked about moving more GPUs and consoles to GLOBALFOUNDRIES. Can you give us a status update on what's happening there?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, so right now, GLOBALFOUNDRIES is shipping both the GPU products and semi-custom game console products.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Thank you very much.

Operator: Our next question comes from Stacy Rasgon from Sanford Bernstein. Please go ahead.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for letting me ask some questions. First, I want to just take a look at the guidance from a high level. Basically you're guiding Q3 flat year-over-year. So you've now annualized the start of your console ramp with PCs in your core business worse than they were, and seems like it's heading south from here. I guess given that setup, how should we be thinking about growth from here going forward? Does this really have to become a bet now on growth in semi-custom, growth in ARM servers, growth in professional graphics and the like? I guess, as the business as it stands today, does that form enough of a base, is it stable enough, I guess, to get the growth off those new opportunities? How can we get some, I guess, degree of confidence that the business itself, the core business actually is going to provide that sort of stability?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So, Stacy, if you look at the business from year-to-year, yeah, we definitely begun that full year in terms of the semi-custom game console, as we talked about that, that's still historically peaks out in year two and a half, year three and a half, so there's still opportunity there. From the standpoint of the PC, what we were looking for, and I think everyone on this call has been looking for is that stabilization. We've introduced a set of new products. We've seen improvement in notebook and what we're also doing is diversifying the portfolio going into commercial, and that's a good move.

We'd like to see that in terms of we said in the previous call that we'd like to see that improve over the next couple quarters, but that, you've got to keep that in a muted kind of way.

We'll also continue to build out the embedded business, the pro-graphics business, these are all new businesses, and we're seeing progress on all of those. You're not going to have the huge impact of the gigantic semi-custom that we saw that drove the major turn. What you now want to do is gotten the business to a profitability level, a consistent level of performance. We're officially managing the expense. We're delivering more consistently both in terms of the roadmap and the supply, and then we augment that over the next several quarters and over the next several years with these new businesses, and then ultimately, as we complete the transformation, we introduce the next-generation technology at the finish of this in 2016. That then positions us for the next phase, as we move forward. That's exactly the strategy we've been on, and that's how it's playing out.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. I understand that. But, I mean, you talked about PC stability. The PC business is not stable. I mean you were down 20% year-over-year, your competitors up 6%. You had similar trends quarter-over-quarter. I guess, do you need stability in that PC business in order to harvest the fruit of the other businesses? What is the economics look like going forward if the trends that we're seeing in the PC market continue?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, but what you're looking for, and we started to see – remember last quarter, we talked about we began to see more seasonality in terms of our PC business quarter-to-quarter. We saw again more stability. We saw it improve. That's a significant event. I got it that from a year-to-year, there was still pressure because of the over-indexing to consumer. That's not a new event.

It clearly makes it easier as you move through it as that becomes a more stable base to work from. And that I think is part of the strategy to introduce the things like commercial where that's a greenfield opportunity and go look at some of the progress that we make over the next two quarters in that space. That's a fast growing segment, but that clearly having that more stable, that definitely creates a better base to work from.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

And the other thing I would add, Rory, just to the point that you made about down 20% is if you look at the 20% revenue, that's fair, from a year ago period. But if you look at profitability, we've maintained that from a profitability standpoint within that segment, and albeit small, but it's still profitable and we are managing for profitability from a viewpoint of the diversification that we're talking about. And they're obviously the two groups that we have created and that's exactly in line with the strategy that we are deploying.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it, okay. If I can ask one quick follow up. How do you manage inventory down next quarter with a flattish revenue guide and the payable to GLOBALFOUNDRIES that was up 38% this quarter?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

GLOBALFOUNDRIES, if you look at the numbers this year with the take or pay, we are at the halfway mark of the year, and we've taken approximately half the wafers from GLOBALFOUNDRIES. And as we go forward into Q3, as you look at the Q2 numbers, Q2 is a seasonally low quarter. Typically, if you go back and look historically, inventory is up in Q2 in preparation for Q3 and Q4. And as we said earlier, as we work through the GPU AIB channel returning to normal business conditions, the desktop channel business improved from our standpoint, we expect to ship more to distributors from an overall standpoint that allows us to manage our inventory down for the rest of the year.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay, thank you, guys.

Operator: Our next question comes from Matt Ramsay of Canaccord Genuity. Please go ahead.

Matt D. Ramsay
Analyst, Canaccord Genuity, Inc.

Q

Yes, thank you very much for getting me on. I guess the question I would ask – I mean, there's something – quite a few points made here about managing the business for operating margin and I guess in the GVS business, revenue was up, operating margin was down a bit. Obviously there was something that happened with some of the currency things on GPU in that market. But maybe you could talk a little bit about where the operating margins are from the semi-custom business today and where they go as that business ramps in units but there might be some ASP down ticks with costs coming out.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, we don't typically – haven't talked specifically at that level of granularity that you're looking from a semi-custom standpoint for the operating margin. You are right, if you look quarter-on-quarter from a viewpoint of look at the profitability, it's down about $9 million, but we did have the impact as Rory and Lisa talked about on the cryptocurrency and as we work through that, we'll see how it shakes out from a Q3 standpoint, but not going to get into the specifics of the segment or even the business within the segment for the operating margin.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

And the only thing I would add to that, Matt, is I think you should take away that the semi-custom margins are consistent with what we expect. We understand the ASPs, we understand the cost reduction roadmap, and so we expect it to be consistent.

Matt D. Ramsay
Analyst, Canaccord Genuity, Inc. Q

That's helpful. And just a follow up from me, maybe backing up and looking at things on a bigger picture; from an ambidextrous strategy point of view in the ARM server space, there's now going to need to be I guess some investments to doing a custom ARM core for the server market versus licensed cores in the past, and if the goal is to sort of manage operating expense growth and keep it to a minimum, I guess where are the puts and takes of where you're drawing those investments from? And what effects could that have on some of the core businesses where x86 cores are more critical?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

From a standpoint of an expense, I think we've done a very good job in terms of driving more efficiency with reuse, driving the organization in terms of where were the key focus. I think what you should look for over the next couple years is to continue to focus on efficiency there. I think there's still more opportunity, while investing in the key focus growth areas, to continue to drive efficiency on the cost side.

It's not going to be as drastic as we've seen in the past, but I think there's continued opportunity to be efficient there, because we're simplifying the number of process technologies. We're reusing the IP base. We're really doubling down on those IP blocks that are truly the ones that differentiate. That's creating the ability to allow us to attack both the ARM core and the x86 core; those are two big blocks. They're important. We're going to lead in that. We're going to lead on the graphics side. Some of the secondary IP, we're going to let that have less investment. And I think that's the right kind of strategy as we move forward. Based on that, I still think there's more efficiency we can drive out over the next year or two.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc. A

Operator, we'll take...

Operator: Our next question comes from Betsy Van Hees of Wedbush Securities. Please go ahead.

Betsy Van Hees
Analyst, Wedbush Securities, Inc. Q

Good afternoon. Rory, you talked about marquee design wins in commercial and that you guys are still heavily weighted to the consumer. When are we going to see that inflection point in your business when we really see the commercial side start to take some really meaningful revenue for you? That's my first question. Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Sure. I think commercial, you just saw the introduction in the second quarter with HP, you'll see other OEMs as we go through the balance of the year. I think that people have been, both inside and outside of AMD, impressed with the kinds of uptake we've gotten from the customers in terms of the competition and the design wins that we've gotten. They'll begin to rollout over the coming quarters. I think what you should think about is going back to the earlier question from Stacy, that's a key part of that ability to stabilize that PC business and to move it up.

That's a big change, guys, from where we were a year ago, and that's key in terms of the second half of this year into next year.

Any ramp you look at takes a little bit of it in terms of ramping up, but the point you should get out of this, Betsy, is that it's a good product. The people are very interested in it, and you should go talk to HP and see what happens in the marketplace. But that EliteBook is off to a really nice start.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Thanks, Rory. That was very helpful. And then Devinder, gross margin guidance of 35%, and Rory mentioned that this is the peak quarter for the gaming console business. So is it fair to say that we could see some gross margin expansion in the December quarter? You're going to have a better product mix with less of the gaming?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, Betsy, that's a good try. I'm here to talk about Q3. I'm not about to give guidance for Q4.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Oh, come on. A little help.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I will say semi-custom, as you know, is lower than corporate average. We've been really consistent about that and we'll talk about Q4 when we meet again in about 90 days.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Okay, okay. Well, I tried. And then speaking about OpEx, another great job of keeping OpEx down. Is there any more room for improvement where we could get to an even lower level of OpEx? Is there any places that you guys could make some cuts there?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, as I kind of commented just a second ago, Betsy, I do think that there's continued room. I think we've done good work over the past two years on that one. I think from an OpEx standpoint, it's balanced in terms of – we're going to invest in those key areas that we think are going to drive growth. There are parts of our business that are expanding their OpEx base, and Lisa's making those decisions as the COO. Devinder is looking for efficiencies. And I still – while I don't think it will be at the same rate of decline we saw over the past 18 months or 24 months, I think there's opportunity for us over the next 12 months and 24 months for sure.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Thanks, everybody. That's it from me.

Operator: Our next question comes from Romit Shah from Nomura. Please go ahead.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

Yeah, thanks a lot. Could you guys just talk a little bit about the desktop processor business? It looked like it was weak in Q2. I think you lost share in Q1, as well. So what's the state of that business, your level of investment and how you see it performing from here?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, sure, Romit, let me answer that. So, yeah, the desktop channel was softer than we expected in Q2. If you take a look underneath that and some of the dynamics under that, we did see some impact of the cryptocurrency mining phenomena in CPUs as well as GPUs, because if you think about it when you put together one of those mining rigs you need both a processor and a graphics card. It was a softer quarter in terms of the market, as well. And so we saw the distributors were a bit more cautious on taking on inventory. As we look forward, look, the desktop channel is an important market for us. It's a place where we've traditionally done well. So I don't see anything fundamental there. I would say that we'll continue to expand our APU portfolio. Through the stacks, you'll see a couple more products come out in the second half of the year, and we'll continue to focus in that area.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

Okay, thanks, Lisa. And on the one to two semi-custom design wins, can you guys quantify the size of those opportunities for us?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure, so what we've said in the past and it's consistent is these opportunities tend to be very unique, but the size of the opportunities that we're looking at are typically in the range of $250 million to $500 million lifetime revenue overall.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

Okay. Thank you, Lisa.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Thank you.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

A

Operator, we'd be happy to take two more folks, please.

Operator: Our next question comes from Jim Covello of Goldman Sachs. Please go ahead.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Hey, good afternoon. Thanks for letting me ask a question. You guys have a helpful slide on page four of the presentation where you just kind of go through what the revenue has looked like in traditional markets versus growth markets over time and kind of culminating in the 50-50 split in 2015. Is there any way to give us a very high-level breakdown of what that chart might look like, broken down by end market as opposed to just kind of high-level traditional versus growth markets? Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And what do you mean, Jim, by end market? Sorry.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Vertical. Computing, gaming, et cetera.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I don't know, we really haven't thought about that in a lot of detail, so you've got to give us a second here.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Sure.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

So in the high-growth markets, professional graphics, dense server, 50% of the business. You're going to see in that 2016 timeframe, our next generation technology be introduced with the advanced node work. The end market – let us take a work on that, Jim. I don't think we have that prepared here for this discussion.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Okay, that's great. Thanks. I could always follow up on that. And then just in terms of your outlook on the PC market, in total, which is helpful, you guys are talking about maybe a down 5% to 7%. Understanding that you're a lot more geared toward consumer, and that market's a little weaker than enterprise. I think other folks have a more flattish kind of view on the market and that's inclusive of both the enterprise and the consumer.

Would you just expect that maybe the numbers for – the expectations for those folks who are thinking the market is flat have to come down a little bit? Or maybe some of it is just mix shift and it's kind of hard to tell? Or how can you help us on that one a little bit? Thanks very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, no problem, Jim. So I think in terms of the market, I don't think there's any question that commercial has been stronger than everyone anticipated. You know, there's no doubt that's partially driven by the XP refresh; that's for sure. There's also some pent-up commercial demand. We're starting to see and feel a little bit of that as we've now introduced the product. I think it's going to be stronger than expected.

But the real debate has to be in our minds is that where is that peaking in terms of that? Was that the XP thing through that April and it kind of trails off into the second half of the year? Our thoughts are it's still positive, and it's going to be good, but we've got to see a little bit more data on where that commercial is going to go in terms of is it going to be as robust as it was in this middle part of the year?

On the consumer side, I think the consumer is actually pretty tough. I don't think consumer is just slightly down. I think consumer is a tough spot in terms of traditional consumer notebook space. If you're going to add in some of the new form factor stuff like some of the kind of tablet stuff that mixes in between, you could kind of get to a little higher number, so I really think it matters what you count. If you look at the tablet stuff, people talk about 285 million units, you look at the PC stuff, somewhere around 300 million units. That's a lot of units compared to where we were even two, three years ago. You know, tablets were much less, probably under 100 million units at that time. And PCs were around, what, 365 million units?

So I think where you get this differing opinion is: what do you put in there? Do you call those window tablets and put them in PCs? Do you take the phablets and put there, in there? We still see the traditional market have pressure in consumer. We think it's significant, that's definitely tough. And then from the standpoint of commercial, that's definitely the stronger one. The real question there is: does that refresh continue through the full year? Make sense, Jim?

James V. Covello
Analyst, Goldman Sachs & Co. — Q

That's really helpful color. Thank you so much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. — A

No problem. Anytime, sir.

Operator: And our final question comes from Mike McConnell of Pacific Crest. Please go ahead.

Michael C. McConnell
Analyst, Pacific Crest Securities LLC — Q

Thanks. Going back to kind of Stacy's line of questioning, I do understand relative to share your competitors much higher exposure to corporate and your exposure to consumer being part of this. But I guess one thing that's a little concerning is kind of the progress in the share gain they're making in the low-end of the market with Bay Trail, and I wanted to kind of get your comfort specific to that segment of the market that you guys have higher relative exposure that if we have game consoles peaking here in Q3, that that isn't going to peak also for your year in terms of quarterly revenue.

How do we get some comfort that there's a little bit – there's not more here than just the exposure between corporate and consumer, particularly in that low-end where you have some pretty decent amount of market share.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. — A

One of the things I think you want to look at is, we could chase some of that pressure in the low-end. It tends to be lower ASPs, and given some of the market dynamics, it's not terribly profitable. We're going to go and compete in some of that, but we've talked about a strategy to mix up. And I think Lisa can add some color in terms of the ASP trends that we've seen, the kinds of progress we've made with the A8s and the A10s. This is one of the strategies. In the past, I think AMD would have chased that down, gone for share for share's sake.

We want some of that, but we want it balanced across the portfolio as we mix up, so that it makes sense for us. There's no doubt there's pressure there, but there's still business for us to get there, and then as we mix up, look at the ASP work. Perhaps Lisa, some color?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc. A

Yeah, Mike, I think the way to think about our PC business and sort of our strategy here, I mean, it is very much around being very deliberate about where we think we're most differentiated, and we can get a strong sort of profitable growth in that standpoint. So if you take a look at – you asked specifically about Bay Trail, we certainly see Bay Trail, no question about it. We see them at the very, very low-end sort of entry price points going up into the mainstream of the notebook and desktop market and there are places where we choose not to compete because it's just not profitable business.

We are looking at how to improve our mix. If you take a look at our ASPs both sequentially and year-over-year, you see a very nice trend there and that's very deliberate on ensuring that we are selling our products where they're actually valued, and that's different from sort of our PC business a year ago. And those are some of the dynamics that help us stabilize the business model, get to more profitable growth, that sort of thing.

Michael C. McConnell
Analyst, Pacific Crest Securities LLC Q

Okay. And then one very quick follow up. Lisa, I just wanted to make sure I heard you correctly. So discrete graphics was down, it has to be roughly double-digits in Q2, and you said you're expecting it to be down again in Q3? I just wanted to be sure that's accurate?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc. A

Yeah, no, I did not say that. So, we said discrete Graphics was down in Q2, and that was the mix of the AIB channel in particular coming off of a strong Q1. We do expect to gain share in discrete graphics. That has been a clear goal, and if you look at the mix of the business going forward, we see opportunities to do that.

Michael C. McConnell
Analyst, Pacific Crest Securities LLC Q

Okay. But what do you think about discrete graphics for Q3, I guess, sequentially?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc. A

Again, we don't go into segment detail in terms of guidance, but directionally, we expect to grow share.

Michael C. McConnell
Analyst, Pacific Crest Securities LLC Q

Okay, thank you.

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Great. Operator, that concludes AMD's second quarter earnings conference call. If you could wrap it up, we'd appreciate it. Thank you.

Operator: Ladies and gentlemen, this does conclude today's call. Thank you for your attendance. You may now disconnect. Everyone have a great day.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2014 Earnings Call for 17-July-2014 5:30 PM ET
Tuesday, June 17, 2014 08:28:02 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2014 Earnings Call for 17-July-2014 5:30 PM ET.

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Event Type: Earnings/Results
Industries: Semiconductors
Primary Identifiers: AMD-US
Regions: US
Related Identifiers: AMD-US

17-Apr-2014

Advanced Micro Devices, Inc. (AMD)

Q1 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Eric, and I will be your conference operator for today. At this time, I would like to welcome everyone to AMD's First Quarter 2014 Earnings Conference Call. All lines have been placed on a listen-only mode, at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's first quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at ir.amd.com.

Participants on today's conference call are Rory Read, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President and Chief Financial Officer. For the question-and-answer portion of the call, we will be joined by Lisa Su, our Senior Vice President and General Manager, Global Business Units.

This is a live call and will be replayed via webcast on amd.com. I'd like to take this opportunity to highlight a few dates for you. Lisa Su will attend the J.P. Morgan Technology, Media and Telecom Conference on Tuesday, May 20, in Boston. Devinder Kumar will attend the Bank of America Merrill Lynch Global Technology Conference on June 3 in San Francisco. Our second-quarter quiet time will begin at the close of business on Friday, June 13. And lastly, we intend to announce second quarter earnings on Thursday, July 17.

Please note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary, which are posted on our website at quarterlyearnings.amd.com.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Please refer to the cautionary statement in our press release for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's annual report on Form 10-K for the year ended December 28, 2013.

Now with that, I will hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. Revenue for the quarter was $1.4 billion, an increase of 28% from the year-ago period. The 12% sequential revenue decline from the previous quarter was better than our expectations due to healthy demand for our newest Radeon GPUs and semicustom gaming APUs. This is our third consecutive quarter of delivering non-GAAP profitability, and we also saw an improvement in EPS of $0.15 from the year-ago period.

Our first quarter performance demonstrates the success that we are having transforming AMD's business. We are consistently executing and delivering on our commitments. Our strategy is working and we are building a foundation for continued profitability and growth as we transform AMD.

We are on track to generate approximately 50% of our revenue from high-growth markets including embedded, semicustom, dense server, professional graphics and ultra-low-power client, where we can create differentiated winning solutions by the end of 2015.

There was strong demand in the first quarter for AMD-powered Microsoft and Sony game consoles. These consoles continue to outpace previous generations' ramps and drove continued momentum in the semicustom business. The success of these two products is an excellent example of the power of our strategy. When our unique IP and design expertise is married with the ingenuity and product ideas from our customers, we jointly delivered tailored market-changing solutions that win. We believe that our semicustom business will continue to realize strong growth as gaming consoles ramp throughout the year. We remain on track to capture one to two new semicustom design wins this year as well.

Now turning to AMD's Embedded business. Revenue increased by double digits from the year-ago period. We continued to win designs with strategic market makers in key verticals such as digital signage, medical and thin client, to name a few. Consistent with our strategy to participate in a much broader portion of this market, we see an approximately $9 billion total addressable market for our high-performance embedded SoCs and processors. This margin accretive business is also characterized by product cycles that last up to five years, providing a more predictable and consistent revenue stream.

In our Professional Graphics business, we delivered sequential growth in the first quarter. We believe we gained share, highlighted by the launch of Apple Mac Pro, which uses two of AMD's industry-leading FirePro GPUs. We are expanding our professional GPU products with the announcement of our new flagship FirePro W9100. This GPU is attracting significant interest from video, design and engineering professionals who need to work at the latest 4K resolutions and beyond. We are also continuing to make investments to accelerate our growth by strengthening our relationships with key professional ISVs and customers that dominate market share.

In our Dense Server business, revenue also increased sequentially. This was highlighted by Verizon's ongoing deployment of AMD's SeaMicro-based dense server that are powering the world's largest public cloud solution. The dense server market is projected to be approximately 25% of the overall server market by 2019. And we intend to lead this transition with our unique fabric technology and 64-bit processors.

We have also reached at a significant milestone in our ambidextrous strategy. We have introduced Seattle, our first 64-bit ARMs server processor and the industry's first at 28-nanometer technology. Positioning AMD as the only SoC provider to bridge the x86 and ARM ecosystems for server applications.

We are excited to announce that we have started sampling Seattle this last quarter and plan to ship in the fourth quarter of 2014. Now let's turn to our traditional businesses. In graphics, we see strong demand in the enthusiast portion of the market. Our industry-leading R7 and R9 products drove GPU revenue growth year-over-year and sequentially. And we also started to see the ramp of new mobile discrete design wins. And we believe this momentum will continue and we expect to gain market share.

In our personal computing business, our mobile APU unit shipments increased sequentially in the first quarter as our customers prepared to introduce notebooks powered by our newest Beema and Kaveri APUs. In the desktop channel, we continue to build momentum in the upper part of our portfolio as we enriched our product mix. Our high-end A8 and A10 APUs has a second straight quarter of record unit shipment.

We continue to build a stronger desktop portfolio, ramping our high-end Kaveri APU and introducing our first low powered socketed APU for the desktop channel this past quarter. We expect these APUs will drive revenue growth in the coming quarters.

The PC market continues to remain challenging. We are seeing signs that the market decline is slowing and potentially stabilizing as some of the softness in consumer is being offset by demand for commercial PCs.

Based on this, we now expect overall PC shipments will decline approximately 7% to 10% for the year and we are positioned to take advantage of this based on our strategy to gain share in parts of the market where we are currently under represented.

For example, in the commercial client market, we expect to more than double the number of designs that will come to market from our key OEM partners compared to last year. As a result, we believe we will deliver sequential PC revenue growth in the coming quarters of 2014.

Since our last earnings call, we also successfully concluded our 2014 WSA amendment with GLOBALFOUNDRIES and re-profiled our near-term debt. Both of which will help us accomplish our financial goals for 2014 and beyond. Devinder will cover both of these topics in detail later in the call.

So in summary, we continue to hit all of our key milestones and product commitments as part of our long-term strategy to transform AMD. Our first-quarter performance demonstrates that we are making significant progress building the strong foundation required to deliver consistent profitability and revenue growth. Our growth businesses continue to gain momentum. And we remain on track to diversify our revenue base, generating approximately 50% of our revenue from our high-growth businesses by the end of the next year. We also see the PC market beginning to stabilize, and we are well positioned to grow revenue throughout the year.

Finally, based on the strength of our industry-leading graphics products, we believe we will gain share and grow GPU revenue in 2014. Based on this momentum, we remain firmly committed to delivering profitability and revenue growth for the full-year in 2014.

With that, let me turn the call over to Devinder.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory. Our first quarter results demonstrated continued financial and operational discipline and execution. Our gross margin and revenue came in at or better than expected despite a seasonally down demand environment, and we achieved non-GAAP net income profitability and earnings per share for the third quarter in a row.

Building on the momentum we established in the second half of 2013, 2014 is off to a good start. Additionally, we successfully completed a couple of significant transactions by re-profiling our debt and concluding the fourth amendment to our wafer supply agreement, or WSA with GLOBALFOUNDRIES.

Under the revised WSA agreement, we expect wafer purchases from GLOBALFOUNDRIES to be approximately $1.2 billion in 2014 on a take-or-pay basis. Our 2014 wafer purchases are in line with our current PC market expectations and also include the manufacturing of certain GPU and semicustom game console products at GLOBALFOUNDRIES. There are no special payment triggers as part of the fourth amendment of the wafer supply agreement for 2014. In Q1 2014, we spent approximately $250 million on wafer purchases from GLOBALFOUNDRIES.

Let me now provide some specifics on the quarter. Revenue in the first quarter of 2014 was $1.4 billion, a decrease of 12% from the previous quarter and an increase of 28% year-over-year. Typically the first quarter of the year is a seasonally down quarter and the sequential decline was driven by decreased sales of both our traditional and semicustom products.

Gross margin was 35% flat sequentially. The first quarter result includes a $4 million benefit from the sale of previously reserved inventory in the third quarter of 2012 as compared to a $7 million benefit in the fourth quarter of 2013.

Non-GAAP operating expenses were $421 million and down from $462 million in Q4 2013. GAAP operating expenses were $438 million and include a $14 million charge for workforce rebalancing severance expenses as part of the ongoing transformation and diversification strategy at AMD as we continue to increasingly focus and deploy appropriate resources to our high-growth opportunities.

Consistent with our strategy to transform AMD and manage for sustainable profitability, non-GAAP operating income was $66 million and non-GAAP net income was $12 million, while non-GAAP earnings per share was $0.02 calculated using 761 million diluted shares. Adjusted EBITDA was $139 million, a decrease of $26 million from the prior quarter, primarily due to reduced operating income.

Now turning to the business segments, Computing Solutions segment revenue was $663 million, down 8% sequentially in line with seasonal trends. The decrease was primarily due to lower desktop and chipset unit shipments partially offset by high-end notebook unit shipments. Computing Solutions operating loss was $3 million, an improvement from an operating loss of $7 million in the fourth quarter despite the sequential $8 million of $59 million decline in revenue. This was driven primarily by lower operating expenses.

Graphics and Visual Solutions segment revenue was $734 million, down $131 million or 15% from the prior quarter, primarily due to a decrease in sales of our semicustom SoCs. Operating income was $91 million compared to an operating income of $121 million in the prior quarter.

Turning to the balance sheet, our cash, cash equivalents and marketable securities balance including long-term marketable securities totaled $982 million at the end of the quarter, close to our optimal balance of $1 billion and well above our target minimum of $600 million. During Q1 2014, we also made the final $200 million cash payment to GLOBALFOUNDRIES related to the reduction of the take-or-pay wafer obligation commitments for 2012.

Inventory was $869 million, down $15 million or 2% sequentially, as we reduced graphics inventory. Debt as of the end of the quarter was $2.14 billion, up slightly from the prior quarter. During the first quarter, we repurchased $64 million of our 6% convertible notes due in May 2015 in the open market utilizing cash on hand. We also issued $600 million in principal value of 6.75% notes due in March 2019, utilizing the proceeds to extinguish most of our 6% convertible notes due in May 2015, and approximately $50 million of our 8.125% notes due in December 2017. The remaining net proceeds of approximately $80 million, borrowed under the new debt issuance, will be used to pay down or repurchase outstanding debt in due cause.

By executing these transactions, we have pushed out the maturity of a significant portion of our near-term debt and now have no significant term debt maturities pending until December 2017, a period of more than 3.5 years. Accounts payable, at the end of the quarter, was $483 million, down slightly from $519 million in the fourth quarter. Lastly, we had negative free cash flow of $225 million in Q1 2014, largely due to the previously mentioned $200 million payment to GLOBALFOUNDRIES.

Now turning to the outlook. For the second quarter of 2014, AMD expects revenue to increase 3% sequentially, plus or minus 3%. Gross margin is expected to be approximately 35%. Non-GAAP operating expenses are expected to be approximately $435 million. Inventory is expected to increase slightly from the first quarter. And cash, cash equivalents and marketable securities, including long-term marketable securities, is expected to be approximately $1 billion.

In closing, we are pleased with our first quarter results in a seasonally down quarter. We have started 2014 with continued financial and operational discipline, and maintained non-GAAP net income profitability for the third quarter in a row. We are making continued progress in our strategic transformation journey with the goal of transitioning approximately 50% of our revenues to high growth adjacent markets and businesses by the end of 2015. Our focus in 2014 remains on managing for profitability, as we work to deliver full-year revenue growth and net income profitability.

With that, I will turn it back to Ruth. Ruth?

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we'd be now happy for you to poll the audience for questions, please.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question comes from Betsy Van Hees from Wedbush Securities. Please go ahead.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Good afternoon. Congratulations on the quarter and the guidance. Rory, I was wondering if we could dig a little deeper into your commentary. You said that you now see the PC market declining 7% to 10% versus your prior guidance of 10% – down 10% sequentially, sorry. And I was wondering if you could tell us – give us a little more detail as to what happened during the quarter to give you that confidence level that the PC market will decline at a lesser rate than your previous expectations?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Betsy. Yeah, absolutely. What we've seen is, the commercial market has been a bit stronger, whether that's driven by the XP refresh work that's gone on through April or it's continuing refresh across commercial. I do believe commercial's going to be a bit stronger this year than we anticipated, based on that XP refresh and the strength of the overall economic environment. And I think that's offsetting a bit of the pressure that we're continuing to see in consumer from tablet. I think the PC market will be down, no question, and I believe that it's down 7% to 10%. And it's really driven on that strength of the commercial space. As it relates to us though, Betsy, what I like about what we are doing is the diversification strategy is really taking hold. What we're trying to do is to win in the desktop space as well as capture in the underrepresented commercial segment for AMD. And that's why I talked about in the early part of the call that we see the opportunity for us, AMD, to grow our PC revenue in the coming quarters of 2014.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Thanks, Rory. And since you mentioned the desktop business, as well as the notebook, your ASPs were flat sequentially and I would assume that your desktop ASPs are higher than your notebook, but yet your ASPs were flat which is really great. And I was wondering if you could talk a little bit more about what drove that flat ASPs in the market and what you're seeing?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, Betsy. This is Lisa. Maybe let me give you a little color on that. So relative to what we saw, was very much in line with our strategy that we've been laying out on improving the mix of our product. So in the desktop channel in the first quarter we launched Kaveri at the high end of the stack, so from that standpoint it did very well and that was a big driver for us in terms of the mix improvement. And in the notebook business we also saw that we're starting to launch some of our new products that will go into market later in the second quarter. So we started shipping Beema in the notebook segment, and both of those helped to keep the ASPs at that flattish range.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Thanks, Lisa. Lisa, that was very helpful. And then my last question and I'll jump out of the queue and let others ask questions, is about how we should be looking at the guidance of basically flat to up 6%. As we look at your different business units, will computing will be growing more or semicustom be growing more? Wonder if you can help rank us on how we should be looking at and modeling that?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so from a standpoint of what we talked about in the early part of the call, there is no doubt that we continue to see momentum across the growth businesses. Betsy, this has been a record ramp in terms of the game consoles. You probably saw some of the news coming out of Sony earlier this week. Microsoft had a very good launch with the Titanfall game. These are perfect examples of how when we combine our IP and design expertise with their great ideas we can really breathe life and create a real change in the marketplace. We see that in embedded; we see that in semi-custom, we see that in Pro graphics. These are all areas – dense server, where we see an opportunity for us to continue to build on that momentum. At the same time, our part of the PC business, we're doing a nice job of introducing a nice set of new products that are positioning us to grow as we come to the next quarters of 2014.

Betsy Van Hees
Analyst, Wedbush Securities, Inc.

Q

Thanks, Rory, and, once again, congratulations on a great quarter and guidance.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Betsy.

Operator: Our next question comes from Vivek Arya from Bank of America Merrill Lynch. Please go ahead.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question. I actually had one short-term and one longer-term question. So on the shorter term, I'm curious what's your sense of the inventory of game console chips in the channel? I mean you've certainly had a very strong ramp. But if my math is right by Q2 you would have probably shipped over 20 million console chips which is I imagine 4 million, 5 million, 6 million above the potential sales of those consoles. Is it that we should be expecting a sub-seasonal second-half just because of the lag between the new ship and then the consoles ship? Or if you could give us a sense of what the inventory situation is of all these console chips?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure, Vivek. This is Lisa. Let me give you some guidance there. So in terms of how the game consoles have behaved, I mean, they've actually done quite well. There were some seasonality in the first quarter coming off of a very strong holiday season, but we've been pleased with the results. And relative to inventory, we don't see any significant inventory buildup in the channel. So our expectation for semicustom is that the second half in terms of units will be higher than the first half as we're going into the second holiday season, and everything that we see is that the consoles are selling through nicely.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, Vivek, one of the things that we're taking a deep focus on is we're consciously managing how we are introducing product into the market. Remember as we talked about in 4Q how we managed the notebook transition. You saw that in terms of a return to seasonality in 1Q. We're doing the same thing working with our strategic partners across gaming to build the product, to introduce the product to create a velocity model where the product is going into the channel, moving through cleanly and executing out the back side. That's the kind of business and execution we want to drive consistently so we have nice, smooth revenue through this.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And then maybe, Rory, you guys were able to achieve your target for the semicustom as part of your revenues last year and you've laid out the longer-term target. I'm curious what do you think is going to be the proportion of semicustom by the end of 2014? And as part of that I think you've mentioned about one or two opportunities. If you could give us some more color what end markets do they represent, when we should we start baking those in, what milestone should we look for in those new opportunities?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. From a semicustom perspective, we see a very robust and interesting pipeline across many segments, and I'm sure Lisa will add some color in just a second. We are on track to tackle the one to two design wins this year. I think they're very interesting, and as we look through the year, as Lisa just said, Vivek, I think that we see momentum in this ramp, we see momentum in this launch and we expect this business to continue to move through the year well. So Lisa, did you want to add some color on where you see these design wins and where the robustness of this pipeline is?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure. So, Vivek, when we talk about the opportunity pipeline for semicustom they are very sort of tailored opportunities but they are across multiple segments, so our strength is currently in gaming, given our strength in graphics, but we are seeing opportunities across mobile, enterprise as well as some of the other consumer sectors. I think our engagement model with these guys is very, very deep architectural discussions and really solutions work and that's what we're in the progress of doing right now. And so we have good visibility into achieving the key milestones of one to two design wins this year.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

That's a really important guidepost for you to look for, Vivek, as we demonstrate this is a key part of our business, a key part of our strategy and showing those design wins and delivering on the commitments we're making here on this call this year is a very important part that you should look at, and we're on track for those items.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it. And my last very quick one on the long-term, you guys have clearly now stabilized the business. So as we think about your longer-term targets, which is to get 50% of revenues from semicustom, what does that imply for the business model in terms of gross and operating margins? Because your gross margins have come down to the mid-30s level, how should we think about those gross and operating margin numbers to construct a longer-term model for AMD? Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. So what we've talked about in terms of the strategic view is we want to enter into these growth segments. We used to be a business centered over one stream of revenue, one opportunity, the PC market. Now we've introduce five new ones with our traditional space, that's six key markets where we can leverage our core IT. We see this as an opportunity to consistently grow and to consistently expand profitability. We will look through 2014, 2015, 2016, 2017 as an opportunity for us to lift this revenue consistently and deliver profitability. I don't think we're ready yet to say what that growth rate is because we're in the transformation phase and clearly we want to continue to demonstrate to everyone on this call that when we make a commitment we deliver on that commitment.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, Vivek, one clarification. You mentioned 50% on the semicustom space, a 50% target at the end of 2015 in addition to semicustom which obviously is a big piece also includes dense server, professional graphics, embedded, all of those three are higher than the corporate average from a gross margin standpoint. Semicustom you called it right, then gross margin is lower than corporate margin but it's operating margin accretive, and then we have the ultra-low power business that's part of the mix that Rory mentioned in terms of the six total businesses that we are focused on to get to the 50% by the end of 2015.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

Operator: Our next question comes from Christopher Rolland of FBR Capital Markets. Please go ahead.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets & Co.

Q

Hey, guys. Congrats on the quarter and thank you for letting me ask a question as well. Can you guys talk about the puts and takes of either moving or perhaps not moving your next generation follow-on to Kaveri to the next node here and how this might affect your decisions to move other products and families to the next node or not to move them? Thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure, Chris. So let me take that and give you a little bit of our thinking. So in terms of product and technology selection, certainly we need to be at the leading edge of the technology road map. So what we've said in the past is certainly this year all of our products are in 28-nanometer across both graphics, client and our semicustom business. We are actively in the design phase for 20-nanometer and that will come to production, and then clearly we'll go to FinFET. So that would be the progression of it. Relative to the competitiveness of the products, we feel very good about the competitiveness of the products. Kaveri in terms of total compute, what we're able to do across the stack with our Beema product line in our graphics capability.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And what you're also going to see, Chris, is how we're going to continue to leverage our software stack and our software capability to truly differentiate, not only in terms of performance but tailor it to the specific solutions that we see out there. I think HSA is a good example of that, the work that we're doing there is being proved out in the examples like PCMark 8.1, these are industry metrics that are showing how AMD's products perform and software plays a very key role in that, and we're going to continue to invest in that.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets & Co.
Q

Okay. Great. Also, there have been pretty widespread stories out there about high-end gaming cards either not on the shelves or going two times MSRP. And I know a lot of those are going into altcoin mining out there. So what do you guys think in terms of this market right now? Is it still alive? Have you guys met the supply now, out there, or do you think this quarter maybe that it will be met? And then where do you think that sort of goes over time? Thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Sure. So, Chris, the graphics market was certainly good for us in the first quarter. We were pleased with the performance. What we did see is, we did see strong demand, particularly in the enthusiast and performance segments with our R9 and R7. We did have, let's call it, a supply not quite meeting demand for the first quarter and that was largely due to just, like I said, high demand. We expect that to catch up in the second quarter. But relative to the bitcoin or the litecoin stuff, the way we look at it is we're designing these products to be leadership graphics, gaming capability. We have a lot of investment in the ecosystem and all of the other things like our project Mantle that really gets the software ISVs optimizing to AMD. So we think that's driving long-term demand and, relative to the current cryptocurrency stuff, and we'll see how it develops over the next couple of quarters.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets & Co.
Q

Okay. Great. I'll just squeeze in one more quick one, if that's all right. So love the profitability, the op profitability in GPU, but there was an operating loss in alt other, maybe wider than expected. Maybe if you can go into little puts and takes of what that's all about and what we might expect there for the rest of the year? Thanks.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I think just to clarify, when you say wider than expected loss, what do you mean by that, Chris?

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets & Co.
Q

Wider than I had expected. Let's put it that way.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Okay. Well, if you look at the Computing Solutions segment, if that's what you're referring to, revenue was down because of seasonality from Q4 to Q1 and the loss, I guess, was $7 million going to $3 million. We do have the impact in the all other of stock comp expense that's pretty much the same as last quarter. And then there was a severance that I talked about in my prepared remarks of about $14 million that sits in the all other, as opposed to the two business segments.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I think, Chris, what's really important to look at, in terms of the Compute segment, is the fact that we returned to a more seasonable performance in terms of our business and that we're talking about the opportunity for us to see growth in the future quarters of 2014. That's a different than where we've been over the past two years, and that reflects the kind of products that we're creating and the kinds of strategic relationships we're building with our customers. Let's go to the next question.

Operator: Our next question comes from Hans Mosesmann from Raymond James. Please go ahead.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Thank you, guys. A question, and it's probably for Lisa. Intel's making a big push in tablets and they're subsidizing a fair amount of the design expense in Asia with the ODMs and so forth. What impact, if any, does that have with Mullins and Beema, because there's probably some – a gray area there where you actually could compete with some of these types of platforms. And I have a follow-up. Thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Sure. So Hans, when we look at what we're doing with our product portfolio, there's really about building a balanced portfolio. Clearly, low end tablets are very competitive and we are not going after the very low end of the space. And we're looking at a balanced portfolio around both profitability and share. So for Mullins and Beema, I mean, I think we have a strong set of design wins for those products. We expect those to launch in Q2 and build through the second half of the year. And what we're looking to do with those products is really get a clear portfolio mix. So we'll be very aggressive at the low end where we need to be for the entry-level notebooks but we want to balance that with enough profitability up the stack. And we think that the performance of these products, particularly Beema, does very well in reaching up further than we had before with our previous generation Kabini.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Okay. Thanks. And then as a follow up, so you started sampling a Seattle. You're going to be shipping in Q4. What is the visibility, if any, in general in terms of the adoption that you see into next year by hyperscale guys and so on for ARM in general in the -

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Sure, Hans. What I'll tell you is that there's been a lot of customer interest around Seattle. So certainly for the server guys, the hyperscale guys, and then even some adjacent markets, there's good customer interest. I think the important thing for us and what we're working with the customers on is platform development and software development, and ensuring that we get some of the ecosystem there. So relative to revenue, it's probably a little early to tell what's going to happen in 2015 but I'll say the interest in the platform is quite high and it's a major milestone for us to introduce our first 64-bit ARM chip into the market.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, Hans, getting that ambidextrous strategy in place and launched, that's a really important milestone. What we're doing here is identifying this opportunity long before it's taking place and we're catching it just as the wave is forming. That's the kind of innovation and leadership that we really want to go after. This is going to be an important market over the next 3, 5, 10 years and we have an opportunity to truly lead in this ARM server ecosystem and take advantage of our ambidextrous capability. This is spot on in the strategy.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you very much.

Operator: Our next question comes from David Wong of Wells Fargo. Please go ahead.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. Does your guidance of the June quarter assume Computing Solutions sales go up or go down sequentially?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

We assume that they go up from Q1 to Q2.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. And when might we expect you to introduce GPU products at a node below 28-nanometers? Will you have any 20-nanometer GPUs this year or next year?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

David, I think what – I said earlier what we're doing in terms of technology strategy, we are 28-nanometer this year. We have 20-nanometer in design and then FinFET thereafter. So that's the overall product portfolio.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

And that includes GPUs, Lisa?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

That's the overall product portfolio. So I'm not being specific about graphics versus other products.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Okay. Great. And my final question. When do you expect to first start generating semicustom revenues from chips made at GLOBALFOUNDRIES? And will moving to GLOBALFOUNDRIES for game console chips reduce the cost of the chips or is it a neutral move?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yeah. So we will see semicustom chips from GLOBALFOUNDRIES in the second half of this year. And relative to our operating margin guidance on semicustom, it stays the same. So it's what we've said previously.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Our next question comes from Cody Acree of Ascendiant Capital Markets. Please go ahead.

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC

Q

Thanks for taking my questions and congrats. Lisa, you talked a bit about the enterprise strength. Can you talk about where your split is now, enterprise and consumer, and what you expect that to look like through the rest of the year?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Relative to the client business, was that the question? Or relative to data center?

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC

Q

Client.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Okay. Relative to the client business, I would say we're pretty underrepresented in commercial or enterprise at this point in time. So we have a good set of design wins and those are going to ramp in the second half of the year. We've worked very closely with some of the major OEMs, and so we expect the commercial client side of the business to be a growth engine for us. As Rory said we expect to grow the PC business overall and commercial will be an important piece of that.

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC

Q

And you talked about the low end of the tablet market, something that you're going after. We've heard Intel talking pretty aggressively about going after the sub $400 notebook market. What impact are you seeing there in an area that has typically been your strong suit?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Certainly the consumer portion, the low-end consumer portion of the PC business is the most volatile piece of it, so there is a lot of competition there and the prices are aggressive. However back to our overall strategy, I think the key piece for us was building a strong foundation for the client business. It's an important piece of our business and we want to manage it for both growth and profitability. And so our focus is really on how do we get the right mix into the marketplace, making sure that we're selling our value proposition, the strength of our products. And so if we miss out on some units at the low-end, so be it, but we want to make sure that we have a balanced business across the stack going forward.

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC
Q

And then lastly, on the dense server side, so Seattle in the fourth quarter, what's the intersection of SeaMicro working on your Seattle platform, the timing of that versus what has historically been more [ph] Intel levered (43:43)?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

So one of the advantages of having a systems business is that we can do co-development between our chip development and our systems development, so it will be quite important for us to have Seattle and SeaMicro systems and that's in development.

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC
Q

And will those launch in Q4 together?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

The Q4 statement was a chip statement.

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC
Q

Okay. And then lastly, the interest, the heavy interest you said you're seeing in Seattle, how big – how much of that is driven by the strength that you have in your fabric?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

I think what we're seeing in Seattle is really interest from a number of different angles. I think there is general interest in ARM; there is interest in sort of trying out the new workloads with the capability. I think we see the fabric as an important differentiator but we see that as a longer-term differentiator in the systems portion of the business. So I think the interest in Seattle is really – it's the first 28-nanometer 64-bit server chip out in the market, and I think that's driving the customer engagement.

Cody G. Acree
Analyst, Ascendiant Capital Markets LLC
Q

Thank you very much and congrats.

Operator: Our next question comes from Joe Moore of Morgan Stanley. Please go ahead.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you. The timeline for bringing GPUs into GLOBALFOUNDRIES, is that also second half? And I guess just, do you think there's any risk of getting those products qualified on time to sort of use up the entirety of the $1.2 billion wafer supply agreement?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Actually, for the timing of the graphics in GLOBALFOUNDRIES we've already started shipping from GLOBALFOUNDRIES and graphics, so we think that the qualification cycle has been as expected. And so...

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And from a standpoint, Joe – just like we did in 2013 we laid out our commitments and we delivered on those commitments. As we move into 2014, that WSA, each of the commitments we are doing and making here, we're focused on the execution to deliver those. We're on track to meet that objective of the WSA and you should see it as that commitment.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. Thank you. And then for semicustom products, outside of consoles, do you lead with the GPU in those sales or are these kind of more CPU driven or is it the combination of the two? I mean can you give us some idea of kind of what the value proposition is that you're selling outside of the game console market in semicustom?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Sure. So really the value proposition for semicustom outside game consoles is sort of the integrated package between our CPU capability having both ARM and x86 capability as well as our leading edge graphics and the ability to integrate sort of very custom solution for these architectures. So I think it's all of the above. The foundation is the IP and then the glue is the SoC integration and architectural capability.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Joe, one of the things as you may know I came from the customer side. The customer side that we're working with day in and day out to create that strategic relationship, they're looking for an edge. Just like we did with Microsoft and Sony, we created an edge for them, we created a differentiated solution by marrying our IP with their unique ingenuity and product ideas. That's exactly what we want to do in semicustom. We're becoming easy to work with, we are delivering on our execution and commitments with that flawless ramp, and people are out in the marketplace and looking for that edge on the semiconductor side how they can beat the market, and they don't want just commercial standard solutions anymore. They want a unique offering that allows them to change the game and win, and that's exactly what we're trying to do in semicustom.

Joe L. Moore
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you.

Operator: Our next question comes from John Pitzer with Credit Suisse. Please go ahead.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Hi. This is Andrew Paik calling on behalf of John Pitzer. I just wanted to quickly touch on the embedded and semicustom business again. It would be very helpful if you could elaborate on some of the specific application products that you are targeting. I guess those that you're not necessarily engaging right now, but targeting within the growth end market you discussed earlier? Thank you.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure. So, Andrew, on the semicustom side, as we said, there's a wide range of opportunities. These are usually larger opportunities that drive higher volume and can justify a semicustom NRE and engineering expense. So things like gaming of course, mobility, enterprise applications and sort of other consumer things like living room type applications would be kind of semicustom sort of high-volume stuff. Relative to embedded, we really see embedded as a very interesting long-term growth opportunity because it fits very well with our APUs and our GPUs, and we're able to differentiate and call visual embedded type solutions. So things like digital signage, industrial controls and automation, medical imaging. Those are some examples thin client are other examples that fit well with our embedded business. So those are the end markets that we're attacking.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Got it. Thank you. Very helpful. And I just wanted to quickly touch on the gross margin – longer-term gross margin structure again. I know someone asked this earlier, but is it largely a function of product mix or is there other, I guess, important elements that could be a positive driver in the near-term future? Thank you.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think if you look at the gross margin drivers on the embedded business that Lisa and Rory talked about, we talked about the professional graphics the growth we had in 2013 and continued the momentum into 2014. You have the dense server piece of it and then the richer PC mix, on the commercial space, all of those in combination are higher than corporate average gross margin. So that's obviously good. The PC market environment, obviously, is a factor and we see that, at least from where we were, with the 10% down to the 7% to 10% on improving. If we attack the richer mix there that could benefit other gross margin.

And part of the mix here is because the semicustom business is slightly in a different model. You have lower than corporate average gross margin, but it's accretive to the operating margin line, and that is where the mix and the interplay happens for the gross margin for the short-term and also for the longer-term as we continue to diversify our product portfolio.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Got it. Thank you. As my last question, relative to your updated view on the overall PC end market to be down approximately 7% to 10% year-over-year, I guess do you expect your Computing Solutions business to outperform your expectation of the overall PC end market or mostly in-line to your updated view of the PC market? Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From our perspective, I think there's an opportunity for us to, as we said, to return to seasonality in first quarter. We did that. Now we've set the objective to grow in the future quarters of 2014. I think that's the next step and the logical next step in terms of our stabilization of that business. Let's take a look at how this next quarter unfolds. We have a whole set of new commercial products that are beginning to roll out. We have the desktop channel and you may have noticed that we introduced that low power socketed APU into the channel this quarter. We're seeing some nice trends there and some nice product introductions. But we also have a competitor that's really taking a different approach, in terms of revenue management, and they have a different philosophy on profitability sometimes and we're going to choose the mix and the right business. This idea of contra revenue is a foreign idea to us.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Got it. Thank you. Very helpful. Thank you very much.

Operator: Our next question comes from JoAnne Feeney of ABR. Please go ahead.

JoAnne Feeney
Analyst, ABR Investment Strategy LLC

Q

Hi. Congrats, folks, on a really nice quarter. I have a question about the GLOBALFOUNDRIES new agreement. Given what you ended up spending last year sub $1 billion this year up to $1.2 billion, can you perhaps give us a sense of a breakdown of that number? That growth in the anticipated payments. How much of it is coming from higher anticipated production of chips they already produce through the APUs and how much of it is coming from the graphics that you are moving over, and then how much from the semicustom you anticipate in second half. If you could give us any color on that it would be really helpful?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, JoAnne. I can give you some color, I may not get that specific or granular in terms of the various parts that you just mentioned. But if you recall in 2013 we had an original agreement at about $1.2 billion. As we [ph] bought (52:45) in 2013 with the relationship and a partnership, we took $200 million less wafers in 2013 without any special payments or penalties. We go into 2014, we look at the demand profile. We have taken about $250 million in Q1 of 2014 and the overall purchases on a take-or-pay basis for 2014 are $1.2 billion. What I can tell you is everything we've talked about the PC business, the purchases of the PC product from GLOBALFOUNDRIES is in line with our business expectations. No impact from a financial standpoint and from a gross margin standpoint, and the balance of that obviously is in the semicustom high end graphics space, which is the products that we are taking from GLOBALFOUNDRIES in 2014.

JoAnne Feeney
Analyst, ABR Investment Strategy LLC

Q

Okay. That's helpful, and then a quick follow-up. In your efforts to have better representation in the commercial business, is it primarily in the desktop that you select in making inroads, or the notebook, or a balanced mix of both?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, JoAnne, we actually see opportunity across, you know, desktop and notebook for commercial and it's really a good set of design wins that in platforms that we think will be offered in the market in the second half of the year.

JoAnne Feeney
Analyst, ABR Investment Strategy LLC
Q

Okay. Great. And then one other clarification on the new semicustom business you're working on this year. It sounds like you are comfortable enough that you have these design wins in place you anticipate getting these design wins, but perhaps it's too early to talk about the revenue stream. Can you give us any sense of where you are in the design win process and perhaps any sense of how their revenues might compare to what you have so far on the game console side?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

We're, as I said earlier, JoAnne, we're on track to close one to two of those wins this year and I think that's clear is where we are, and what we're trying to do. Let us get those things closed, and they're going to be confidential wins but we'll make it clear as the year unfolds. That's about where we should be, but we are on track on those one to two wins as we said we would be for 2014.

JoAnne Feeney
Analyst, ABR Investment Strategy LLC
Q

Okay. Thanks. That's helpful.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.
A

Operator. We'll take two more questions, please.

Operator: Certainly. Our next question comes from the line of Mark Lipacis with Jefferies & Company. Please go ahead.

Mark J. Lipacis
Analyst, Jefferies LLC
Q

Thanks for taking my questions. First question, I'm hoping you can help me with some back of the envelope math. If you were going to target 50% from high-growth areas, I think from my math that implies about $1 billion of additional revenues above and beyond your gaming console. And if you're going for one or two more semicustom deals then that implies that these would be big revenue kind of home run opportunities. Is that a fair way to think about it?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Well you should look at the 50% objective and target that we are on track to achieve by year-end 2015 as across those key high-growth segments, there's five of them. We're going to see progress and we mentioned there was year-to-year progress embedded, there was sequential progress in terms of Pro graphics. These are all going to be factors and they're also factors that Devinder highlighted in the mix to drive the gross margin strategy across the portfolio. What we target is really interesting applications in the semicustom space where we can partner with an industry leader to create a really differentiated solution. That in hand generally target something in the $200 million to $500 million plus lifetime revenue targets.

Mark J. Lipacis
Analyst, Jefferies LLC

Q

That's very helpful, Rory. Thank you. And then a follow-up question on the manufacturing process roadmap, Lisa. It looks like your GLOBALFOUNDRIES signed a partnership or announced a partnership with Samsung to license their technology on fully depleted 14-nanometer FinFETs. When you talk about your roadmap to FinFETs at GLOBALFOUNDRIES, if they're using fully depleted technology, is that different than the technology they're currently using and will that require additional investment by you guys to try to get to that ultimately?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure, Mark. Let me comment on that. If we look at the overall relationship that GLOBALFOUNDRIES signed with Samsung I think we view that as a good thing. I think it's good for the industry and it's good for AMD relative to collaboration and getting FinFETs to market sooner. Relative to investments side, I think from that standpoint, we have a roadmap to go to FinFET. It's a very important technology for us and I wouldn't see that disagreement changes or affects that in any way.

Mark J. Lipacis
Analyst, Jefferies LLC

Q

Thank you. Last question if I may, according to 8K filing it looks like Mubadala exercised warrants to get to 19% ownership. Are there any implications on steering the direction of the company or should we read anything into this? How should we think about that? Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes. No problem, Mark. We don't generally comment on our investors' actions and strategies. We have a very strong relationship and focus with our key investors. I think you should probably talk to them in terms of where they're going.

Mark J. Lipacis
Analyst, Jefferies LLC

Q

Fair enough. Thanks.

Operator: And our final question comes from Kevin Cassidy with Stifel, Nicolaus. Please go ahead.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks for squeezing me in. The professional GPU business seems to be getting some good momentum. Can you tell us – give us an idea of what type of growth rate you expect and maybe what percentage of your GPUs it could be this year and next year?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, Kevin, let me try to answer that. The Pro graphics business is definitely a growth opportunity for that. You've heard that in our, it's part of those five businesses that we think will drive to that 50%. Without getting into exact numbers, I would say we're quite underrepresented in Pro graphics right now, and so it's been a key focus item for us to get the right products and drive growth. We saw sequential growth from Q4 to Q1; that was good. We talked about the Apple Mac Pro driving some of the share gains there and then we just launched a new W9100 product that is exceptional for the high-end professional workstation market. So we think it's a great growth opportunity for us and we'll give more color on that as we progress through the year.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you very much.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Okay, operator. That concludes our first quarter 2014 earnings call and we'd like to thank everybody for participating this evening.

Operator: Thank you, presenters, and thank you, ladies and gentlemen. Again, this does conclude today's call. Thank you for your participation, and have a wonderful day. Attendees, you may now all disconnect. Thank you.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2014 Earnings Call for 17-April-2014 5:30 PM ET
Tuesday, March 18, 2014 09:04:01 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2014 Earnings Call for 17-April-2014 5:30 PM ET.

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Industries: Semiconductors
Primary Identifiers: AMD-US
Regions: US
Related Identifiers: AMD-US

21-Jan-2014

Advanced Micro Devices, Inc. (AMD)

Q4 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey and I'll be your conference operator for today. At this time, I'd like to welcome everyone to AMD's Fourth Quarter 2013 Earnings Conference Call. All lines have been placed in a listen-only mode at this time. After the speakers' remarks, you'll be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's fourth quarter and year-end earnings conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com. This is a live call and will be replayed via webcast on amd.com.

Participants joining us on today's call are Rory Read, our President and Chief Executive Officer; Devinder Kumar, our Senior Vice President and Chief Financial Officer; and we'll also have Lisa Su, our Senior Vice President and General Manager, Global Business Units, who'll participate in the QA portion of the call.

I'd like to highlight a few dates for you. Devinder will attend the Goldman Sachs conference on February 12. Our first quarter quiet time will begin at the close of business on March 14. And lastly, we intend to announce our first quarter 2014 earnings on April 17. Dial-in information for that call is expected to be provided in mid-March.

Please note that non-GAAP financial measures referenced on this call are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary posted on our website, quarterlyearnings.amd.com.

Before we begin today, let me remind everyone that today's discussions contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Please refer to the cautionary statement in our press release for more information. You'll also find detailed discussions about our risk factor in our filings with the SEC and in particular AMD's quarterly report on Form 10-Q for the quarter ended September 28, 2013.

Now with that, I'd like to hand the call over to Rory. Rory?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. We made good progress last year in executing our three-step strategic turnaround to restructure, accelerate and ultimately transform AMD. We completed our restructuring, creating a more efficient business model with significantly lower operating expenses. We also accelerated our business generating strong revenue growth and returned to profitability in the second half of the year by successfully ramping our strong and diverse set of new products.

As we move forward, we will continue to strategically transform AMD as we diversify our portfolio and drive a larger percentage of our revenue from the semi-custom ultra low power client embedded dense server and professional graphics high-growth markets. In the fourth quarter, we delivered revenue of $1.59 billion, an increase of 9% sequentially and 38% from the year ago period while increasing profitability.

We exceeded the goal we set for the semi-custom and embedded businesses to generate 20% of our revenue by the fourth quarter of 2013. We believe this validates the strategy we outlined two years ago to embrace the trends reshaping the industry. We remain on track for our growth businesses to generate approximately 50% of our revenue by the end of 2015. All of this work is underscored by the improved execution across the AMD company as we hit our key product, IP development, supply chain, and financial milestones in 2013.

Our flawless semi-custom production ramp propelled the business in the fourth quarter and allowed us to meet the strong demand for Sony and Microsoft game consoles. Combined Sony and Microsoft reported selling more than 7 million units in less than two months. This is more than double the number of prior generation consoles sold in their first quarter of introduction. We expect this momentum will continue as we increase game console SoC shipments for the year and pursue new wins from our semi-custom design pipeline.

Our embedded business achieved sequential revenue growth increases throughout 2013. We have secured design wins to drive further growth and expect continued momentum as we begin offering both x86 and ARM-based solutions in 2014. In dense servers, we remain on track to launch one of the industry's first 64-bit ARM server SoCs in 2014.

Our unique position offering both x86 and ARM solutions combined with our years of experience in the server market and industry leading fabric technology differentiates us as we bring an expanded set of solutions to this important market. We remain on track to begin sampling our new ARM-based SoCs later this quarter and we are seeing strong interest from both traditional server OEMs and end customers like cloud providers.

Our professional graphics business set a record for the full year revenue in 2013. We believe we can drive additional growth based on incremental focus and investments we are making to further strengthen our product offerings, expand our work with key software developers and secure more design wins. Apple's new Mac Pro desktop with dual AMD FirePro GPUs is a perfect example of our momentum in this margin accretive market.

Now, turning to our traditional businesses, as we said during our last earnings call, we expected GPU revenue to rebound as we accelerate the transition to our new R9 and R7 graphics chips and that is what happened. Strong demand for our latest graphics chips drove a significant sequential increase in GPU revenue and ASP.

Our strategy to attack the desktop add-in-board channel worked well in the quarter and we expect this trend to continue. We believe we are well-positioned to gain graphics market share in 2014 based on continued channel momentum, secured wins for our new R7 and R9 discrete mobile GPUs and strong adoption in the professional graphics space.

We also delivered our third straight quarter of desktop processor revenue in the fourth quarter largely driven by increased shipments of our higher-end APUs and FX CPUs. We also began shipping the desktop version of our newest APU, Kaveri, in December, and we believe it will fuel future growth by delivering a significant performance advantage versus competitive offerings. Kaveri supports our Mantle API for better gaming experience and is the industry's first product to integrate HSA features that can improve performance and power efficiencies when running modern workloads.

The consumer notebook market remained soft in the fourth quarter. We focused on improving mix and reducing downstream inventory with our customers. We have secured a number of premium notebook design wins for Kaveri and also have solid adoption of our next generation low power Mullins and Beema SoCs, which deliver twice the performance per watt of our previous offerings.

We believe we are taking the right steps to create a more predictable and balanced PC business moving forward by continuing to drive a richer product mix, by focusing on parts of the market where we are underrepresented and have significant growth opportunities. For instance, we have secured a significant number of new commercial client design wins with Tier 1 OEMs, which will launch in the second half of the year. We continue to believe that the PC market will be down for the year.

As we discussed, during the last earnings call, our planning assumptions are based on a 10% decline in the market. Since that call, we are seeing some signs that parts of the market may be stabilizing. Given where we are in the quarter, it is too early to know if these signals will continue or not. We are managing the business to the base assumption, but we are ready and poised to take advantage of any upside as it materializes.

So in summary, for 2013, we hit key milestones in our multi-year strategic turnaround. We completed our restructuring, creating a more efficient operating model. We accelerated our business by ramping a strong set of new and diverse products across both traditional and new growth businesses. Our semi-custom embedded offerings delivered more than 20% of our revenue in the fourth quarter and we returned AMD to profitability and positive free cash flow in the second half of the year.

Now, in 2014, our next objective is to achieve revenue growth and profitability at the net income level for the full year. As we leverage our differentiated IP and products to further expand our growth businesses, participate across a broader part of the traditional PC market, to create a more balanced and consistent revenue stream, and to continue to pursue efficiencies in our business model that will further reduce operating expenses.

We are midway through our multi-year turnaround and feel very good about the progress we have made to-date and our abilities to continue to meet our commitments. We have built a solid foundation from which we can continue to transform AMD into a more diverse company, delivering consistent revenue growth and profitability.

Now, I'd like to turn the call over to Devinder. Devinder?

Devinder Kumar

Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory. 2013 was a year of many accomplishments for AMD as we completed the first two phases of our three-phase transformation plan. We completed the corporate reset and restructuring and had solid execution in the second half of 2013.

At the beginning of 2013, we laid out a number of key financial goals as part of that plan, specifically to return to profitability and positive free cash flow in the second half of the year, to reduce our operating expenses by more than 20% from Q1 2012 levels, and to generate more than 20% of our revenues from our semi-custom and embedded products. I'm happy to report we achieved and exceeded all of those goals.

In addition, we maintained cash balances above our optimal balance of $1.1 billion throughout 2013 and stabilized the business with solid execution and financial discipline. All of this provides a good foundation as we enter 2014 and continue our strategic transformation. Let me share some specifics for 2013.

We achieved revenue of $5.3 billion, gross margin of 37%, non-GAAP operating expenses of $1.9 billion, down 14% year-over-year; non-GAAP operating income of $103 million, up from $45 million in 2012. Capital expenditures of $84 million, down significantly from $133 million in 2012, and finally, we exited 2013 with cash balances, including marketable securities, of $1.2 billion, and increased available liquidity by $500 million through establishing a secured revolving line of credit.

Now let me turn to the specifics of the fourth quarter of 2013. Revenue for the fourth quarter of 2013 was $1.59 billion, an increase of 9% from the third quarter and an increase of 38% from the fourth quarter of 2012. The increase was driven by very strong performance in our Graphics and Visual Solutions segment, driven by increased revenue from our semi-custom SoCs and our new R7 and R9 series of GPU products, which more than offset the decline in revenue in our Computing Solutions segment.

Gross margin was 35%, down one percentage point sequentially, in line with our expectations, as sales of our semi-custom SoCs grew significantly and formed a larger mix of overall revenue. The fourth quarter financial results include a $7 million benefit from the sale of inventory reserved in the third quarter of 2012 as compared to a similar $19 million benefit in the prior quarter.

Non-GAAP operating expenses were $462 million, above our targeted level of $450 million primarily due to higher expenses in sales and marketing during the holiday period and employee-related performance related programs.

Non-GAAP operating income was $91 million and non-GAAP net income was $45 million, both of which exclude a net benefit of $48 million from legal settlements in the quarter. We delivered non-GAAP earnings per share of $0.06 and adjusted EBITDA of $165 million excluding a net $48 million benefit from legal settlements.

Now turning to the business segments. Computing Solutions segment revenue was $722 million, down 9% sequentially, primarily due to decreased chipset and notebook unit shipments. Computing Solutions operating loss was $7 million, as compared to an operating income of $22 million in the third quarter, primarily due to decreased levels in revenue and higher marketing and employee-related performance plan expenses.

Graphics and Visual Solutions segment revenue was $865 million, up 29% sequentially, driven by increased shipments of game console semi-custom SoCs and our R7 and R9 series of GPU products. Graphics and Visual Solutions segment operating income was $121 million, up from $79 million in the prior quarter primarily due to higher revenue.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities balance, including long-term marketable securities, was $1.2 billion, in line with our expectations and flat from the third quarter. Inventory was $884 million, down $38 million sequentially primarily due to higher shipments of products in our Graphics and Visual Solutions segments.

Our total wafer purchases from GLOBALFOUNDRIES in 2013 were approximately $960 million, lower than the previously estimated $1.15 billion due to lower fourth quarter purchases. There were no penalties associated with this reduction. We are actively working on our 2014 wafer supply agreement with GLOBALFOUNDRIES based on our full year demand expectations with a goal to manage inventory flat to down year-over-year.

Also, in the first quarter of 2014, we paid GLOBALFOUNDRIES the final $200 million payment related to the reduction of our take or pay wafer obligation commitments in 2012. That, as of the end of the quarter, was $2 billion, flat from the prior quarter. During the quarter, we repurchased approximately $50 million of our outstanding 6% 2015 convertible senior notes in the open market, and these purchases were funded by utilizing our secured line of credit revolver.

Now turning to the outlook. For the first quarter of 2014, AMD expects revenue to decrease 16% sequentially, plus or minus 3%. We expect Computing Solutions segment revenue to be down in line with seasonality and we expect Graphics and Visual Solutions revenue to be down, coming off a strong Q4 for our semi-custom SoCs.

Non-GAAP gross margin is expected to be approximately 35%. Non-GAAP operating expenses are expected to be approximately $420 million driven by lower sales and marketing expenses, accelerated IP reuse, and rebalancing of resources in some of our businesses. Inventory is expected to be approximately flat from fourth quarter levels. And cash, cash equivalents and marketable securities are expected to be approximately $1 billion.

On cash, we have had two important cash reference points over the past year. One, our optimal cash balance target of $1.1 billion, and the other, our target minimum cash level of $700 million. In light of the progress in the transformation of our business model, with a more predictable revenue stream from our growth businesses and the availability of $500 million of liquidity available under our secured revolving line of credit, we are revising our optimal cash level to be approximately $1 billion and our target minimum cash to $600 million.

For the full year 2014, we expect revenue to increase year-over-year. Non-GAAP operating expenses to be in the range of approximately $420 million to $450 million per quarter depending on the timing of R&D expenses and the revenue profile. Taxes of approximately $3 million per quarter, to be net income profitable for the year, inventory to be flat to down year-over-year, capital expenditures of approximately $120 million, to be free cash flow positive for the year, and finally to maintain cash, cash equivalents and marketable securities balances in the optimal zone of $1 billion and above the target minimum of $600 million.

In summary, we achieved critical milestones in the first two phases of our strategic transformation during 2013 and delivered solid financial performance in the fourth quarter. We remain focused on maintaining the operational and financial discipline that we demonstrated in 2013 as we embark on the third phase of our strategic transformation with the goal of transitioning 50% of our revenue to high-growth markets by the end of 2015.

With that I'll turn it back to Ruth. Ruth?

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we'd be now pleased for you to poll the audience for questions.

QUESTION AND ANSWER SECTION

Operator: Sure thing. [Operator Instructions] And it looks like our first question will come from the line of David Wong with Wells Fargo. Please go ahead, your line is open.

David M. Wong

Analyst, Wells Fargo Securities LLC

Q

Thank you very much. Your microprocessor APU ASPs have been doing very well recently. What do you expect going forward in the March quarter? Does Kaveri help ASPs to rise?

Lisa T. Su

Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Hi, David. This is Lisa. Let me answer that question. So we have been working hard on the mix of our product portfolio in both desktop and notebook and we saw a nice uptick in Q4. I think, going forward, we do have a strong set of products. We'll have to see how 2014 unfolds. But, Kaveri, we're very pleased with the performance in the launch in the desktop channel. You'll be seeing that in the notebooks. And we'll also be introducing our new Mullins and Beema product later on in the year as well. So we'll continue to work on the mix of the Computing Solutions ASPs going forward.

David M. Wong

Analyst, Wells Fargo Securities LLC

Q

Okay. Great. And my other question, Devinder, you did very well on the profitability in the December quarter. Will you be able to keep net income flat or positive as you go into the seasonal [ph] lull (23:50)?

Devinder Kumar

Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think, as we gave the guidance for Q1, if you do the math, that's how it comes out, David. Our goal is obviously to be profitable for the year. And for Q1 with the revenue and the gross margin and OpEx profile that we have, our goal is to be breakeven or better from a profitability standpoint.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks very much.

Operator: Thank you, sir. And it looks like our next question in queue will come from the line of Hans Mosesmann with Raymond James. Please go ahead. Your line is now open.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Yes. Thanks. A question on your ARM strategy and Seattle. Based on what you've seen over the past quarter, has the opportunity in servers, in that particular area, has that increased, has it been the same or is it less? So thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Hans, on the server strategy and the ARM strategy with our Seattle product, I think our view is that the opportunity is definitely there. We've always said that ARM is a longer term opportunity in terms of how it folds into the server market, but what we've seen is continued interest in our ARM product portfolio, not just from traditional server vendors, but also from some of the cloud vendors. So we're very pleased with the progress with that and we'll continue to work hard with that strategy.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And Hans, also remember that we really want to continue to leverage ARM not only across the server space but also into embedded and potentially into the semi-custom space, as it gives us increased capability. We think that ambidextrous part of the strategy and our leadership in 64-bit compute will give us a significant opportunity and an expansion in TAM that will give us long-term opportunity to expand revenue.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Thanks. If I can – if I may, a follow on, the Beema and Mullins APUs seem to go right at – they go up against Bay Trail from Intel. I asked the question last time and I'd like to ask it again, because I didn't get the proper answer, I suppose. What is the competitive advantage of Beema and Mullins versus Bay Trail? Thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Okay. Hans, let me try to answer that for you. So Mullins and Beema are really targeted at the low power APU space. We just showed some of the latest performance metrics at CES. And what you'll see is that on the graphics performance, it's substantially better. We're talking about 250% better than the comparable Bay Trail products.

And what's different is on the compute performance, where we have traditionally been not as strong, we see significant performance improvement. So I think we feel very good about our positioning versus Bay Trail. We're continuing to be very aggressive with how we position our products in the space. And we will look for a balanced business going forward there.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Great. Thanks.

Operator: Thank you, sir. And our next phone question will come from Chris Rolland from FBR. Please go ahead. Your line is open.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets

Q

Hi, guys. Thanks for taking the question. So perhaps you can talk about the staggered geographic launch of the PS4 in Japan in February. I thought this might have made the GPU business a little less seasonal than normal than we might have expected. And then also I know you guys don't guide two quarters ahead, but given that staggered launch, what does that do for second quarter seasonality as well? Maybe we can get some color there. Thanks so much.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Okay. Chris, let me start and then maybe Devinder and Rory can add. When you look at the game console market, you know, it is a five-year, seven-year market. When you look at the first year of launch, there are those different components as you talk about in terms of the staggered launch. If you look at how it's progressed, I mean, Q4 was a very strong quarter. When you look at the launch quarter and the number of units sold that our customers have reported, double what you have seen in previous launches.

When we look into Q1, we do expect a strong quarter as well. And looking into 2014 you would expect that the second half will be stronger than the first half, but I would guide you to look at when the major titles are released for the various game consoles to see what you'll see a little bit of, I wouldn't call it seasonality, but I would call it a little bit of uptick as that happens. So I think, expect strong in 2014 off of the 2013 console launch.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets

Q

Okay. Great. Thank you. And if you look at PC processors in, let's say, 2012, you guys were down. Last year, you guys were about breakeven on an operating profit basis. So even though you guys have PC units down, how are you looking at profitability for that PC processor division in terms of operating profit for 2014?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Clearly, Chris, our focus is to continue on the next phase of this multi-year strategy we laid out two years ago. In 2014, our next goal is to drive full year revenue growth and profitability at the net income level for the full year. As we look at that, we think it's a combination of our expansion into the new growth markets, like embedded, professional graphics, semi-custom, low power client, et cetera, dense server, but also it's about the opportunities we see in the PC market.

We believe the PC market will continue to be down in 2014, but we see an opportunity for us to continue to move in areas where we're underrepresented. Historically, we've dominated that lower entry point of consumer notebook. Where we see opportunity is to continue to build on the momentum we've seen in the revenue of the desktop channel and then continue to expand into the commercial client segment.

These are two key areas where we can provide leadership and we have been underrepresented in the past. These will give us an opportunity to expand and there are also areas that tend to have better growth performance than consumer notebook because clearly consumer notebook in the entry space has been affected by the tablet, but that commercial area and desktop has been stronger and more resilient. We think that, as we mix up the stack, will continue to give us opportunity to produce profitability.

In terms of A8s and A10s, it was a record year – record quarter, excuse me, in terms of A8s and A10s up the stack, which is a perfect example of what we're trying to do and why we saw the expansion on ASPs.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. I can add on top of that. Rory talked about the product and the financial, I mean, the business execution. From a financial standpoint, our business is in the midst of a transformation and our focus is that each standalone business has to be profitable and we will adjust resources and assets from time to time and that's what you've seen even in the Computing Solutions business despite the fact that they were down from a revenue standpoint over the quarters essentially for that segment, we were close to breakeven, and that's the way we're going to manage in 2014 as we go forward.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets

Q

Great. Thanks. And thanks for that extra color, Devinder.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Welcome.

Operator: Thank you. And our next phone question comes will from the line of Stacy Rasgon with Stanford Bernstein. Please go ahead. Your line is open.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. I wanted to dig in a little bit first into the cash balance. So for this quarter you were $1.2 billion, but you didn't take about $190 million in wafers you were due and you also cut your CapEx versus your guidance, which would have dropped you well below $1 billion had all that come through.

Now you're dropping I guess your optimal target and your minimum target and you're sort of attributing that to better outlook on the business, but how can we read that as anything other than cash balances are coming in lower than what you thought and so you're guiding down your targets in order to adjust to that reality? I mean, what's the confidence that we have on the cash balance going forward?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Stacy, I think, if you look at it from the standpoint of where you started, first of all, with the lower wafer purchases in Q4, taking those wafers in Q4, the cash would have been paid in Q1 would not affect Q4 cash balance. So that's where we ended up from a Q4 standpoint of the $1.2 billion. And I know you're familiar with the GLOBALFOUNDRIES piece of it. We had $200 million due to GLOBALFOUNDRIES in Q1 2014 and that money has been paid.

And our business model has transformed with more predictability of revenue, as I said in my prepared remarks, in particular with the semi-custom game console business, and therefore, I'm very comfortable from a viewpoint of resetting the cash balance to the $1 billion for the optimal range, and $600 million minimum.

On top of that, as you probably read, we closed secured revolver line of credit, what we call the ABL, in Q4, of which we have $500 million available. So when you take our cash balances at the end of Q4 2013, look forward to our profitability on the full year business for 2014. I'm confident we can be free cash flow positive for the year despite having paid the $200 million to GLOBALFOUNDRIES, which we did in the early part of January.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And, Stacy, if you take a look, what a difference a year makes, at the end of 2012, our cash balance is basically exactly the same a year later at the end of 2013 and arguably probably the most difficult PC market in history. And I think we executed the plans that we laid out quarter by quarter to deliver that and now we're moving into the next phase as we continue to accelerate our business based on the new products we've identified, the new growth markets. That's our objective to deliver free cash flow positive for 2014 as we deliver net income positive for the full year and revenue growth for the full year.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Got it. That's helpful. For my follow-up, I want to just verify something on the GLOBALFOUNDRIES. I guess, it looks like they forgave some of the commitment. You said there were no penalties from the reduction. Does that mean there are no penalties, there weren't any, and there won't be any forthcoming or is that part of – are you negotiating that as part of the 2014? Because the last time you couldn't take the wafers, you wound up still paying for them, you just had a little more time to pay for them. Are we basically done with the 2013 commitment at this point?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

The 2013 WSA is completed. There are no associated penalties with the reduced wafers we took in Q4.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Got it. So that's all about 2014. Okay. Thank you, guys. Appreciate it.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Thank you, sir. And it looks like our next question in queue will come from John Pitzer with Credit Suisse. Please go ahead. Your line is open.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Hi. This is Andrew Paik dialing in for John. I had a quick question about your seasonality commentary for Computing Solutions. You said Q1 2014 revenue is expected to be down, partially being driven by seasonality of Computing Solutions. Do you view seasonality as down mid-single digits for that particular business?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

You said on the compute business, is that what you were saying?

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah. Computing Solutions...

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Our view is that we see seasonality in line in 1Q, and I think that's good improvement from what we've seen over the past several quarters as we move through this transition. We're looking for our compute business to deliver at seasonal trends, historical trends in 1Q. And if you remember, I said in the last earnings call that we weren't going to lean into Q4. We took that opportunity to prepare and control and burn down inventory, as well as position us for 2014. And I think what you're going to see, based on our guidance, is that compute will fall back into line with the historical trends. And I think that's good...

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yes. I think I wasn't clear with my question. I just want to get a better sense of how you view seasonality of your Computing Solutions for 1Q. I guess is that like down mid-single digit quarter-over-quarter or – I just want to get how you view seasonality for that particular business.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

I mean it varies from year to year, but let's say around 8% – 7%, 8% or so.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. Got it. And as my follow-up, you said you expect revenue to be up year-over-year in 2014. Do you expect both business segments to perform? And if so do you expect one particular business segment to outperform the other?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We would – we're in the transformation year of a multi-year transformation. We've given the guidance for the quarter, and we'll lay that out. We do see an opportunity for us to deliver revenue growth for the full year and that net income profitability for the full year, but we're not going to break – generally, we do not break that out at this point as we move through this transformation.

Andrew H. Paik
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. Got it. Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, sir.

Operator: Thank you. And our next question in the queue will come from the line of Romit Shah with Nomura. Please go ahead. Your questions, please.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

Yeah. Thanks so much, guys. Rory, I was hoping – I realize it's January, but I was hoping to get some more color on the revenue target for 2014. You were guiding for growth, but being that the Street's modeling north of 15% growth, I think we're hoping for a little bit more color. Are you thinking more single digit growth or are you a little bit more optimistic than that?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. So from my perspective, I think as we've gone through a very difficult and unprecedented 2013 from a market perspective, I continue to believe the PC market will be down in 2014 a similar amount. And as we discussed in our last call, we're basing our plannings on that assumption.

We see some parts of the market stabilizing for sure in this early part of the year, but as we got to CES, we got kind of a mixed story there. So I think that from our perspective, we're going to manage our business to that 10% base assumption. And if we do see upside, we're going to take advantage of it. Given we're in this very unpredictable stage of the market and we're also in this transformation, I think it's prudent for us to give the guidance quarter by quarter as we move through this transformation.

We've shown our ability to deliver and execute quarter by quarter, and I think what we're saying is we see the opportunity to drive that revenue growth for the year. Let's get a couple more quarters under the belt, we'll lay that out as the year goes on and see how the industry begins to unfold, and we'll lay out the year as we go. I think that's the prudent way to handle it.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

Yeah, I agree. On PCs, which sub-segments would you say are showing the highest degree of stabilization today?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, I think there's an early part to that. I think there's no doubt that the XP expiration has driven some activity in the commercial segment. It's one of the reasons Lisa and John Byrne and their teams have targeted the opportunity. You're going to see a substantial increase in the number of SKUs that we have, the number of models that we have in the commercial segment. I think that's done better over the past several quarters. I think it will continue to do better.

I think the component channel has continued to do well. The area that's been the most difficult and obviously most affected by the tablet migration has been entry-level consumer notebook. And clearly we were way over indexed in that space. Part of our strategy, diversify to the high growth markets and within the traditional market diversify into the segments within that PC market where we see future growth. Lisa, do you want to add anything else to that?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

No, I think that covers it.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Great.

Romit J. Shah
Analyst, Nomura Securities International, Inc.
Q

All right. Thank you very much.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.
A

Operator, we'll take two questioners, please.

Operator: Understood, ma'am. Our next phone question will come from the line of Patrick Wang with Evercore. Please go ahead. Your line is open.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Great. Thanks a lot. For my first question, I want to see if you could talk a bit more about the semi-custom business for console. Lots of moving pieces out there, a very, very strong ramp through the first couple months here. How do you see the inventory situation? How much more demand do you think there is? I know you talked about expectations for growth year-over-year, but could you just help us kind of frame some of your expectations there?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, Patrick, let me try to give you some color on that. So from everything that we see, the semi-custom launch has been very successful, very strong uptake both in sell-in as well as sell-through inventory. Of course, you'll see more of that from our customer data.

From the visibility that we see in 2014, we see also strong uptake. And usually, as you know, these consoles tend to increase in numbers of units through the third and fourth year of console launch. So we see 2014 as a strong year for the overall game console market and both the Sony and Microsoft consoles.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay. And just – you're referring to the – can you talk a little bit about the profitability? I think a couple of quarters ago, you guys set a lower operating margin target there. How's the progress on that going? And how are the ASPs going to – how should we think about ASPs trending over the next, I don't know, one year to two years, as [ph] the NRE (42:12) comes off?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, two parts. I think the operating margin, you're right. We had given at the Q3 timeframe and we were just starting to ship the product, margin guidance in the low double digits. It came in the teens, as I said, for Q3. And in Q4, really we continued to improve and over time we believe that we can continue to increase the operating margin within that business. And that obviously benefits the operating margin of that business and the company.

As you can see the evidence, if you go look at the GVS segment results for this particular quarter, Q4, at $865 million revenue, we had about 14% operating margin and that's really good. I'm not going to provide granularity of the operating margin for that particular part of the business on a go-forward standpoint, but more looking at the operating margin trajectory between the businesses on the Computing Solutions on the one hand and GVS, the Graphics and Visual Solutions on the other.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

And Patrick, on your question on ASPs and that trend, I think what I'll say is that the ASP reductions are well understood in our model. And with that, as Devinder said, we still expect over time to be able to improve the operating margins based on the execution of the products.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Right. If I could squeeze in one last question just on the dense server business, it's probably my favorite one that you guys have. Could you talk a little bit about your go to market strategy, I guess? Do you think that you're going to see an uptick from OEMs first? Do you expect early success with direct cloud customers, just any sense – any color you could give on [ph] base of (44:00) penetration, things like that?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Sure. Let me try to do that. So in the dense server business, I mean, last quarter we announced Verizon as our first mega data center win with our SeaMicro systems and that was a big deal. And we see that as really a cloud customer going forward. As we look forward, our dense server business has both chip and system sales. And so I think, on the system side, you'll see more of the cloud customers and there are certainly a number of trials in progress.

On the chip side, we're seeing interest from both traditional OEMs, they expand their dense server focus as well as cloud customers and others looking to expand into the data center. So I would say on the chip business it's more mixed. On the system business, we are very focused on those newer workloads.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Got you. Thanks so much.

Operator: Thank you, sir. And we do have time for one final questioner. Our final question for today will come from the line of Srini Pajjuri with CLSA Securities. Please go ahead. Your line is now open.

Srini R. Pajjuri
Analyst, CLSA Americas LLC
Q

Thank you. Just one clarification, Devinder. Given your guidance, you're guiding at I guess PC down seasonally and which I think implies graphics to go down about 20% or so. I thought gross margins would improve a bit just given the gross margin profile. I'm just wondering why they're not improving, and then as the business rebounds In Q2 and Q3, how should we think about gross margins? Thank you.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I think if you look at it from the viewpoint of the Computing Solutions, as we said down in line with seasonality, and Lisa mentioned earlier the 8%. On the graphics side, it's really a combination of the businesses within graphics and then obviously the semi-custom business that obviously is going well from where we executed in Q4, and our customers continue to do well even in Q1. The mix of the revenue obviously is going to lead to that 16% down guidance that we gave and that's where the gross margin comes out given the mix of within the Computing Solutions and the graphics on the discrete basis and the semi-custom business.

Srini R. Pajjuri
Analyst, CLSA Americas LLC
Q

But given that semi-custom is lower gross margin, my question is, as the business comes back in Q2 or Q3, is there further downside to your 35% forecast?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I'm not going to go further out in the year, because it's really going to depend then when you get into the later part of 2014 how our growth businesses do, how the semi-custom business evolves given the launches that our customers are going to do in other parts of the world, and finally obviously on the PC market we have the transition going on.

You know, we are in the midst of a transformation, our business model's evolving, we've done, as you probably have tracked us the last few quarters, giving the guidance for the gross margin and meeting the gross margin guidance and in Q1 the gross margin 35% and we're going to continue to manage that as we go through the year in 2014.

Srini R. Pajjuri
Analyst, CLSA Americas LLC
Q

Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

It's clear that we've been on this multi-year journey and clearly focused on positioning ourselves for this turn. I think 2013 is going to be remembered as a significant turning point in our history as we define this multi-year transformation to create a stronger and more profitable AMD.

And as we look forward, I think you're seeing us target those segments that are going to have growth, look for those areas where we can expand our ASP, where we have opportunity to get new business and to choose those businesses that are going to produce the profitability long-term. Additionally, we'll manage the operating expense to deliver that. And you need to look at this as a body of work over the next two years.

We've done the first two years, think about where we were just a year ago and where we are today and think about where we can get to this year, because the next goal is growing the revenue for the full year and that profitability of net income for the full year. And then by the end of 2015, 50% of our business comes from the new growth segment. That's a different AMD and that's how we'll manage quarter by quarter, step by step through the strategy.

Srini R. Pajjuri
Analyst, CLSA Americas LLC

Q

Thank you.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, operator. This concludes the call.

Operator: Thank you, presenters, and thank you, ladies and gentlemen. Again, this does conclude today's call. Thank you for your participation and have a wonderful day. Attendees, you can now all disconnect.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2013 Earnings Call for 21-January-2014 5:30 PM ET
Thursday, December 19, 2013 10:20:03 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2013 Earnings Call for 21-January-2014 5:30 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1892414&highlight=
Live WebCast URL: http://edge.media-server.com/m/p/3vz7oozd/lan/en
Replay WebCast URL: http://edge.media-server.com/m/p/3vz7oozd/lan/en
Slides Link :
http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MjE3Njk0fENoaWxkSUQ9LTF8VHlwZT0z&t=1

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Corrected Transcript

17-Oct-2013

Advanced Micro Devices, Inc. (AMD)

Q3 2013 Earnings Call

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President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your conference operator for today. At this time, I'd like to welcome everyone to AMD's Third Quarter 2013 Earnings Conference Call. All lines have been placed on a listen-only at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's third quarter earnings conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com. Participants on today's conference call are Rory Read, our President and Chief Executive Officer; Devinder Kumar, our Senior Vice President and Chief Financial Officer; and Lisa Su, our Senior Vice President and General Manager, Global Business Units, will be present for the QA portion of the call. This is a live call and will be replayed via webcast on amd.com.

I would like to highlight a few dates for you. Devinder Kumar will attend the Credit Suisse Technology Conference on December 3 in Arizona. John Byrne, our Senior Vice President and Chief Sales Officer, will attend the Raymond James IT Supply Chain Conference on December 10 and the BMO 2013 Tech and Media Conference on December 11. Our fourth quarter quiet time will begin at the close of business on Friday, December 13. And lastly, we intend to announce our fourth quarter and year-end earnings on January 21, 2014. Dial-in information for the call will be provided in mid-December.

Please note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measure in the press release and CFO commentary posted on our website at quarterlyearnings.amd.com. Before we begin today, let me remind everyone that the discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such involve risks and uncertainties that could actually cause results to differ materially from our current expectations. Please refer to the cautionary statement in our press release for more information. You may also find detailed discussions about our risk factor in our filings with the SEC and in particular AMD's quarterly report on Form 10-Q for the quarter ended June 29, 2013.

Now with that, I'd like to hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. Third quarter revenue of $1.46 billion increased 26% sequentially and 15% year-over-year as we return to profitability and delivered positive free cash flow. Revenue was higher than guided based on incremental demand for our new semi-custom SoCs. The three-step turnaround plan we outlined a year ago to restructure, accelerate and ultimately transform AMD is clearly paying off.

We completed the restructuring phase of our plan, maintaining cash at optimal levels and beating our $450 million quarterly operating expense goal in the third quarter. We are now in the second phase of our strategy, accelerating our performance by consistently executing our product roadmaps, while growing our new businesses to drive a return to profitability and positive free cash flow. We are also laying the foundation for the third phase of our strategy as we transform AMD to compete across a set of high growth markets. Our progress on this front was evident in the third quarter as we generated more than 30% of our revenue from our semi-custom and embedded businesses.

Over the next two years, we will continue to transform AMD to expand beyond a slowing transitioning PC industry as we create a more diverse company and look to generate approximately 50% of our revenue from these new high-growth markets. We have strategically targeted the semi-custom, ultra low-power client, embedded dense server and the professional graphics markets where we can offer differentiated products that leverage our APU and graphics IP. Our strategy allows us to continue to invest in the product that will drive growth while effectively managing operating expenses. This is best exemplified by the 10% sequential reduction in our expense to revenue ratio as we drive to best-in-class performance on this key metric.

Several of our growth businesses passed key milestones in the third quarter. Most significantly, our semi-custom business ramped in the quarter. We successfully shipped millions of units to support Sony and Microsoft as they prepare to launch their next-generation game consoles. Our game console wins are generating a lot of customer interest as we demonstrate our ability to design and reliably ramp production on two of the most complex SoCs ever built for high-volume consumer devices.

We have several strong semi-custom design opportunities moving through the pipeline as customers look to tap into AMD's IP, design and integration expertise to create differentiated winning solutions. We made good progress in our embedded business in the third quarter. We expanded our current embedded SoC offerings and detailed our plans to be the only company to offer both 64-bit x86 and ARM solutions beginning in 2014. We have developed a strong embedded design pipeline, which we expect will drive further growth for this business across 2014.

We also continue to make steady progress in another of our growth businesses in the third quarter, as we delivered our fifth consecutive quarter of revenue and share growth in the professional graphics area. We believe we can continue to gain share in this lucrative part of the GPU market based on our product portfolio, design wins in flight, and enhanced channel programs.

In the server market, the industry is at the initial stages of a multiyear transition that will fundamentally change the competitive dynamic. Cloud providers are placing a growing importance on how they get better performance from their data centers while also reducing the physical footprint and power consumption of their server solutions. This will become the defining metric of this industry and will be a key growth driver for the market and the new AMD. AMD is leading this emerging trend in the server market, and we are committed to defining a leadership position.

Earlier this quarter we had a significant public endorsement of our dense server strategy, as Verizon announced a high-performance public cloud that uses our SeaMicro technology and Opteron processors. We remain on track to introduce new low-power x86 and 64-bit ARM processors next year, and we believe we will offer the industry-leading ARM-based servers.

Now looking at our traditional businesses, in the third quarter our graphics business was in transition, as our AIB partners prepared to launch new products based on our new R7 and R9 graphics chips. The transition is now complete, and we are seeing strong demand for our new products, which we believe will drive consistent growth in the coming quarters.

A key innovation in these new chips is Mantle. Mantle was developed in conjunction with game developers to allow them to take better advantage of the capability of AMD's latest graphics cores, resulting in dramatically better performance and power efficiency. Mantle also means the investments developers make to create great content for the Sony and Microsoft consoles translates into optimized experience for all AMD APUs and GPUs moving forward.

Turning to the PC business, the 300 million-plus unit market remains an important part of our business. But the market is clearly in transition, as evidenced in the third quarter by consumer notebook softness, which we expect to continue for the next several quarters as tablet adoption increases and our customers' inventory levels remain lean. We expect PC industry unit shipments will decline approximately 10% this year and by a similar amount in 2014. We have the right products and IP, and we'll continue to compete effectively in this market. We are well positioned to expand our channel business and strategic OEM partnerships around consumer notebooks and commercial products.

Kabini continues to ramp in support of a number of high-volume OEM platforms, and Temash adoption is growing. Toshiba and HP announced the first Temash powered convertibles, and we expect more designs from other OEMs to launch this quarter.

Our work to strengthen our desktop business is gaining momentum. We delivered a second straight quarter of channel revenue growth based on strong demand for our high-end A8 and A10 APUs and FX CPUs. We expect this trend to continue. We remain on track to begin shipping our next-generation Kaveri APU for the channel this quarter. And key motherboard partners are already offering new product in anticipation of this launch.

So in summary, we are successfully hitting key milestones of our three-step strategy to diversify and transform our business. We have completed the first step, restructuring AMD and stabilizing our business. We effectively manage cash at the optimal level and beat our $450 million quarterly operating expense goal in the third quarter.

We are now in the second phase, accelerating our performance by consistently executing our product roadmap and growing our new businesses. Our success here drove 26% sequential revenue growth and returned AMD to profitability and generated free cash flow in the third quarter.

Our progress sets us up to ultimately transform AMD in the third and final step, as we leverage our IP and design expertise from our traditional businesses to generate approximately 50% of our future revenues from high-growth markets over the next two years. We are in the middle of a multiyear journey we outlined over a year ago to redefine AMD as a leader across a more diverse set of growth markets.

I'd like to take this opportunity to thank AMDers across the world who have pulled together to deliver on our commitment and successfully execute our plan. The job is not done, but we are making good and real progress. I look forward to the next steps of our strategic transformation.

Now, I'd like to hand the call over to Devinder. Devinder?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory.

Our third quarter results met or exceeded our guidance for revenue, gross margin, operating expenses, and cash, although inventory was higher than guided. We completed the first phase of our three-step plan to transform AMD, the reset and restructure phase. And we are performing well in the second phase, accelerating our business and executing on our 2013 product roadmap.

In the third quarter, we made progress towards our goal of diversifying our product portfolio, as we successfully ramped our semi-custom products. Specifically, our semi-custom and embedded revenue accounted for more than 30% of total company revenue, exceeding the target of 20% of revenue by the fourth quarter of 2013. Financially, we returned to profitability both in operating and net income, met our target of reducing operating expenses to $450 million, and generated positive free cash flow ahead of plan. Significant change is underway at AMD as we continue our transformation into 2014 and beyond.

Now let me turn to the specifics of the quarter. Revenue for the third quarter of 2013 was $1.46 billion, an increase of 26% on the second quarter and an increase of 15% year-over-year. This represents the highest sequential revenue growth in the past five years. The increase was driven by a more than doubling of our Graphics and Visual Solutions segment revenue quarter-on-quarter, primarily from the ramp of our semi-custom SoCs.

Gross margin was 36%, down four percentage points sequentially and in line with our expectations as we grew our semi-custom business, which has lower than corporate average margins but significant revenue and earnings power as volumes ramp. You will recall that the semi-custom NRE operating model drives significantly lower operating expenses for this business with the majority of its gross margin dollars falling through to operating income. The third quarter result includes a $19 million benefit or approximately one percentage point from the sale of inventory previously reserved in the third quarter of 2012, as compared to an $11 million benefit or approximately one percentage point in the second quarter of 2013.

Non-GAAP operating expenses were $443 million, slightly below our targeted level of $450 million, primarily due to the timing of certain marketing related expenses. Non-GAAP operating income was $78 million and non-GAAP net income was $31 million, both of which exclude a gain of $22 million from the real estate transactions in the quarter. Non-GAAP earnings per share were $0.04, calculated using 764 million diluted shares. Adjusted EBITDA was $153 million, an increase of $99 million from the prior quarter primarily due to improved operating income.

Now turning to the business segments, Computing Solutions segment revenue was $790 million, down 6% sequentially due to lower notebook and chipset unit shipments, partially offset by higher desktop unit shipments. Computing Solutions operating income was $22 million, up from $2 million in the second quarter, despite the sequential 6% decline in revenue driven by lower operating expenses. Graphics and Visual Solutions segment revenue was $671 million, more than double last quarter's level, driven by shipment of game console, semi-custom SoCs.

Graphics and Visual Solutions segment operating income was $79 million compared to breakeven in the prior quarter, primarily due the semi-custom business. Operating margin for the semi-custom business was in the mid-teens, primarily due to higher revenue and a very smooth ramp in our first full quarter of production. Moving forward, we expect semi-custom operating margin performance to continue to improve as the business gains traction, volumes increase, and costs improve.

Turning to the balance sheet, our cash, cash equivalents and marketable securities balance including long-term marketable securities was $1.2 billion. Third quarter real estate transactions generated cash proceeds of $56 million. We remain committed to operating and funding the business appropriately and continue to have a number of liquidity bolstering opportunities available. Inventory, as I stated earlier, was higher than guided at

$922 million largely driven by next-generation game console product ramps and preparation for fourth quarter shipments of our new graphics products. That, as of the end of the quarter, was $2 billion, flat from the prior quarter. Accounts payable at the end of the quarter was $574 million, up $172 million from the second quarter due to the timing of purchases and payments. Depreciation and amortization was $52 million, down $2 million sequentially. And lastly, we generated positive free cash flow of $6 billion in the quarter.

Now, turning to the outlook. For the fourth quarter of 2013, AMD expects revenue to increase 5% sequentially plus or minus 3%. Non-GAAP gross margin is expected to be approximately 35% as our semi-custom business continues to represent a greater portion of our overall revenue. We expect to continue to maintain quarterly non-GAAP operating expenses in the $450 million range and expect to be profitable at the net income level. Inventory is expected to be flat from third quarter levels and cash is expected to be approximately $1.2 billion. Capital expenditures for the full year 2013 are expected to be approximately $110 million, down from our prior guidance of $150 million.

In summary, our execution and product diversification strategy is showing results as evidenced by our return to profitability in the third quarter of 2013. We are pleased to have delivered on our financial commitments so far this year, some ahead of schedule and expect to continue these positive trends in the fourth quarter.

With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we'd be happy for you to poll the audience, please, for some questions.

QUESTION AND ANSWER SECTION

Operator: Sure thing. [Operator Instructions] Our first question in queue will come from the line of David Wong with Wells Fargo. Please go ahead. Your line is open.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Thanks very much. I think in your CFO commentary, you pointed out that graphics have declined because of the transition to the new products. And you also said that the new products have transitioned. So do we expect a jump in graphics revenue in the fourth quarter and also what does your guidance assume in terms of microprocessor revenue sequential growth? Is up or down in the fourth quarter?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Hi, David, this is Lisa. Let me take the graphics question. So first, we've talked about graphics as a multi-quarter growth strategy for us in terms of market share and we're certainly seeing that we're executing on that path. When we look at the third quarter relative to the fourth quarter and where we're going, we have built a very strong product portfolio. We just announced our full lineup for the R7 and R9 series and those were launched in September and shipping in October. So we did see a little bit of a transition at the end of the third quarter, but we do expect to gain share in the fourth quarter with our graphics business.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And from a CPU standpoint, David, I think you'll see that the market continues to be in transition. There's no doubt for 2013 we see the market down 10%. We see that continuing into 2014. As we manage our portfolio into fourth quarter, we want to keep a long view to the quarter. We know that 1Q and 2Q are going to be seasonally light. That's just how it is. And we want to make sure we're managing inventory and positioning properly. So I would expect we'll continue to see the market feel pressure down year-to-year and I would expect that we'll manage this and not lean into it to make sure we have a more consistent revenue path as we go into 2014.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Okay, great. And one final one. I think you noted your semi-custom business operating margin was in the mid-teens. So that was quite a bit better than you'd expected initially. Can you improve it from here or is this the right operating margin for us to think of for the current console semi-custom's business?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yes, I think, David, you're right. I mean the operating margin, when we discussed this last quarter, I had said low double digits that came in at the mid-teens and really that's credit to the higher revenue that we had in the quarter and the successful execution of a very steep ramp in a product in the first full quarter of production. And as you know, as we gain traction and get more volume and cost improvements, the operating margin could improve from the mid-teen level.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And I think it's also important to see the kind of execution that we delivered in semi-custom in this ramp. This is one of the most complex ramps that we've seen with this set of SoCs. And what's really encouraging is how our customers are looking at this in terms of the innovation that we've created here as well as our execution. And that's driving some serious interest in terms of our pipeline and opportunity in the semi-custom space that are moving through at this time.

David M. Wong
Analyst, Wells Fargo Securities LLC

Q

Great, thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you, sir. Our next question in queue will come from the line of Hans Mosesmann with Raymond James. Please go ahead. Your line is now open.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Thank you and congrats on the execution on the semi-custom. Hey, guys, can you provide a roadmap or some granularity regarding process node transitions in 2014 and 2015 as relates to FinFET by graphics and APU? Thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Hi, Hans, thanks for your question. And relative to where we are in terms of process technology node transitions, we are typically at the leading edge of process technology nodes. We are fully top to bottom in 28-nanometer now across all of our products and we are transitioning to both 20-nanometer and to FinFET over the next couple of quarters in terms of designs. So we'll continue to do that across our foundry partners.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

And specifically to FinFET, if you don't mind?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

We will do 20-nanometer first, Hans, and then we will go to FinFET.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Okay, thank you.

Operator: Thank you, sir. And it looks like our next question in queue will come from Vivek Arya with Bank of America Merrill Lynch. Please go ahead. Your line is open.

Vivek Arya
Analyst, Bank of America Merrill Lynch
Q

Thanks for taking my question. Rory, maybe one more on the PC business now that Intel is starting to become more aggressive in the lower priced segments of the market, also in the tablet category with Bay Trail. And these are segments where you have traditionally held a larger market share on a relative basis. So if you are expecting the PC market to decline 10% next year and Intel continues to be aggressive in that lower price segment of the market, how do you think your PC sales will trend next year just conceptually? I understand it's too early to make a specific prediction.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

From my perspective, Vivek, I think that we've created a very interesting product set with the current products and the feedback I am getting from our customers in terms of the design wins and the ramps. They look solid. Our volume is solid in that space and the next-generation products, the silicon is already in shop. So that's positioning us well to continue to compete in this segment. But make no mistake about it, the PC industry is clearly in transition and will continue to be in transition as tablet continues to attack, particularly in the consumer segment.

We think we can compete well, and it will make a significant portion to our business moving forward. But think about it. Two years ago we were 90% to 95% of our business centered over PCs. And we've launched a clear strategy to diversify our portfolio, taking our leadership IP in graphics and CPU and taking it into adjacent segments where there's high growth for three, five, seven years and stickier opportunities. We see that as an opportunity to drive 50% or more of our business over that time horizon. And if you look at the results in the third quarter, we're already seeing the benefits of that opportunity, with over 30% of our revenue now coming from semi-custom and our embedded businesses. We see it as an important business in PC, but its time is changing, and the go-go era is over. We need to move and attack the new opportunities where the market is going, and that's what we're doing.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it, and maybe one for Devinder on the cash side. I think, Devinder, in the prepared comments you said that you expect to be at $1.2 billion at the end of Q4, so slightly up sequentially. And then you do expect to be at the $1.1 billion optimal level by Q1. But given the $200 million payment due in Q1, does it mean you expect to generate cash also in Q1, which is seasonally a weaker quarter? Thank you.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yes, Vivek, if you look at the last one year, I think that was exactly what we said about a year ago about maintaining cash at the $1.1 billion level, well above the target minimum. And as you have seen, despite a very challenging year that we have gone through, we have successfully maintained $1.1 billion of cash without, by the way, getting any external financing. And with the ramp in the business that we see here at the level that we came in, in Q3 and what we are projecting for Q4 and with any levers available to us if wanted, I am very confident we can maintain cash at those levels.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Got it, thank you.

Operator: Thank you. Our next questioner in queue will come from the line of John Pitzer with Credit Suisse. Please go ahead. Your line is open.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yes, good afternoon, guys. Thanks for letting me ask the question. Rory, I guess what I'm trying to understand a little bit better is where do you believe the trajectory of the gaming ramp flattens out? So you've got some benefits here in the September and December quarter with initial builds. As we look into the first half of next year, what's the right steady-state run rate? And I guess specifically now that you've broken through the breakeven mark on the P&L, do you think you can stay above breakeven in what's usually a seasonally soft quarter in calendar first quarter?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, so we won't be giving guidance on first quarter at this point. But clearly, it's our objective to get back in black in third quarter and continue to deliver that in fourth quarter. And this year is the tale of two halves, the first half and improving second half. As we look to 2014, we need to look at the full year and drive a business that drives revenue growth and profitability for the full year. That needs to be the next step in our transformation.

Now in terms of the question about gaming, gaming is going to be an important driver of the business. And if you think about consoles traditionally, that's a five-plus year business, and it generally peaks in the third year. It will have some seasonality in the first half of the year, but we think there's strong demand and opportunity for us to continue to have very good business. And we'll share the specifics of that as we give the guidance for 1Q next quarter. But I think it's important to think about it as we continue to go after this pipeline in semi-custom.

We'll look to close additional deals over the next two years, one year and two years, that will allow us to continue to fill out that business with this nice sticky flow of revenue both in embedded and semi-custom. And while we're in the early phases of this transformation, as you move out and take the long view, you'll see the portfolio drive a much more consistent level of revenue moving forward. But then again, it's our objective, as we stated before, to get back in black, which we did in third quarter, and then to move forward in fourth quarter to continue to accelerate. And then for 2014, it's to drive a business that's profitable for the full year and drives revenue growth for the full year.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Thanks, Rory. And as my follow-up, Devinder, do you have an inventory target for the December quarter? And can you just bring us up to speed on where we stand with the wafer supply agreement with GLOBALFOUNDRIES for this year relative to your obligation that you had in Q3 – Q4?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yes, as I said in my prepared remarks, I expect inventory levels to remain essentially flat from where we ended Q3. Recall that it's a steep ramp in the business. We introduced semi-custom products, the new products that Lisa referenced earlier, the R7/R9 series. So I expect that in the Q4 timeframe, when we report the results we'll be essentially flat to Q3. Talking about the WSA from GLOBALFOUNDRIES, we are on track to meet the commitment for the 2013 WSA. And on 2014, if that's what you are referring to, we are in discussions to figure out the pricing and the wafer volumes for 2014, and I expect those to close within the next 30 to 60 days.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Thanks, guys.

Operator: Thank you, sir. Our next questioner in queue will come from the line of Ross Seymore with Deutsche Bank. Please go ahead. Your line is open.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, thanks for letting me ask a question, one clarification from the prior question. Do you expect seasonality in the gaming console business in the first half of 2014, or is the early stage at which we are in the ramp and the geographic distribution expanding for those launches something that could offset that seasonality?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, hi, Ross. This is Lisa. Let me answer that question. So again, the game console business is a consumer business, so we do expect some level of seasonality. You're absolutely right. It's the first year of launch and there's pent-up demand. So we'll see some seasonality as we go into the first half of the year. But probably a little bit different than normal years.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And one other clarification for Devinder. On the gross margin guidance of 35%, what does that assume as far as sales of previously reserved inventory? Are you going to get that one point again?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yes. Actually, that's not included. I think as we've said earlier, we remain opportunistic and when opportunity comes along, we go ahead and sell the parts, but there are no plans to go ahead and do that at this point. We have about $40 million left of the previously reserved inventory which we took in Q3 of 2012 to the tune of $100 million.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And I guess the final question more of a structural one, as we look forward into next year, you did a great job of getting down even under the $450 million in OpEx that you've talked about. If we think about next year conceptually, how should we expect the company's OpEx to change alongside of revenues? Do you think $450 million is something you can hold throughout the year, or what are the puts and takes from a kind of a bigger picture perspective?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think the key I would leave you with is, we've been very disciplined from an OpEx management standpoint. We actually beat the target of $450 million that we set, and projecting to be around $450 million for Q4. A thing you're going to see about AMD with the mix in the business and the changing model is we're very focused on operating margin. So obviously, if revenue goes up significantly, there's a possibility that OpEx might go up, but I think you're going to see us being very disciplined from a viewpoint of how OpEx modulates against a revenue increase or declines.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, Ross, I want to add a little something here to get a perspective on how we see this business evolving over time. Look at the semi-custom business, and how we're reusing IP in a series of high growth segments. And semi-custom is an NRE model where there's an investment around engineering. In the quarter, we drove $300 million of additional revenue, up 26%, and at the same time, we had expense decline almost 10% following a year we've driven down 25%. Clearly, that says we're getting a strong leverage in that model. And as we consider that in some of our core businesses, they'll continue to see pressure, they're at a different point in their maturity, we'll drive for higher efficiencies in those segments, and at the same time, look for opportunities to make investments to capture the new growth segments like – growth businesses like pro graphics, embedded and semi-custom. But overall, I think it's fair to say we will look for more efficiencies as we move forward. But it will be balanced.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you, sir. Our next questioner on the phone queue will come from Romit Shah with Nomura. Please go ahead. Your line is open.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

Hi, thanks for letting me ask a question. The computing results are my biggest concern looking at the quarter and, Rory, you chalked up the weakness to just general softness in consumer notebooks. But if I look at your numbers, the computing business was down 6% sequentially, you said desktops were up, which means notebooks were probably down more than 10%. And I compare that to Intel whose PC business was up, I think, mid-single digits, and IDC and Gartner were also up. So how do we reconcile the difference between AMD's consumer business, notebook business, and Intel and just the general market?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think you summed it up properly. The consumer market is feeling more pressure, but all parts of the PC markets are down. This market, this industry is down 10%, and at rates it's never experienced before. It's going to continue. From our perspective, AMD is over-indexed to client notebook. We've always been. We've had – just like we have to diversify our portfolio across high-growth segments, we need to diversify this core business. We need to move stronger into desktop and as we talked about a year ago, we worked on the inventory in the desktop segment and we built and repaired that and we've seen two quarters of consistent revenue growth in that segment. And we believe that we have the right product stack to continue to make hay, make progress in that part of our business as well.

But there's no doubt that the PC client segment particularly at the entry level will feel pressure from tablets and it's a competitive space. We're going to be in there and we're going to compete because we have very good product. But that is a key driver why we're moving in the direction of this transformation, this multi-year strategic transformation. We'll invest in those growth markets and we'll tack these base businesses around efficiency and where we can diversify the portfolio and gain revenue.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

And I would add from a financial standpoint just to level set with what we saw coming and what resets and restructure and the acceleration and transformation is all about. If you look at that particular segment from a revenue standpoint year-over-year, revenue is down about $140 million. Profitability is up about $36 million. Quarter-on-quarter, revenue is down about $51 million and the profitability went from essentially breakeven to what we ended up in Q3 at $22 million. And that is essentially the power of the expense model, how we are deploying the resources from a transformation standpoint into what we call the growth businesses including the semi-custom and the PC business which obviously is under pressure.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

All right. That's helpful. And then, sorry if I missed this but in Q4, embedded in the 5% sequential growth, are you assuming that computing is stable or growing?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think from a computing standpoint, I think there's no doubt that that market will continue to see pressure. I think at the industry level as well as in the consumer segment. We're planning not to lean into that but to manage the inventory as we'd much more like to see consistent revenue through that weak part of 2014 where seasonality affects it. So we don't want to kind of get a bumpy mood there. I think we'll see it continue to trend slightly down but I think as we move into 1Q and 2Q, we can continue to build off that base as we add the new revenues as part of our strategy.

Romit J. Shah
Analyst, Nomura Securities International, Inc.

Q

All right. Thanks, Rory.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

You're welcome.

Operator: Thank you, sir. And our next question in queue will come from the line of Joe Moore with Morgan Stanley. Your line is open.

Joe Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great, thank you. I wanted to go back to the Wafer Supply Agreement question with GLOBALFOUNDRIES. It looked like you used up 46% of that as of the 2Q 10-Q. The Computing Solutions business it looks like will be down in the second half and I think you've moved some of that business to TSMC. So I guess just some further clarity on why you're confident that you'll use the entirety amount of that?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I know the total amount that we committed to purchase in 2013 is $1.15 billion and looking at the numbers that I'm looking at we are on track to satisfy the obligation for the WSA for 2013.

Joe Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Thanks. And then the inventory build, I mean why do you need to maintain inventory at this level if your revenues are growing only about, looks like about $75 million in the fourth quarter?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

It's the timing, right, so you go ahead and have the build in the inventory from a viewpoint of the steep ramp in revenue and you can have the timing from a viewpoint of when the wafers come in and when we have the parts. And what we are doing from a management standpoint is over Q3 and Q4 keeping the inventory flat while the revenue has gone up 26% from Q2 to Q3 and projected to go up again in Q4. So I think you need to take the longer view in terms of the six-month period how much the revenue has gone up from the first half to the second half and inventory essentially has gone from $600 million to $900 million. And by the way the revenue is up significantly in both quarters compared to the prior quarters.

Joe Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great, thank you very much.

Operator: Thank you, sir. Our next question in the queue comes from the line of Chris Rolland with FBR. Please go ahead. Your line is open.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets

Q

Hi, guys. How are you? Back to the op margin, the incremental op margin in graphics probably implying mid-teens, maybe even a little bit better on the gaming console business. As we think about that going forward, once those products really on cruise control even if it's a couple of years from now, what sort of incremental improvements are we talking about when there's really not that much SG&A to support this or R&D to support this? I mean are we talking maybe another 500 basis points or even 1,000 basis points in op margin improvements at its peak?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Without giving granularity, and I'll let Lisa comment. Overall, as you can see, when you have a ramp in revenue for a new business like semi-custom, there's a certain amount of money you spend on an OpEx standpoint. The semi-custom business and in particular the game console business is built on an NRE model. The R&D costs have been incurred up front. The gross margins have been very transparent, lower than the corporate average, but the majority of that falls to the operating margin line. In Q3 alone, thinking that we were at the low double digits when we talked about last quarter, we came in at the mid-teens. As we gain traction, as we extract more efficiencies, as we go ahead and increase the volume and get cost improvements, the operating margin could go up from the mid-teens, higher than where we came in, in Q3. I'll let Lisa comment from a business standpoint too.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, Chris, just to give you a little bit more color on that. So the operating margins did come in a little bit better than we had originally planned, and that was primarily because the ramp was actually quite smooth, and it went very well. As we look forward, again, this is a very nice product. Each of these products are high volume. They give us a lot of opportunity to optimize yields and costs and other things. So we're going to be working hard to improve that operating margin over the next number of quarters, and it's something that we believe there's leverage in.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, Chris, one of the things you've really got to think about in this business, these are just the first two wins in this semi-custom space. We have a pipeline of additional products, and it's our intention to win and mix in a whole set of semi-custom offerings as we build out this exciting and important new business.

And also as you think about that NRE model, look at the expense to revenue ratio. When we historically ran this business at different margin, it was much higher, the high 30%s, even into the 40%s. In this quarter, we saw a 10% reduction in the E-to-R with that significant revenue gain, and we're going to drive that efficiency moving forward. Think about building that business and how the power of this model continues to grow over time.

Christopher Adam Jackson Rolland
Analyst, FBR Capital Markets

Q

Okay. Thank you, guys.

Operator: Thank you, sir. Our next phone question will come from the line of Srini Pajjuri with CLSA Securities. Please go ahead. Your line is open.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.

Q

Thank you, maybe for Lisa. Lisa, given that the product life in game consoles is quite long, I'm trying to understand how your own product refreshes work. For example, you are starting at 28-nanometer. Will these products stay at 28-nanometer forever, or are you going to switch to 20-nanometer at some point? And when that happens, what happens, obviously, the costs are going to increase. And I'm just wondering what happens to the margin side of the equation?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, Srini, good question. So it is a long life cycle product, over five to seven years. Certainly, when we look at cost reduction opportunities, one of the important ones is to move technology nodes. So we will, in this timeframe, certainly move from 28-nanometer to 20-nanometer. And the reason to do that is both for pure die cost savings as well as all the power savings that our customer benefits from. So I think we'll see leverage in the model as we continue to improve the costs. And as the costs improve, the volumes will also go up.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.

Q

So you actually expect the cost to go down as you move to 20-nanometer, not go up?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Absolutely, on a unit basis, yes.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.

Q

Okay, great, and then just a couple of clarifications. I think there was a mention about SeaMicro winning some designs at Verizon. I'm just wondering if you could give us an update on that business. It's been a while since you acquired that, how that's tracking. And if you could quantify how big that is, that would be great. Thank you.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, absolutely. So the SeaMicro business, we're very pleased with the pipeline that we have there. Verizon was the first major data center win that we could talk about publicly. We've been working that relationship for the last two years, so it's actually nice to be able to talk about it. We do see it as a major opportunity that will give us revenue potential in 2014. And we continue to see a strong pipeline of opportunities with SeaMicro as more of the data center guys are looking at how to incorporate these dense servers into their new cloud infrastructures.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.

Q

Thank you.

Operator: Thank you. Our next questioner in queue will come from the line of Kevin Cassidy with Stifel. Please go ahead. Your line is open.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yes, thanks for taking my question. Just for a little more granularity on the Verizon, are you only shipping SeaMicro product with AMD Opteron, or does it also have Xeon and Atom?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, so the clarification around SeaMicro servers, as I said, the Verizon engagement has lasted over the past two years, so some of the initial deployments were with the Intel processors, but we do have significant deployments with AMD Opteron as well.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And going forward, you will switch more to Opteron? Have your...

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

We do see the percentage of Opteron processors increasing because that's what we would like to do.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great, okay. Thank you.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

A

Operator, we'll take two more questions, please.

Operator: Understood. Our next questioner in queue will come from Ambrish Srivastava with BMO. Please go ahead. Your line is open.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)

Q

Thank you, Lisa. Since you are on a roll, I will just follow up on the server roadmap. What's the timing for 64-bit and then with ARM? And then specifically give us some insights to the extent you can on how you aim to combine SeaMicro x86 and ARM. Thank you.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Thanks, Ambrish, for the question. So again, we're very excited about the server space. It's a very good market. It's a market where there's a lot of innovation and change. In terms of 64-bit ARM, you will see us sampling that product in the first quarter of 2014. That development is on schedule, and we're very excited about that. All of the customer discussions have been very positive. And then we will combine both the 64-bit ARM chip with our SeaMicro servers to have a full solution as well. So I think we view this combination of IP as really beneficial to accelerating the dense server market, both on the chip side and then also on the solution side with the customer set.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)
Q

What would be the timing for that, Lisa, for SeaMicro plus ARM?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

So you'll see that in 2014.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)
Q

Okay, thank you.

Operator: Thank you. And we do have time for an additional one questioner. And it will come from the line of Patrick Wang with Evercore. Please go ahead. Your line is open.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Yes. Thanks for squeezing me in. I've just got two questions. First, I guess I'm a little bit confused about the way to think about the consoles semi-custom contribution in the fourth quarter. It sounds like you guys are saying that graphics with the R7, R9 launches probably are going to be up, CPUs down modestly with the markets. And then of course, earlier this morning, we heard TSMC also talk about an expectation that console would be down a little bit in the fourth quarter in terms of wafer starts. So can you just to kind of help us maybe give a little bit more color in terms of the type of growth that we should be factoring into the fourth quarter?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yes, Patrick. So let me try to help with that. So if you look at the combined quarterly shipments for Q3 and Q4, they are very much on track with what we would have expected. If you look at the supply chain cycle, we buy wafers earlier to ship, and the peak months are going to be October, November. So I think all of the data is consistent. We did ship a few more units in Q3 than we originally planned just because of the strength of the production ramp. But we will see game console revenue go up Q4 versus Q3 just as both Microsoft and Sony are preparing for their holiday launches.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay. So it sounds like it's more of a timing thing. And just my second question for Devinder. I know when I take a look at your guidance CFO commentary, you talked about positive free cash flow in the fourth quarter. Can you help provide us the timing of your payments to GLOBALFOUNDRIES? I see a liability on your balance sheet. I know you've got another $200 million coming up in the first quarter. But how does that play out? And how that work with your positive free cash flow?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think that there are two parts to it, right? So we have wafer purchase from GLOBALFOUNDRIES that we have purchased throughout this year. Earlier this year, we did have some special payments that we made related to the limited exclusivity waiver that we got way back in 2012. And then we did have the termination payment. We made about $120 million payment of that. There's another $200 million from that left to be paid in Q1 2014. So if you relate that from a cash standpoint, we have, as I projected, $1.2 billion of cash. Revenues can be up in Q4, and then when we get to Q1, we collect the cash for the revenue that we're going to have in Q4, pay the $200 million, and that's where I am projecting – maintaining at the optimal range of the $1.1 billion from a cash standpoint.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

I see. Okay. Thanks so much, guys.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Thank you.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, operator. That concludes today's call, and we'd like you to sign us off, please.

Operator: Thank you, presenters, and thank you, ladies and gentlemen. Again, this does conclude today's call. Thank you for your participation, and have a wonderful day. You may now all disconnect.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2013 Earnings Call for 17-October-2013 5:30 PM ET
Friday, July 26, 2013 01:38:02 AM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2013 Earnings Call for 17-October-2013 5:30 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1865755&highlight=
Live WebCast URL: http://edge.media-server.com/m/p/4hkh4nxh/lan/en
Replay WebCast URL: http://edge.media-server.com/m/p/4hkh4nxh/lan/en

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Advanced Micro Devices, Inc. (AMD)

Q2 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, my name is Huey and I'll be your conference operator for today. At this time, I would like to welcome everyone to AMD's Second Quarter 2013 Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's second quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and slides. If you have not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com.

Our participants on today's call are Rory Read, our President and Chief Executive Officer; Devinder Kumar, our Senior Vice President and Chief Financial Officer; and in addition we have Lisa Su, our Senior Vice President and General Manager of our Global Business Unit who will participate in the question and answer session. This is a live call and will be replayed by a webcast on amd.com.

And before we start, I'd like to highlight a few dates of interest for you. Matt Skynner, our Corporate Vice President and General Manager of our Graphics Business Unit will attend the Jefferies Semiconductor and Hardware Summit in Chicago on August 28. Lisa will present at Citi's Global Technology Conference on September 4 in New York. Our third quarter quiet time will begin at the close of business on Friday September 13. And lastly, we intend to announce our third quarter earnings on October 17, and dial-in information for that call will be provided in mid-September.

Please note, we renamed our Graphics segment to Graphics and Visual Solutions. This better reflects the growing importance of gaming and semi-custom offerings to AMD. In addition, please note that non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measures in the release and CFO commentary posted on our website at quarterlyearnings.amd.com.

Before we begin, let me please remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. You can refer to the cautionary statement in our press release for more information. You will also find detailed discussion about our risk factors in our filings with the SEC, and in particular AMD's quarterly report on Form 10-Q for the quarter ended March 30, 2013.

Now with that, I would like to hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. We are making progress on our three-step strategy to restructure, accelerate and ultimately transform AMD for growth. This progress allowed us to deliver improved results in the second quarter. Revenue of $1.16 billion was higher than our guidance as strong demand helped drive sequential unit shipment increases and market share gains across both of our business segments.

With our restructuring complete, our focus in the second half of the year is on continuing to accelerate our business. We expect to return to profitability in the third quarter based on the midpoint of our revenue guidance. Our traditional PC business is heading into the typically stronger second half of the year with a competitive portfolio of new products and strong mobile design wins, particularly for systems in the $300 to $600 sweet spot of the market. Many of these systems will be the first to bring touch capabilities down into the mainstream price points where AMD has traditionally been the most successful.

We remain on track to deliver more than 20% of our revenue from our semi-custom and embedded businesses in the fourth quarter. With growth in the second half of the year primarily coming from our semi-custom SoC products for both the Sony and Microsoft next-generation game consoles. These tailored products are great examples of the opportunities we have to quickly diversify our product portfolio and enter into new markets where our IP and design capabilities provide us with a competitive advantage.

Looking more closely at our progress in the PC market, our strategy to gain share by introducing a new set of APUs and winning high volume notebook designs across key customers by region, price point and form factor helped drive strong double-digit sequential increases in mobile processer unit shipments. With our mobility APU launches last quarter, we now offer the broadest range of mobile processers in our AMD history. Our new elite mobility APUs scaled down below 4 watts while more than doubling the performance per watt compared to our previous generation.

We are seeing strong adoption of these new APUs. This is particularly true of our high-volume Kabini which is powering a number of thin and light touch notebooks that will hit the $400 price point. Acer, Asus, Dell, HP, Lenovo and Samsung have began to roll out products based on our latest APUs, and we expect many more systems to launch in the second half of the year.

We also continue to make progress rebalancing and strengthening our channel business. The introduction of a Richland APU helped drive a sequential increase in desktop processer channel revenue. We expect to continue to build on this improving channel trend in the second half.

Turning to our server business. A number of large datacenter wins in the quarter drove sequential revenue and unit shipment increases. Additionally, we continue to gain momentum in the emerging dense server market as customers are choosing AMD SeaMicro offerings for their datacenters based on the industry leading energy efficiency, density and bandwidth of our solutions.

We intend to further attack the fast-growing portion of the server market in 2014 by introducing our next-generation x86 APUs and CPUs as well as our first ARM-based server product. Our years of enterprise design experience and the ability to integrate our industry-leading dense server fabric into the processer provides us with a differentiated product for this new and exciting market.

Now turning to our Graphics and Visual Solutions business. Our strategy to make AMD the de facto standard for game developers continues to gain momentum as we launch the industry's fastest desktop and mobile graphics chips, and cemented our position as the technology provider of choice for all three next-generation game consoles. In the high-end enthusiast portion of the desktop GPU market, the combination of powerful our graphics products and the Never Settle game bundle program drove significant share gains and a richer mix in the channel from the previous quarter.

Our professional graphics business also recorded its fourth straight quarter of growth, delivering record revenue as we continued to aggressively pursue this lucrative market. Looking at the second half of the year, we believe we have good opportunities for growth based on the PC market strengthening slightly from the first half levels and the ramp of our semi-custom business.

Longer term, the 300 million plus unit traditional PC market remains an important part of our core business, especially as the mainstream $300 to $600 system price points that have been traditionally been our sweet spot become an even larger portion of the overall PC market. We will continue transforming AMD, leveraging our design expertise and IP to pursue additional growth opportunities for our semi-custom, ultra low-power client, professional graphics, dense server and embedded solutions. We expect these high growth businesses will account for 40% to 50% of our revenue in the next two to three years.

In summary, we are pleased with the progress we are making to restructure, accelerate and ultimately transform AMD, as strong demand for our latest products drove improved financial and operational results in the second quarter. We expect to deliver significant revenue growth in the second half of the year as our strong new products position us to gain share in our traditional businesses and our first semi-custom SoC win allows us to participate in new markets.

We are on track to reach our operating expense target of approximately $450 million and we expect to return to profitability in the third quarter based on the midpoint of our guidance. We are excited about the near-term opportunities to demonstrate our efficient business model, disciplined operational focus and diversified product strategy that will deliver consistent profitability and growth.

With that, I'd like to turn it over to Devinder. Devinder?

Devinder Kumar

Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory. Phase one of our three-phase turnaround and transformation strategy is largely behind us. We are now pursuing a diversification of our product and revenue portfolio with a focus on high-growth market opportunities. As Rory mentioned, our performance in the second quarter was driven by both traditional PC and new growth opportunities which support our business model transformation in an evolving PC market. We are on target to generate 20% of our revenue outside of the traditional PC space to semi-custom and embedded products by Q4 2013.

The last phase of transformation over the next two to three years is expected to see us transition 40% to 50% of our revenue base to higher growth markets which include semi-custom, dense server, professional graphics, ultra low-power client and embedded products.

Revenue for the second quarter of 2013 was $1.16 billion. The 7% sequential increase was driven by a 12% increase in the Computing Solutions segment, which was partially offset by a 5% decrease in the Graphics and Visual Solutions segment. Gross margin was 40%, a decrease of 1 percentage point sequentially and includes an $11 million benefit from the sale of certain products previously reserved in Q3 2012. You may recall that Q1 2013 gross margin of 41% included a similar benefit of $20 million. Excluding these benefits, gross margin was flat at 39% for both Q2 and Q1 2013.

Non-GAAP operating expenses were $479 million and we remain on track to achieve our operating expense goal of $450 million by the third quarter of this year. Non-GAAP operating loss was $20 million and non-GAAP net loss was $65 million. Non-GAAP loss per share was $0.09, calculated using 752 million basic shares. This loss per share includes the $11 million benefit from the sale of previously reserved products. Adjusted EBITDA was $54 million, an increase of $14 million from the prior quarter due to the lower operating loss.

Now switching to the business segments. Computing Solutions segment revenue was $841 million, up 12% sequentially due to significantly higher notebook and higher server and desktop unit shipments primarily driven by demand for our new Kabini and Temash offerings, as well as our latest Opteron 6300 series of products. Client product revenue and server microprocessor revenue increased sequentially. Computing Solutions operating income was $2 million, an improvement from an operating loss of $39 million in the prior quarter.

Graphics and Visual Solutions segment revenue was $320 million, down 5% compared to the prior quarter primarily due to lower game console royalties. Graphics and Visual Solutions segment operating income was breakeven compared to $16 million in the prior quarter.

We continue to diversify our product portfolio into new markets where the competitive dynamics are different. In the semi-custom space for example, the market is differentiated from the rest of our business as our customers engage with us very early to jointly define and fund engineering development of customized products. Development revenue and the associated costs are incurred during the development cycle of the given products. When the semi-custom products ship to the customer, we generate silicon sales and the associated ongoing OpEx is significantly lower than our non semi-custom products due to the upfront funded development. The semi-custom model has the potential of providing a long term revenue stream based on high volumes which results in gross margin that is lower than the corporate average but has significant revenue and earnings power as volumes ramp.

Under this model, the majority of gross margin dollars fall through to operating income and the operating margin for this business will be in the low double-digit range, more than offsetting the impact of the lower gross margin. In addition, as we transition to shipping silicon products, game console royalty revenue included in the semi-custom business is expected to decrease moving forward, although the decline will be more than offset by our growing semi-custom development and product revenues.

Turning to the balance sheet, our cash, cash equivalents and marketable securities balance including long term marketable securities was $1.1 billion. During the quarter, AMD made a $40 million cash payment to GLOBALFOUNDRIES related to the 2012 wafer purchase commitment reduction and exited the quarter at our target-optimal cash level and well above the target minimum cash level of $700 million. That as of the end of the quarter was $2 billion, flat from the prior quarter.

Inventory was $711 million, up $98 million sequentially, largely driven by semi-custom products and the ramp of new products in the PC space to support growth in the second half of the year. Accounts payable at the end of the quarter was $402 million, up $101 million compared to the end of the first quarter of 2013 due to the timing of purchases and payments. Depreciation and amortization was $54 million, down from $62 million in the prior quarter primarily due to the sale and leaseback of our Austin, Texas Lone Star Campus.

Now turning to the outlook. For the third quarter of 2013, AMD expects revenue to increase 22% sequentially plus or minus 3%. Gross margin is expected to be approximately 36%. Despite expecting revenue to increase significantly, quarterly operating expenses are expected to decline approximately 6% sequentially to around $450 million. Expense management will continue to be a focus area for us as we move forward. At the midpoint of revenue guidance, AMD expects to be profitable at the net income level.

Inventory is expected to increase sequentially to approximately $800 million, largely based on semi-custom product builds. We expect inventory to remain at those levels for the coming quarters, consistent with the ramp of our semi-custom business and cash is expected to remain flat sequentially at approximately $1.1 billion.

In summary, in the third quarter, we will build on the strong foundation we have established as we remain laser focused on execution and returning to profitability in the third quarter and positive free cash flow generation in the second half of the year. With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we'd be happy to poll the audience for questions now, please.

QUESTION AND ANSWER SECTION

Operator: Yes ma'am. [Operator Instructions] And our first question in queue will come from the line of Vivek Arya from Bank of America. Please go ahead. Your line is now open.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Thanks for taking my question. First question, could you help us, Rory, differentiate between the growth prospects for your traditional PC and server segment versus the game console opportunity in Q3? And then if you could give us any initial sense for Q4.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Sure, Vivek. As we look forward, we see a continued opportunity in the PC segment. While we see it only slightly stronger than the first half and I believe down year-to-year, I think there is an opportunity for us with our stronger product portfolio to continue to build on the momentum that we saw in the second quarter. Clearly, the market is moving down into the entry and mainstream price points where we've played very well. And I think this is a very good opportunity for us to continue to build share. Now having said that, clearly the momentum and acceleration of revenue will come from the new segment as well as off of that initial base. But those SoCs that we won in semi-custom are going to be a key driver moving forward in 3Q as we've guided.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

So just one follow-up on that, Rory. I think yesterday Intel guided to about a 5% or so sequential growth in their PC and server segment. Is that roughly how we should be thinking about your traditional business and then whatever is left is the new opportunity?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Well I see the overall PC market in the second half growing in that mid-single digit level and what I would like to do is to achieve that or exceed that so that we could slightly gain share.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Got it. And one last one for Devinder. Devinder, I think you mentioned low double-digit operating margin from the new wins that you have in consoles. I assume that is exclusive of the royalties. And is that an initial profitability level and does it get better than that or is that sort of a run-rate level over time?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I think we're giving guidance for Q3 and guiding to the low single-digit from a Q3 standpoint. As you can imagine this business, the semi-custom business and game console in particular has a long lifeline and over time the mix between the ASPs and the cost can change. So looking out to the future is hard to tell but at least at the starting point for the next couple of quarters are pegged at the low double-digit.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Got it. Thank you very much.

Operator: Thank you, sir. And our next question will come from Joe Moore with Morgan Stanley. Please go ahead. Your line is open.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC
Q

Great, thank you. Also on the console questions, how does the pricing work to you guys? Is it on [ph] a good die basis (23:15)? Is there any kind of yield risk to your profitability there? And I have a follow-up on that.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yes Joe, this is Lisa. So the game console SoCs are really as we would do. They're wafers that we expect good solid yields from. We've had very good bring-up and so we're looking good with the prospects.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC
Q

Okay, great. And then how do you think about the ASPs in that business over the next number of years? Is that a volume based thing? Are there times when prices come down or just how does the price negotiation work over the course of the next few years in that business?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

These are long term deals that we have with the customers given the range of the length of the design wins, so these are pre-negotiated.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And Joe, what you would expect is you would expect what we've seen in the historical trends around game consoles. These generally run somewhere between five and seven years and you would expect that over time the prices would move lower but obviously expense and cost would move with it. What's powerful about this business is you can see a significant increase in our revenue quarter-to-quarter as we begin to ramp this. At the same time, you see our expense level decline by almost $30 million to the $450 million level, showing the benefit of doing that NRE customer funded development and how it flows through to the bottom line at that double-digit level.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. And our next question will come from Ross Seymore with Deutsche Bank. Please go ahead. Your line is now open.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi everyone. Congrats on the solid report and guide. First question, looking back just briefly, the upside that you had, can you walk through a little bit of what drove that surprise? I know the Computing Solutions group was up 12%. Was that mainly the Temash uptake or any more color you can give us there would be helpful, please.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, I think we saw a strong momentum in the new product segment and obviously Temash and Kabini did well. I think Lisa has seen a good up-tick in the graphics arena as well and in the desktop channel area. So we basically saw it in every part of our business, progress quarter-to-quarter. Now of course, we're building off of that lower base as we saw the market fracture at the end of last year, but that's a good foundation given these new products and the uptake that we've seen there.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Was the ASP decline also driven by the new products, so it's a strategic decision in part of addressing those notebook price points that you mentioned earlier, Rory?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, from my perspective, what you're going to see is basically a mix discussion. We saw a very good performance in our entry and mainstream price points and I think it's basic basically a mix area. We're focused on moving up the stack with the Richland offering as well as balancing that off with the new SoCs from the gaming and server areas. So I'd say it was mix, Ross.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Okay and I guess one final question on the gaming side of things. How do we think about eventual seasonality in that business? Do we have a good two, three quarter ramp before we even have to worry about that?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes Ross, this is Lisa. I think the way to think about game console seasonality is like any consumer business. The first half is usually lower than the second half. Of course we're in the middle of the ramp process, so the second half of this year will be the ramp of the consoles. But I would expect the first half would be weaker as most consumer cycles are.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Even in the first half of 2014 or is the ramp probably going to overcome any seasonality at that point?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

I would still expect a typical consumer seasonality.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Got you. Great, thank you.

Operator: Thank you, sir. Our next question will come from John Pitzer with Credit Suisse. Please go ahead, your questions, please.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Yes good afternoon, guys. Thanks for letting me ask a question. Lisa, maybe as a follow-on to that Ross Seymore question, given that we're early in the ramp phase, any way of quantifying the sequential ramp in gaming from Q3 to Q4 to kind of hit some of the unit numbers that are out there in the popular press as to how many of the gaming systems might be built for the Christmas holiday? Is there any way to give us some sort of color of how much of that is falling in Q3 versus Q4?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yes John, that's hard to say, given that the customers are really dictating their ramps. I will say that as Rory said earlier, a strong part of our guidance in the third quarter is as a result of the semi-custom ramp and we expect to ship a number of units over both the third quarter and the fourth quarter.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Helpful. And then Rory, you guys did a good job helping us understand the profitability in the gaming systems. I'm just kind of curious, as we see the launch of new products in the core compute and server market, you're slightly above a breakeven operating level in the June quarter. How do we think about profitability in the core business, especially given that you gained share, market share in the second quarter. Breakeven was probably a little bit lower than I would have expected. So how does that sort of track through the second half of the year with these new products and market share gains?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Well, I'm actually pleased with the progress to move back to profitability at the midpoint guidance. Driving to that level, that's something that we've talked about over the past three, four quarters and I think we're executing well to deliver that. You're seeing a movement in the revenue up and the control of the expense down and a nice new set of products that are coming out. That I believe we can continue to build on. The PC segment as I talked about earlier in the call, the market is choppy. There is no doubt that market will continue to be choppy the next 12, 18 months.

In spite of that, that market's over 300 million plus units. That's a great opportunity for us and a key component to our future strategy. We want to grow and we want to take share there. Now, to augment that and to balance off our expense and reuse our IP, let's take that IP and technology and apply it into these new high-growth segments. You're beginning to see the power of that model emerge here in the 3Q quarter. Now we have to execute and we need to execute through the end of the year. But that's the fundamental structure of the business model Devinder and I and the team are creating.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks John.

Operator: Thank you, sir. Our next question will come from David Wong with Wells Fargo. Your line is open.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Thank you very much. Given the pre-negotiated pricing package you have for the game console chips, do you expect once you're at full volumes, do you expect your annual revenues to grow each year or should we expect them to be fairly flat once you're at full volume with unit growth being offset by pricing declines?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes, I think what's important to think about, David, is we're talking about three quarter, third quarter guidance next. And as we go through this process, I think what's best for you is to look at the historical game console trends over time. I think that's a pretty good indicator of how this business goes. For us, I think there is a very good opportunity for us to build on this. And of course, Lisa and her team are continuing to build the pipeline in the semi-custom business to attack areas in the server segment, in the home segment, areas where graphics and our technology will play. We want to continue to build out this custom momentum so it becomes a very substantial portion of our business going forward. And I think it uniquely positions AMD to create differentiated solutions with our customers, David.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Okay. And sort of related to this, you guys had said low double-digit operating margin for the console chips. Does that put gross margin in the mid-teens?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

We wouldn't talk about gross margin at that level of the business. Devinder has got commentary that shows you in the two business segments that we talk about. I think what you're going to see is that that business is a good business for us with significant revenue growth, managing the expense profile moving forward, flowing profitability to the bottom line. And that's what we've talked about as part of our strategy to diversify the portfolio.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Okay, great. Thanks very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, David.

Operator: Thank you, sir. And now our next question will come from Hans Mosesmann with Raymond James. Please go ahead. Your line is now open.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Thank you. Congratulations on the outlook. A comment, or a question regarding your positioning with Temash and Kabini with a one or two quarter lead over the upcoming Bay Trail. What is the competitive positioning or the advantage that you have besides being first to market versus that device that Intel is going to be shipping later in the year. Thanks.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes Hans, if you look at our Temash and Kabini offerings, I think we're very pleased with overall performance both on the processing side and the graphics side and the adoption through the OEMs. We do have a time to market advantage and that proves good when you look at the systems that will be on the shelf both starting this quarter and into the summer. And as we go forward, we think we're well positioned versus Bay Trail as well. So I think this is an important segment for us to continue to grow in and that's our plans.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.

Q

Thank you.

Operator: Thank you. Our next question will come from Christopher Danely with JPMorgan. Please go ahead. Your line is open.

Christopher B. Danely
Analyst, JPMorgan Securities LLC

Q

Okay, thanks guys. Can you just maybe comment on the expected trend line of OpEx after this quarter? And then since you're opening up the kimono on the gaming opportunity, maybe talk about your, sort of your goals for the combined growth and operating margin targets longer term for the company.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think the way I would look at it Chris, is the following, right. We are on target to hit the $450 million in Q3 of 2013 and beyond that, we're going to be laser focused, look at the mix between the OpEx and the revenue. And as Rory talked about, as the revenue evolves over time, whether it's a semi-custom business or the traditional business that we have, we keep an eye on that. If you take for a moment that there is going to be an uplift in revenue, we are going to watch that very carefully and what I would say is the increase in OpEx, if any, would be significantly lower than the increase from a viewpoint of the revenue is the way I would look at it.

This is really moving to a model which is very different than we have had in the past. And with the OpEx reductions you're seeing in Q3 with a significant increase in revenue, it demonstrates the earnings power of the model, in particular when you have a business that can drop low double-digit to the operating margin and help obviously the bottom line from an overall standpoint.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes and Chris, on the expense side, very important to think about how we're working on our overall processes and execution. The idea of an ambidextrous architecture and reusable IP, this is what you're seeing. The power of Jaguar as a core showing up in semi-custom offerings into server chips into all the way to client chips. This is the model that we're on the journey that we're taking; to dramatically improve the efficiency of how we create SoCs, leverage our IP, and we've been investing to go get some of the best industry talent in Mark Papermaster's team and Lisa's team to really build out that technology leadership. But it's around that expense part that you want to see us continue to manage this very tightly and we should not be scaling that in a significant way moving forward.

Christopher B. Danely
Analyst, JPMorgan Securities LLC

Q

And the combined margin target for the company, would you care to update us on that?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

It's 36% this quarter and that's the mix of the revenue that we have going from Q2, Q3 and we're not giving long-term guidance for gross margin at this point.

Christopher B. Danely
Analyst, JPMorgan Securities LLC

Q

Sure, and then just one housekeeping item. You mentioned that you're ramping the gaming opportunity this quarter. Should we think of the gaming opportunity as being the primary driver for growth in Q4 or will the ramp be done by the end of this quarter?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Q2 to Q3, the gaming opportunity is the primary driver. We're not talking about Q4 at this point.

Christopher B. Danely
Analyst, JPMorgan Securities LLC

Q

Got it. Thanks.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you, sir. Our next question will come from Stacy Rasgon with Sanford Bernstein. Please go ahead. Your line is open.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi guys, thanks for taking my questions. First, you said that you have obviously the game console royalties that are there are now rolling off. My understanding that was about on an annual basis $100 million to $150 million a year. So if you're running with low double-digit operating margins in the console business, even at $1 billion a year in revenue, that seems to be just enough to basically over the long term to offset the loss in game console royalties. Is that the, number one I guess, is the magnitude of those numbers correct and is that the right way to think about this?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I can't comment on the magnitude of those numbers as you can imagine, but what I can tell you is over time, as our business model is transitioning, we're going to be in the silicon and development NRE model in the semi-custom business and what you should look at it from an overall standpoint, whatever you peg the revenue to be for that business, the fall-through to the operating margin line because we're going to be very operating margin focused as opposed to the traditional historical gross margin outlook that everybody has been focused on, on the AMD model. Because this is truly a transition going from one business model that we have had in the history of the company to where it's evolving into more focus on operating margin as opposed to gross margin alone.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

But it is fair to say that the loss of royalty revenues is going to impact any gains in operating that come from the console business?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

That depends. It's all speculation depending on how much the increase is in the semi-custom and game console business. It's hard to really speculate on that.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay, great. I have one more quick question. So this has to do with your wafer commitments to GLOBALFOUNDRIES. I think right now, your current commitments for this year, $1.15 billion, that is flattish to last year in a PC environment that even according to you guys is right now kind of anything but flat. Are all of the console chips being made at TSMC or can any of those console chips actually go to satisfy your wafer commitments to GLOBALFOUNDRIES? And if not, is there a risk of a repeat of last year where you had a big shortfall? I think you're even still on the hook to pay for about $200 million in wafers that you didn't need in 2012 and pay for those in the first quarter of 2014. What's the risk around the wafer supply agreement given the differentials of growth?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

There's many points, many points were made and I think the key thing I would leave you with is we do have a commitment this year as you called it, of $1.15 billion. We are on track to meet the commitments and as we finish half the year here, approximately half of those obligations have been extinguished. The $200 million you referred to is part of the termination that we did for 2012 when the market took a downturn and that $200 million is due in our Q1 2014.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

So does that imply that some of the console chips actually are being made at GLOBALFOUNDRIES? Because I don't see how you could have flat wafer [indiscernible] (39:23).

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

We don't share level of detail in terms of our foundry strategy or where we make products between the foundries.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay, thank you, guys.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Stacy.

Operator: Thank you, sir. Our next question will come from Ambrish Srivastava with BMO. Please go ahead. Your line is open.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)
Q

Hi, thank you. I'm just curious, Devinder and Rory, why would you not answer the long-term operating margin question that Chris was asking? And I understand it that the business is in transition and there are a lot of moving parts, but Devinder, you said that you're running the business for with a operating margin focus. What is that focus? And I get it that the $450 million, you've just delivered on the $450 million and the breakeven, but just trying to understand longer-term, what are all the uncertainties that prevent you from giving us a longer-term target? Thank you.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I wouldn't classify it as uncertainty, but let's just go through what we have said from an overall standpoint. We are on target to get to 20% of embedded semi-custom by Q4 of 2013. We've also said very publicly that longer-term, we are targeting 40% to 50% of revenue to higher growth markets and some of those businesses have higher than corporate average gross margins. So you can imagine as we sit here in Q3 in essentially the first quarter we are transitioning in a significant manner to a mix of revenue that's very different than what we have had in the past, that there is going to be a transition over time, Because it's two to three years to get to the 40% to 50% mix and that can obviously have an impact on revenue, ASPs. It can have an impact on the gross margin and finally the all-important from my standpoint the operating margin, because that's what flows to the bottom line and the EPS. So it's a transition and you're asking for the longer-term model to be laid out in the first quarter where the transition is occurring and that's just difficult to do.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah and you remember, we're executing a three-step turnaround strategy. We did the reset and the restructure. We've completed that. Now we're in the beginning of the turn and the acceleration as we execute the product plan and the move. And then ultimately, we transform the company to that 40%, 50% of the mix in a diversified portfolio on those high growth segments. Now we're about four quarters, three quarters into this transition and we're right on track on that strategy.

Ambrish Srivastava
Analyst, BMO Capital Markets (United States)
Q

Okay. That's helpful. That's helpful. Thank you, guys.

Operator: Thank you, sir. Our next question in queue comes from Romit Shah with Nomura. Please go ahead. Your line is open.

Romit J. Shah
Analyst, Nomura Securities International, Inc.
Q

Hey, thanks for taking my question. Just on gross margin, I want to understand if there is more than one moving part driving gross margins from 39%, 40% down to 36%. Is it just the higher mix of console or are there other factors as well? Thanks.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I think going from Q2, Q3 primarily it's the higher mix of the game console business that's driving from the 39%, 40% to the 36% guidance that we're providing.

Romit J. Shah
Analyst, Nomura Securities International, Inc.
Q

And Devinder, for computing, are computing margins going to improve sequentially in the third quarter?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I'm not going to give that level of granularity, but I think you can make the assumption that they are generally stable. We've been running at a 39%. If you go back and adjust for the benefit we got from the sale of [ph] previouses (42:45) of inventory, we've been 39% for the last three quarters and I think if you want to make an assumption, it's pretty stable.

Romit J. Shah
Analyst, Nomura Securities International, Inc.
Q

Okay. And then final question for Lisa. You know, you referred to the traditional consumer electronics market I think in reference to a question about seasonality. Do you guys have any clues or insight on how to think about this console business and the ASP declines that you may see in the upcoming year?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

I mean, again if you think about this, these are usually long-life products and over five to seven years, you will see cost reductions go into place. But I think we've been clear that the business is, it's a long-term business and we'll continue to service it over that period of time.

Romit J. Shah
Analyst, Nomura Securities International, Inc.
Q

All right. Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Thank you, sir. Our next question in queue comes from Cody Acree with Williams Financial. Please go ahead. Your line is now open.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

Thank you for taking the questions and congrats on the progress. Lisa, on the embedded processing side, I know that you guys have been working for quite some time on the console business. Can you just talk about maybe what the next opportunity, maybe for applications or end markets that you're targeting and maybe when we might start to see some of those layer in?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, absolutely. So the semi-custom and the embedded are both two important growth markets for us. Semi-custom has been so far dominated by gaming but we see a lot of other opportunities. We have a strong pipeline that can similarly use our graphics and computing capability and some of the markets are things like other consumer, specialty servers, those types of markets. Embedded processing is also important to us and we see in those markets x86 being very valuable in industrial and medical and other casino gaming type opportunities and so we've been continuing to build that pipeline as well. Those design wins tend to be longer in nature and take about 12 to 18 months to get into production. So that will be more of a 2014 phenomenon to see growth.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

Great. Thanks for the help. And on x86, so you're moving forward with both an ARM and an x86 strategy. We're seeing Intel do similar on density on x86. So in the server side, if x86 can reach a similar density and power savings, do you believe that there is still as large of a need for an ARM alternative?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

I think really we view ARM and x86 as two important ecosystems that are out there in the industry. So x86 will always continue to be very important in both the PC and the server market. But we see ARM being important with new markets especially new operating systems as well as some of the high volume datacenter applications. So yes, there will be a market for both ARM and x86 and I think that's one of the unique things that we can bring over the next few years to the marketplace.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

And then just following there then, with your multi-pronged server strategy and the reductions in some of the head count you've had to go through, how confident are you that you're going to be able to address all of those different tracks without stretching your resources too thin?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, that's a good question and I think the most important thing for us as a company is really the focus that we've been working on over the past 12 to 18 months has been around reuse and getting strong reuse across our IP portfolio. Whether you're looking at our client, semi-custom, embedded or server markets, they use the same cores technology, the same graphics technology and we bring that together in the solutions for each market.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

Great. Thanks, guys. Good luck.

Operator: Thank you, sir. Our next question comes from Jim Covello with Goldman Sachs. Please go ahead. Your line is open.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Great, guys. Thanks so much for taking the question. I appreciate it. I thought that David Wong and Stacy had some good questions. I just wanted to try to follow up on those a little bit if I could. Maybe another way of asking what they were asking was, if you guys do not get other wins with these APUs, this is a gross margin dollar neutral transition in gaming, is that correct?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I don't know what you mean by that question.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Well, the point that Stacy was bringing up, you lose in operating income and royalties what you gain in operating income from APUs. So net-net, it's a zero operating margin dollar exchange. But then theoretically, you have the opportunity to leverage these platforms to gain additional opportunities.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Jim, we have a real significant opportunity in these high growth segments to drive over the next two to three years to 40% to 50% of our revenue. That means these businesses are going to get significantly bigger and I think there's an opportunity for that to create very accretive and consistent profitability as we move forward.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Okay, so no ability to get any granularity specifically on the first question I asked?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think we did.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Okay then, thank you. I appreciate it.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Jim.

Operator: Thank you, sir. Our next question will come from Christopher Rolland with FBR. Please go ahead. Your line is open.

Christopher Adan Jackson Rolland
Analyst, FBR Capital Markets

Q

Hey, guys, thanks for taking the call and great quarter. Sorry to harp on the OpEx stuff, but if you could talk about the gaming consoles expenses either on an absolute basis or at least an anecdotal basis, what are the call it R&D and SG&A costs involved in supporting a launch like this and how do we sort of think about that over time? Thanks.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think I said in my prepared remarks, when you look at the semi-custom model from a game console standpoint, it is a very different model. It's a model where the costs are upfront funded jointly between the customer and us. You incur the costs. You go ahead and introduce a product and at the time of product introduction you get the sales. It's lower gross margin than corporate average but a majority of the gross margin dollars fall to the operating margin. And that's the benefit that we get at the bottom line from an overall standpoint.

As far as the details of the business and you know how you manage it between the sales, marketing, G&A and R&D, I'll let Lisa comment in a second on the R&D and G&A. But from a marketing standpoint, I can tell you that there is not much because essentially we're selling products to captive customers in this case and they do the marketing for their end product with consumers and we supply the product. Lisa?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, so maybe to add a little bit more color to that the way these products are defined, we jointly define it with the customers. We leverage IP that we have across our base businesses and then there is an engineering recovery done for the specific customization. Not – really, no measurable sales and marking expense just given that it's a discrete customer set. So the E to R ratio is substantially lower than our corporate average.

Christopher Adan Jackson Rolland
Analyst, FBR Capital Markets
Q

Okay. Also, do you guys see some synergies here perhaps with these next-gen consoles with PC gaming sort of driving sales of AMD graphics cards? Like for example might some game developers optimize specifically for an AMD GPU or APU or is that sort of a stretch there? Are there are any sort of network effects here from gaming consoles across to PC?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yes, no, we definitely believe there is a great synergy between the game consoles and the overall PC gaming market. I think gaming is one of the key pillars of AMD in our graphics and APU strategy. So having the game consoles on the same graphics architecture does allow synergies in the software development and the work that we do with ISVs and we're pursuing that quite aggressively.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yes, and there is no doubt, is the PC gaming segment is one of the best performing segments in the overall PC market and with this move of the game consoles, you see the key game developers writing to the technology first and we should expect better performance and better time to market based on that. This is clearly a franchise business that will spread across and create a network effect.

Christopher Adan Jackson Rolland
Analyst, FBR Capital Markets
Q

Thanks guys.

Operator: Thank you, sir. Our next question will come from Patrick Wang with Evercore. Please go ahead. Your line is open.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Great. Thanks a lot. My first question you guided for about $800 million of semi-custom inventory billed this quarter, presumably a good chunk of that ships in time for the holidays. Can you give us some color to help us think about that and perhaps maybe a sense of how much revenue this supports?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Yes, just to correct it, if that's what we said, that's not what we intended. It's not $800 million game console inventory. That is inventory in the traditional business and actually predominantly it is in the traditional business. The growth in the inventory that I talked about going from Q2 to Q3 is primarily in the game console business to support the ramp that we're seeing in the second half of 2013.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay, got you. So I appreciate the clarification. So that's the incremental inventory would ship by the fourth quarter.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Yes. With the products that we build for the customers, obviously there is a time lag in terms of getting the wafers and taking it to the line and shipping to the customer. When you have a steep ramp in revenue like we are seeing from Q2 to Q3, you're going to have the increase in inventory probably ahead of the time of the ramp and we ship the product essentially after we finish making it to the assembly and test processes.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Got you. Thanks for correcting me there. Secondly, it sounds like you plan to be cash flow positive either I guess this quarter in Q4, so great job turning that around. I'm just wondering if is this accurate and then how do we think about the timing of your remaining payments to GLOBALFOUNDRIES this year outside of the payments in Q1.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Yes, two things I'll say about cash. We've said earlier this year we plan to be free cash flow positive in the second half of 2013 and we're on target to do that. And the other thing we have been saying consistently is maintaining cash at the $1.1 billion level optimal range. We've done that for the past several quarters and in spite of the payment that is coming up in the Q1 2014 timeframe, I can say that we should be maintaining cash at the $1.1 billion optimal zone level through that timeframe and even in the Q1 2014 timeframe.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay great, thanks. And last question, Rory, you talked about the dense server focus and obviously some of the tailwinds you're getting in SeaMicro. Can you talk about the size of that business today that you have got, maybe a few catalysts you see on the horizon and then also when you think that could hit maybe, I don't know, 10% of sales?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

You know, Patrick, from our perspective, we comment on the overall server business. We saw a good solid quarter out of that. We believe that we took share in that server segment. And key to that growth is that dense SeaMicro solution. But we're really focused as well on the traditional server. There is opportunities with APUs in the dense space, and of course our announcement around ARM server. So I think this is a nice combination of server offerings to move forward and build on.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay great. Thanks a lot, guys.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thank you, Patrick.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.
A

Operator, we'd be happy to take two more questions please.

Operator: Yes ma'am. Our next question in queue comes from Shawn Webster with Macquarie. Please go ahead. Your line is open.

Shawn R. Webster
Analyst, Macquarie Capital (USA), Inc.
Q

Great, thanks. So for Q2 you guys said that chipsets were flat and when I do the kind of bottoms up with the down ASP quarter for your microprocessors, I'm getting up something like 15% to 20% sequential unit growth for Q2 for microprocessors versus the down let's say 1% for the global PC market. Can you help us understand or parse through maybe how much of that was your channel inventory rebuilding, which it sounded like some of that was happening, some new wins and anything else or share gains because it seems like a very strong growth for Q2.

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

Yes so as we said, we did have a good quarter in the Computing Solutions group. When you look at the breakdown, I would say that we had very strong notebook shipments and that was across our new product portfolio. We also had a little bit of pickup in desktop, but I would say that that was more modest than the notebook side.

Shawn R. Webster
Analyst, Macquarie Capital (USA), Inc.
Q

Can you characterize how you think inventories are sitting right now at your OEMs and in your channel?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.
A

I would say they're typical.

Shawn R. Webster
Analyst, Macquarie Capital (USA), Inc.
Q

Normal levels. Okay. And then just another final quick one. The written down inventory benefit that you saw in Q2, is most of that out of the system at this point or are there still parts that you can sell at no cost going forward?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

There is some left. I mean we had $100 million that we took as a write-down in Q3 2012. We had $20 million of that sold in Q1. We sold $11 million in Q2 and that's a benefit that is closed to the gross margin. We have about $65 million left. We don't see anything on the horizon right now, but as I said previously, we're really opportunistic and if something comes along and somebody wants those parts we'll go ahead and sell those parts.

Shawn R. Webster
Analyst, Macquarie Capital (USA), Inc.
Q

Okay, great. Thanks a lot guys.

Operator: Thank you, sir. And our next question, our final question will come from Glen Yeung with Citigroup. Please go ahead. Your line is open.

Glen S. P. Yeung
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Thank you. Lisa, a question for you about the mix you're seeing in the PC client business. Just trying to understand if you're seeing any changes in your mix of product and does that tell us something about the mix of the PC market, and specifically I'm trying to understand if you think there is a downshift to lower price points in PCs?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, Glen. So if you look at our mix, we have typically been stronger in those lower price points and let's call it the $300 to $600 system range and we have seen strength in that area. So overall I would say our mix has shifted a little bit to the lower end and I think that's typical of the overall market.

Glen S. P. Yeung
Analyst, Citigroup Global Markets Inc. (Broker)

Q

So just as a follow-up to that, Intel now is kind of openly saying that with Bay Trail they're, one, going to allocate a bit more sort of resources to that part of the business and perhaps more importantly to you, it sounds like they're going to focus more in that mid range, mid to low range part of the market. Is your sense that, one, they will be more competitive there? And then two, what are your thoughts around the implication of that to your share and margins in that part of the [indiscernible] (58:03)?

Lisa T. Su
Senior Vice President and General Manager, Global Business Units, Advanced Micro Devices, Inc.

A

Yes, I mean I think it's fair to say that that's where the market is focused, so the customer focus as we get more Windows 8 based touch systems into that more mainstream price point, so I think that's a market shift. Clearly it's important to stay competitive in that area and we're continuing with our new product portfolio to do that. So I think overall, we'll continue to focus in that area and continue to be quite competitive.

Glen S. P. Yeung
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Fair enough, thanks.

Ruth Cotter
Corporate Vice President, Investor Relations and Assistant Treasurer, Advanced Micro Devices, Inc.

Operator, that concludes our second quarter earnings call and we'd like to thank everybody for participating, and if you could close the call we'd appreciate it.

Operator: Sure thing. Thank you presenters and thank you ladies and gentlemen. Again, this does conclude today's conference. Thank you for your participation and have a wonderful day. Attendees, you may log off at this time.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2013 Earnings Call for 18-July-2013 5:00 PM ET
Thursday, June 20, 2013 08:26:01 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2013 Earnings Call for 18-July-2013 5:00 PM ET.

US Live Call Phone Number:	(866) 802-4364	US Live Call Pass Code:	1617459
US Replay Call Phone Number:	(888) 266-2081	US Replay Call Pass Code:	1617459
Intl Live Call Phone Number:	(703) 639-1325	Intl Live Call Pass Code:	1617459
Intl Replay Call Phone Number:	(703) 925-2533	Intl Replay Call Pass Code:	1617459

Press Release URL: http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTkzNzUyfENoaWxkSUQ9LTF8VHlwZT0z&t=1
Live WebCast URL: http://edge.media-server.com/m/p/z9e353w6/lan/en
Replay WebCast URL: http://edge.media-server.com/m/p/z9e353w6/lan/en
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Corrected Transcript

18-Apr-2013

Advanced Micro Devices, Inc. *(AMD)*

Q1 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. My name is Hughie and I'll be your conference operator for today. At this time, I'd like to welcome everyone to AMD's First Quarter 2013 Earnings Conference Call. [Operator Instructions] After the speakers' remarks you'll be invited to participate in a question-and-answer session.

As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's First Quarter Earnings Conference Call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary and PowerPoint slides. If you've not reviewed these documents they can be found on AMD's website at quarterlyearnings.amd.com. Participants on today's conference call are Rory Read, our President and Chief Executive Officer; Devinder Kumar, our Senior Vice President and Chief Financial Officer and Lisa Su, our Senior Vice President and General Manager, Global Business Unit who will be present for the Q&A portion of the call. This is a live call and will be replayed via webcast on AMD.com.

I'd like to highlight a few dates for you. Mark Papermaster, our Senior Vice President and Chief Technology Officer, will present to the Jefferies Global Technology Internet Media and Telecom Conference on the 7th of May in New York. Andrew Feldman, Corporate Vice President and General Manager, Server Business Unit will present to the JPMorgan Technology Media and Telecom Conference on May 15th in Boston. Our second quarter quiet time will begin at the close of business on Friday, June 14. And lastly, we intend to announce our second quarter earnings on July 18 of this year. Dial-in information for the call will be provided in mid-June.

Please note, non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measures in the press release and CFO commentary posted on our website at quarterlyearnings.amd.com.

Before we begin let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations; speak only as of the current date; and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Please refer to the cautionary statement in our press release for more information. You'll also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's annual report on Form 10-K for the year ended December 29, 2012.

Now with that I'd like to hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. First quarter revenue was $1.09 billion, slightly better than our guidance. We managed operating expenses in line with guidance and maintained cash balances above our optimal levels. We continued to make good progress on our three step turnaround. Step one, restructure to reduce operating costs and improve efficiency. Two, execute our 2013 product roadmap to accelerate our business and return to profitability. And three, ultimately transform AMD to take advantage of high-growth opportunities in adjacent markets where AMD's IP provides a competitive advantage. At this point we have largely completed our restructuring activity and we will now focus on the second step of our transformation: executing our 2013 product road map and returning to profitability and positive free cash flow in the second half of 2013.

Our strategy to gain share in the traditional PC space is based on winning the most important designs across each customer by region, price point and form factor. This year we will have the broadest range of mobile processors in our history, spanning from sub 4 watts to 35 watts. We've introduced our newest A-Series, Richland APU for the mainstream client market and have secured innovative and premium design wins. In AMD's sweet spot we have started volume shipments of Kabini in the first quarter and have a strong portfolio of high-volume entry-level design wins based on its substantial performance and battery life improvements. As part of our strategy to win new client form factors, we are ramping production of Temash in support of the ultra-low-power and fanless designs. Temash beats the competition and is ideal for tablets, hybrids and convertibles.

We have a strong portfolio of customer offerings coming to market and we expect this will spur demand at the back half of 2013 and provide us with an opportunity to grow share. Many of the new design wins are touch-enabled and will bring the full Windows 8 experience more broadly to mainstream and entry price points. Our server business revenue increased sequentially as our high performance Opteron 6300 series continued to ramp.

Now turning to our Graphics business. In the first quarter we saw a strong revenue growth for our desktop GPUs in the channel and record workstation revenue. We also have a strong pipeline of design wins in the notebook discrete market, which we believe will drive mobile share growth in the second half of 2013.

Our Graphics business momentum is a result of our strategic decision to double down on being the gaming industry leader. As a result, desktop GPU channel sales are accelerating. We believe we've regained share based on our industry-leading GPUs and the Never Settle Reloaded campaign, which bundles our graphics cards with many of the industry's biggest games. The program also cements tighter connections with AMD and the leading game developers. We're leveraging our position in PCs and in discrete markets, combined with our recent game console wins as we drive to make AMD silicon the defacto standard for game developers across the globe.

Graphics IP remains critical to our success, increasingly providing differentiation across our entire product portfolio, and we remain committed to further investing in this business to extend our leadership IP.

The PC market will remain an important business for AMD for years to come. With more than 300 million PCs expected to ship annually for the foreseeable future across a variety of form factors, the PC is far from dead. Our industry leading APUs and GPUs provide the opportunity to deliver share gains in this traditional AMD market.

As the PC era rapidly evolves into the new Cloud era, we continue to March into high-growth markets like dense server, ultra low-power client, embedded and semi-custom solutions, as we transform our business to capitalize on emerging trends reshaping the industry. Our design approach to leverage reusable IP block allows us to use the same foundational technology from our PC and server offerings to quickly attack these new opportunities. As a result, we remain on track to deliver more than 20% of our revenue from semi-custom and embedded markets by the fourth quarter, and 40% to 50% of our revenue from these and other high-growth markets in the next two to three years.

A large part of the momentum this year will come from our game console wins. The game console industry is expected to ship more than 40 million game consoles in 2013. That number is expected to grow as game consoles further evolve into broader entertainment devices that serve as home media hubs and local Cloud distribution systems. Sony's PlayStation 3 is already one of the most popular platforms for streaming online video, and Microsoft announced last year that the Xbox 360 is now used more for watching videos and listening to music than it is for playing games.

Our Graphics win in the Nintendo Wii U set the foundation for this growth, which we have built upon with Sony's announcement that the PlayStation 4 will feature a semi-custom AMD APU. The PS4 integrates a combination of x86 processors and advanced graphic IP which is unique to AMD. This single-chip APU features our low-power Jaguar cores and next-generation AMD Radeon Graphics.

We are excited about our semi-custom pipeline and the large opportunity for AMD to deliver semi-custom silicon with ASPs at the higher range of our client offerings. In the embedded market we'll introduce the industry's first quad core x86 SoC this quarter. Our low-power single-chip embedded SoC delivers more than two times the compute, and four times the graphics performance of our competitors' offerings. We are well-positioned in the embedded x86 market, which is projected to grow to more than $7 billion by 2016.

So in summary, we continue to make good progress in our three-step strategy designed to restructure, accelerate and transform AMD while returning the company to operating profitability by the second half of 2013. We have started shipping a powerful set of new product that provide strong opportunities for share growth in the traditional PC market. And our semi-custom and embedded design wins continue to accelerate as we transform AMD for the new Cloud era and attack these high-growth markets with our differentiated IP. We look forward to continued strong execution in 2013 as we enable our customers to innovate across a diversified set of markets based on our differentiated and tailored technology solutions.

And with that, I'd like to turn it over to Devinder. Devinder?

Devinder Kumar

Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory. As Rory mentioned, AMD continues to execute on our three-phase turnaround and transform our business model to changing PC market fundamentals by diversifying our product portfolio.

Phase 1, reset and restructure, is largely completed with most of our restructuring behind us. We are also on track to lower expense base by approximately 25% by the third quarter of 2013 compared to the first quarter of 2012 and have already reduced operating expenses from $592 million in Q1 of 2012 to $491 million in Q1 2013.

Revenue for the first quarter of 2013 was $1.09 billion. The 6% sequential decline was driven by a 9% decrease in the Computing Solutions segment, which was partially offset by a 3% increase in Graphics segment's revenue.

Non-GAAP gross margin was 41%, an increase of two percentage points sequentially and better than guided due to a $20 million benefit from an opportunistic emerging market sale of certain previously reserved Llano products. Excluding this benefit, gross margin would have been flat sequentially at 39%.

Non-GAAP operating expenses were $491 million, in line with guidance, as we continue to push towards our operating expense goal of $450 million by the third quarter of this year. Non-GAAP operating loss was $46 million and non-GAAP net loss was $94 million. Non-GAAP loss per share was $0.13 calculated using 749 million basic shares. This loss per share includes the $20 million benefit from sales of previously reserved products. Adjusted EBITDA was $40 million, an increase of $10 million from the prior quarter due to the lower operating loss.

Now switching to the business segments. Computing Solutions segment revenue was $751 million, down 9% sequentially due to lower desktop, notebook and chipset unit shipments, primarily driven by seasonality and a weak consumer buying environment. Client product revenue declined 9%. Our server microprocessor revenue increased from the prior quarter, mainly due to higher ASPs for our higher density microprocessors. Chipset revenue declined sequentially, primarily due to lower unit shipments.

Computing Solutions operating loss was $39 million, and improvement from an operating loss of $323 million in the previous quarter. The prior quarter loss included the impact of an LCM charge of $273 million related to the reduction of wafer purchases required in the 2012 Wafer Supply Agreement with GLOBALFOUNDRIES.

Graphics segment revenue was $337 million, up 3% compared to the prior quarter due to higher channel sales, game console royalty sales and workstation graphics sales. Workstation graphics had a record quarter and we continue to make progress in that business. Game console royalty revenue was up sequentially driven primarily by a large milestone payment in the quarter.

Graphics segment operating income was $16 million, down from $22 million in the prior quarter, primarily due to lower GPU sales to OEMs.

Turning to the balance sheet. Our cash, cash equivalents and marketable securities balance including long-term marketable securities at the end of the quarter was $1.2 billion, flat compared to the end of the fourth quarter of 2012. We exited the quarter above our target optimal cash level of $1.1 billion and well above the target minimum cash level of $700 million.

We made a $175 million payment related to limited exclusivity to GLOBALFOUNDRIES in the first quarter, completing all of the payments related to the limited exclusivity. In addition, we bolstered cash with net proceeds of $164 million from the sale and leaseback of our Lonestar Campus in Austin, Texas. In the second quarter of 2013, we will make a $40 million cash payment of GLOBALFOUNDRIES related to the reduction in wafer purchase commitments for 2012. The remaining $200 million balance related to this item will be paid in the first quarter of 2014.

Debt as of the end of the quarter was $2.04 billion, unchanged from the prior quarter. Inventory was $613 million, up $51 million sequentially as we prepared for new product introductions.

Now turning to the outlook. For the second quarter of 2013, AMD expects revenue to increase 2% sequentially plus or minus 3%. Gross margin is expected to be approximately 39%. Quarterly operating expenses are expected to be approximately $480 million, and inventory is expected to continue to increase sequentially ahead of new product introductions, and approach more normalized levels of $650 million to $700 million.

The first quarter was a good start to the year in terms of executing to our commitments. The improvements we are making to our cost structure and liquidity management serve as a strong foundation upon which we can build throughout this year as we refresh our product line, accelerate our execution and return to operating profitability and positive free cash flow generation in the second half of this year.

With that, I'll turn it back to Ruth. Ruth?

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator we'd be now happy for you to poll the audience please for questions.

QUESTION AND ANSWER SECTION

Operator: Yes ma'am. [Operator Instructions] All right. And it looks like our first question in queue comes from the line of John Pitzer with Credit Suisse. Please go ahead, your line is open.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah. Good afternoon, guys. Congratulations on the good quarter. Thanks for letting me ask a question. I guess the first one for Devinder. Devinder, as you think about the OpEx guide for the June quarter and then the target for September you're going from approximately $490 million to $480 million to $450 million. Just kind of curious, the incremental $30 million from June to September, is that actions that have already taken place and it's just a timing issue or more actions that need to come? And if you can help me understand the drop from June to September, that'd be helpful.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Sure. I can do that. As Rory and I said in the prepared remarks the recent restructure is largely done, but as you probably know there's a time lag in realizing the full benefits of restructuring. For example, some of the head count departures are staggered. We have ongoing savings from building-related expenses that can only be realized after the employees leave and we continue to consolidate at various sites to a smaller footprint in terms of space, and those savings get realized as we get out in time and in particular starting in Q3 2013.

The other thing I would add is, as you probably heard from Rory's remarks, a lot of new product introductions occurred in the first half of 2013 and therefore with those products there's always some costs that are associated with new product introductions that we think will go down as we get to the second half of 2013. So really it's a time lag in terms of realizing the full benefits of restructuring but also as we transform the company and accelerate into the second half of 2013, some of the reduced expenses related to the new product introductions.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

And then guys as my follow-up, is just for Rory. Rory, if you think about the launch of Temash, how much of revenue do you think could come from this product category in the back half of the year? Can you give us a sense of kind of the incremental TAM that it might open up for you and kind of the incremental revenue you would expect to see?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well I think the overall product portfolio, John, looks pretty strong from where we are at this point. Kabini in that sweet spot in the market I think where you've seen us do well with Brazos in the past. I also think you're going to see the market begin to shift in that direction. There's no doubt ASP buying patterns will continue to move into entry and into some mainstream pricing. So I'm excited about the Kabini offering.

Then Temash, what I like about Temash is it's really a very credible solution in that convertible fanless space. This is an area where we need to make progress, and I believe with this chip, which clearly beats competition both on compute and graphics performance, positions us well. There's no doubt Kabini will be a much larger component as will Richland, but this is a very nice opportunity with this leadership part of Temash to get into tablet and then to build it into all of the fanless form factors. Lisa, any additional thoughts?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yes. So, John, I would add to that, on Temash, we think that it does have the opportunity not just in tablets, for full Windows 8 performance tablets, but also into convertibles and hybrids. And we see a lot more of those form factors coming out from the OEMs in the second half of the year. So I think as Rory said, Kabini and Richland will be the larger volume plays but Temash will be a very interesting growth play, especially with Windows 8 as we get more adoption.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Thanks, guys. Appreciate it.

Operator: Thank you, sir. Our next question comes from the line of David Wong with Wells Fargo. Please go ahead, your line is now open.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Thank you very much. Can you help us understand a little bit of the accounting for the game console revenues? You noted a milestone payment in the quarter just reported: what gross margin is this carried on – at? And does the June quarter guidance assumed further console related milestone payments?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think if I can take that question and I'll let Lisa chime on a couple of pieces there, but basically the milestone payments are predetermined based on our volume of sales relative to the game console units that are sold by our customers. In particular with one customer that we have already got engagement in on the Nintendo side, we hit that milestone and that milestone payment came in in the Q1 2013 timeframe. And I'm not prepared to give details in terms of gross margin for that level of granularity, but suffice to say obviously it benefits us from a viewpoint of hitting the milestone with the volume and getting in the cash from the customer.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I'll go first and then pass to Lisa. David, from the standpoint of the overall strategy to diversify the portfolio, this is a very interesting opportunity for us to build off of the semi-custom solutions that we're creating. Building that base of reusable IP and then applying that IP that we've built out across our discrete graphics business and core PC business, taking it into embedded and then to semi-custom around gaming is a huge opportunity for us. And what I think, what we would say is that we're very much on track to deliver over the 20% or better in terms of the revenue by year-end 2013, from semi-custom and embedded. And we see this as a very important opportunity to diversify the portfolio.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Great. Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, David.

Operator: Thank you, sir. Our next question comes from the line of Joseph Moore with Morgan Stanley. Please go ahead. Your line is open.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Just following up on that. How should we think about the gross margins of the embedded opportunity as it ramps, and over the life of the consoles, and I think of this being very expensive GPUs at the time of the launch and then sort of three, four years later being less expensive, like just how should we think about the dynamics of that? I know you can't get into the specifics of any one arrangement, but just over the life of the agreements, selling silicon instead of royalties, what types of margins do think that you would achieve over the full life?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah. I think that's pretty complex. I think if you look out to the future our business is in transition, our transformation continues, our mix of revenue is going to change pretty significantly, even with the 20% embedded semi-custom revenue mix in Q4 and then going to the 40% to 50% from the high-growth markets. We are penetrating as you've heard us speak over the last year or so, adjacent markets, whether it's embedded, semi-custom, dense server, ultra low-power client product. And all of that has its own gross margin from a mix standpoint. So it's really hard to predict from a viewpoint of what the longer-term gross margin is. We are not providing guidance for 2013 from an overall standpoint except for Q2 at the 39% level.

Now as far as the longer-term interplay between the prices and how the business evolves I'm going to let Lisa here comment on that.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah. I would say, if you think about the entire business as a semi-custom business, it has several different business models including IP model as well as a silicon model. So I think as we get further into the year we'll talk more about the various interplays there.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. But should we think of it even this year as being a business that has gross margins below kind of your traditional CPU business? I mean just any kind of magnitude that you can give us would be really helpful since that's such a big part of the revenue stream.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Joseph, so where we're guiding is flat for 2Q and we'll give further guidance as we move through the year but we do expect to, as we said, drive to that 20% of the revenue mix by the year end. And that's where we are at this point.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you, Joseph.

Operator: Thank you, sir. Our next question comes from the line of Stacy Rasgon with Sanford Bernstein. Please go ahead. Your line is open.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. I had a question on, first of all, where the gross margins ended this quarter; I'm a little confused. If you take the $20 million inventory benefit out, they were flattish, so that was in line with guidance. But you had ASPs up basically across the board: across client, across servers, across graphics and you had apparently a much higher royalty payment in the quarter as well, which as far as I understand falls directly through. So can you give me some feeling why gross margins were only flat? It would seem to me that they ought to have been up. Was there something else going on or was this just a volume effect or what?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think it's a combination of factors, Stacy. I mean you've got the different pieces from a viewpoint of as we talk about unit shipments and mix of revenue. But there are a lot of factors that come into play from gross margin as you probably know. From a business standpoint, at least in our back end factories, we still have assembly, test, mark and pack factories where utilization coming out of the Q4, Q1 timeframe with the revenue that we have obviously affects our COGS piece of it and that's one factor that's kind of a headwind from a gross margin standpoint. Product mix, where we have introduced new products, Kabini shipping in Q1 and Temash shipping in Q2 and obviously that would be a positive from a viewpoint of going with the gross margin. So you're right, we see ourselves, our having operated over the last few quarters in a stable gross margin situation despite the fact that the PC market has been very dynamic. And we are projecting to the 39% gross margin in Q2.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

But if I were to follow up on that then. So you've been operating in a stable gross margin environment but that stable gross margins are quite lower than where you were running previously. Again you got Temash and some other things launching, which should be gross margin accretive but then again you're guiding flat for next quarter. And I guess the reason I'm asking is I think one of the big drivers for keeping cash balances in line has to be your gross margin trajectory in the back half. So I was just wondering if you could give us a little more color. It's not to go directly to guidance, but at least what are some of the things we should be thinking about into the back half of the year that can give us confidence that the gross margin trajectory can be enough to keep the cash balances up at the level where you think they can be?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

So, Stacy, from the standpoint of the second half, the overall PC market we think remains choppy, clearly in the first half, a little bit more difficult than what people had thought. We think second half is better than first half as we said. It's probably down low- to mid-single digits overall for the year. But if you look at our business and you say this is a very interesting set of products that we've introduced from Temash, Kabini, Richland, the graphics products, I think we're in a very good position to generate and spur demand in that second half. We're looking to build on those strong products to add share. And from our standpoint we want to return to profitable growth in that second half. Then you mix in the new businesses as we start to create this diversified portfolio, and the combined mix as we manage expense is a good model for us to create profitability and sustain profitability over time.

So I think the net is, PC market should be better in the second half from our perspective than the first half. We have the stronger set of products in the second half; that should allow us to go after share opportunity. And then from the standpoint of graphics, same position, strong products moving into it, and then bringing in some very interesting new products like the PS4, this should open up a nice opportunity for us to move back to profitable growth in the second half.

Devinder Kumar A
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

And, Stacy, to your comment on the cash. As you can see, we've essentially finished flat quarter-on-quarter at the $1.2 billion level of cash above our target optimal zone of $1.1 billion. That's well above the target minimum cash that I think is required to run the company under the current business model at about $700 million, so well above then. And as I've stated before, we have a lot of levers that we can pull without accessing the public markets to continue to maintain cash at the $1.1 billion level through 2013.

Stacy Aaron Rasgon Q
Analyst, Sanford C. Bernstein & Co. LLC

Got it, well that's helpful, guys. Thank you very much.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you.

Operator: Thank you sir. Our next question in queue comes from the line of Christopher Danely with JPMorgan. Please go ahead, your line is open.

Christopher B. Danely Q
Analyst, JPMorgan Securities LLC

Okay, thanks, guys. Not to beat the dead gross margin horse, so, I mean do you think that they can get back to the mid-40%s? And what would be sort of the timeline or the milestone that they can get there? Are we just going to look at like gross margins in the low 40%s as the gaming console starts to ramp up?

And then if you could also comment on, will you be selling anymore written down inventory? And how much you have left?

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Chris, on the gross margin one I think we've been very clear. We've given that flat guidance for 2Q; that's what we're prepared to talk about today. Talked about what we like about the market and our portfolio moving forward, but clearly our guidance around margin is we're consistently managing that the past several quarters and it's our plan to do that again in 2Q. Devinder, do you want to comment on the second question?

Devinder Kumar A
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Yes I do. Chris, was your question about the inventory writedown that we took in Q3 2012, just to confirm?

Christopher B. Danely Q
Analyst, JPMorgan Securities LLC

Yeah. Are you guys going to be selling anymore written off inventory? And if so, how much?

Devinder Kumar A
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Yeah. You know, at that time we wrote down the inventory in Q3 of 2012 to the tune of $100 million because we could not – we did not think we could sell the units. We had a specific opportunity that arose as I mentioned in my prepared remarks. We still have some of that left, and if a specific opportunity arose we would consider it and then take it from there.

Christopher B. Danely Q
Analyst, JPMorgan Securities LLC

Okay, great. Thanks, guys.

Operator: Thank you, sir. Our next question comes from the line of Glen Yeung with Citi. Please go ahead, your line is open.

Glen S. P. Yeung Q
Analyst, Citigroup Global Markets (United States)

Thanks. I wanted to ask a question about the gaming market kind of on a long-term basis. I understand that these game console guys don't change the game console all that often, but if they're doing work on new functionality in game consoles and they're also rewriting the software, do you guys think that this is a business that's more than one generation of game console long, i.e. that this is a new endeavor for AMD that could last tens of years types of thing?

Lisa T. Su A
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

Yeah. Glen, this is Lisa. Let me try to give you some color there. So the game console is a very, very exciting market. Its life cycle usually lasts five to seven years and it's an opportunity to both take leading-edge hardware out there as well as continue to enhance the software. So I do view it as an opportunity of growth over the medium term, and certainly as we ramp new console generations, that's a direct opportunity for growth. There's a lot of conversation about where Cloud gaming goes in the future and where that sits, and that will have to play out over the next generation.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

And, Glen, from a standpoint of a strategic strategy here and why we went after this market so strongly is, from our perspective I think we're building on a strong base in the PC space and the discrete graphics space. Now we go after the console, and with the work that we've done at Nintendo Wii U and now with the Sony PS4, these game developers spend a lot of money as they move to the next generation. And with the consolidation of the game console wins that we've announced, you can see that this would allow them to develop in a more effective way, a more cost-effective way and you'll see us leverage our technology across that base from a strategic standpoint. It lowers the partner's time to market, it lowers their costs of development, so it speeds that. And additionally as they tune now to our development technology, which they're going to be able to do, it's going to perform better on our hardware and software, both from a PC, from a discrete graphics and then from a game console base. I think that sets a very nice foundation to continue to build that.

And then Glen you saw us double down in this space, where we focused to really go after those game developers with the Never Settle Reloaded campaign, where we went after those biggest and most important games in the industry, and showed that partnership again. I think this is all part of a longer-term game plan to really create a differentiated experience that creates a solution for the partners, for our customers and ultimately the better experience for the customer.

Glen S. P. Yeung Q
Analyst, Citigroup Global Markets (United States)

Thanks for that, Rory, that's helpful. Maybe a follow-up, Rory. Just sort of drawing on your past experience with the OEM or, Lisa, just your experience in the market, and thinking about what you're seeing in the second half. I know you guys aren't making heroic assumptions for PCs in the second half, but I think, Lisa, you said you think Windows 8 will adopt better and, Rory, you did suggest second half better than the first. Is there anything that you see today that gives you any kind of confidence about that, whether that's demand from your customers already? Or indications of any kind that suggest that second half 2013 better than first half, unlike what we saw last year?

Lisa T. Su A
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

Let me try, Glen, and I'll let Rory comment. I think it's fair to say that the PC market is still choppy given some of the market data that came out recently. From our perspective, though, what we do see is that the OEMs are being fairly aggressive in their adoption of new form factors, I would say more so than last year, in terms of the realization of where the growth has to come in terms of innovation. So much more in ultra-thins, much more in lower price points. As we get to $599 and below, you'll see $299, $399 price points and that is traditionally AMD's sweet spot; that's where we've designed these products. So that gives us the opportunity to hopefully gain share in the second half of the year. But certainly we have to watch how the market evolves over the next couple of quarters.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

And, Glen, from the standpoint, if you look at this market and how it will unfold, there's no doubt Windows 8 is an important event. I know it's gotten a lot of press recently, but this – it is clearly going to continue to build momentum; the uptake will improve as more of the form factors, touch, the experience becomes better known, you're going to see that activity. And based on what we're seeing from our partners, we're seeing in terms of the global design activity that we mentioned in the earlier remarks around the PC space, there's a lot of interest in the low-power parts of Temash and Kabini and some of the premium form factor wins that we got with Richland.

So I think the foundation is definitely there. Win 8 will be better understood, it'll be in terms of its adoption and its uptake, I think that second half is generally always stronger than the first half. And that I do think that we're seeing the design activity. It's important, Glen, from the standpoint, we specifically targeted with our products to understand the price point, the form factors, by region, by partner, so that we could go after those most effective and higher volume design wins that would yield the proper return and help us lower our overall expense.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: And thank you, sir. Our next question comes from the line of Mark Leavitt with Jefferies. Please go ahead, your question please.

Mark Leavitt
Managing Director, Jefferies & Company, Inc.

Q

Yeah. Thanks for taking my question. Apologies if I missed this. Did you discuss how the SeaMicro business did relative to the server microprocessor business?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah. Let me talk about the SeaMicro business. So if we look at the SeaMicro business quarter-over-quarter we had – we were coming off a strong Q4 and we were actually lower in Q1. This business tends to be a very deal-driven business, so it's a little bit lumpy. As we look out through 2013 we see dense server as a very good growth opportunity for us and into the coming years as well.

Mark Leavitt
Managing Director, Jefferies & Company, Inc.

Q

And when you talk about the semi-custom and embedded target for the fourth quarter, can you give us a sense how you're thinking about the relative split? Is it mostly semi-custom this year and then embedded ramps more next year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

There's no doubt that the semi-custom business is a strong business, we're seeing very good activity there. The design win activity in embedded, well, as said that's going to be a $7 billion market by 2016. We see good activity there. They tend to be a bit smaller in terms of their overall size, but when you're going to go semi-custom; those tend to be much larger. We target that pipeline. And interestingly enough, Mark, we've been working and building that semi-custom pipeline, we're tracking double-figure types of opportunities across industrial in terms of home, living room, several key areas that we see semi-custom. And then you mix in that nice embedded business where I think our APUs are going to play a very important part where you see the graphics, the gaming space, the industrial, the medical. It's a nice combination and this is clearly where the market is going as we move into this Cloud era.

Mark Leavitt
Managing Director, Jefferies & Company, Inc. Q

And last question – thank you for that – and the last question for me is the quad core SoC that you just started shipping, have you talked about design wins for that product? Or can you talk about the target? Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

You're talking about, Mark, in the embedded space?

Mark Leavitt
Managing Director, Jefferies & Company, Inc. Q

Yes.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yeah. We're tracking right on course, as we've talked about, to hit the objectives for the full year. The pipeline build has been very positive in embedded. The new product introductions, like that product, which is two times competition on performance and four times on graphics, I think it's really put us in a position where we can build on that. And this is around the strategy of hitting them where they're not, right? Move and take our IP where it's differentiated, where we can make a difference for the customer. And we're focused on being that partner with these customers to create the long-term solution to help them win.

You know I mentioned the Cloud environment, the Cloud era. This is a shift from this kind of proprietary, controlled commercial environment, where PCs were controlled by a couple of proprietary architecture and rule holders, and they gathered all of the profit in a single set of pools. What I think is, the Cloud era begins to break that; as data and application move to the Cloud, we're going to see an explosion, a tsunami of devices that are going to emerge. And our customers are looking for silicon solutions that are differentiated, that allows them to create not just a commercial solution but a really specific, differentiated solution that they can win in the market. And they're looking for a partner that's willing to work with them in a very productive, proactive, flexible way to create that solution. And isn't that kind of the AMD history? To take on next, to go against the disruption and really focus on going forward.

Mark Leavitt
Managing Director, Jefferies & Company, Inc. Q

Thank you.

Operator: Thank you, sir. Our next question comes from the line of Hans Mosesmann with Raymond James. Please go ahead, your line is now open.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc. Q

Great, thank you. Hey, Rory, a clarification. You implied or said that the PC market was going to be down mid to high single digits for this year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Low to mid-single digits.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Okay. And then the other clarification. For the Sony game console, the ASPs for that APU are going to be at the high end of what? It was at the high-end of APU pricing or CPU?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

What we talked about was client ASP.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Okay. Perfect. Now the question that I have is, the way to position your line up versus Intel as the year progresses, should we look at it as Kabini going head to head with Atom-based Clover Trail-like devices from Intel and that the Temash would go after Haswell, or go head-to-head? Is that the way to interpret your positioning?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

Yeah. Hans, let me perhaps help with that. So if you look at the positioning today, Kabini really goes up against Pentium, Celeron up into the Core i3 lineup, and Temash is really I would say above where Clover Trail sits today and the Atom lineup and then goes into the sort of low-end of Clamshells. So that's the way we're setting it up. The good part about it is all of these products have started shipping and so we're strongly in the [ph] 2C cycle (44:31) so that gives us a good position relative to time to market.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Perfect. Thank you.

Operator: Thank you, sir. Our next question comes from the line of Jim Covello with Goldman Sachs. Please go ahead, your line is open.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Great, thanks so much. Just following up on the PC forecast for the year. Do have any thoughts or reconciliation for us on the difference between your view and Intel's view on the PC market, which is that it'll be up a little bit?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I think I've been, Jim, pretty consistent on that. I thought that the market was going to be choppier than some of the other competitors that sell and I think that's playing out. I think the first half is going to be weaker than the second half, I think that's going to play out. And I do think the adoption of Win 8 will continue to improve as the year goes on. And I think there's a lot of work around improving form factors, price points and I think the kind of product set will lend itself well to that, second half. So I think it's been pretty consistent where we think the market's going and I think that's where it's going to kind of settle in. I don't think there's – I think that's pretty straightforward.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

That's helpful. I know the commentary on the cash was that the cash flow generation would return in the back half of 2013. I don't think you commented on an explicit cash burn in the second quarter of 2013?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Yeah. I think if you do the math, you can probably come up with the numbers. But from our standpoint, as I've said previously, we have levels available. If you look at Q1 2013, I talked about the payment to GLOBALFOUNDRIES to the tune of $175 million paid. We did a sale leaseback transaction to almost entirely offset that, and actually a little bit more, and maintain cash flat from last quarter, our optimal zone of the $1.1 billion and I have no reason to believe that we couldn't exercise some of the levers needed without exercising – accessing the capital markets and coming at the $1.1 billion zone for Q2 of 2013.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

So I'm sorry, just – I don't think I understood all that. Is the idea that you'll have some operating cash burn in Q2 and then you'll pull some of the levers or you're not going to need to pull the levers?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I think there will be some cash burn in the Q2 timeframe, less significant than what we have had, and I'll be able to pull some levers needed to keep the cash at the $1.1 billion level if I need to.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Got it. Okay. I appreciate it. Thank you.

Operator: Thank you, sir. Our next question comes from the line of Steven Eliscu with UBS. Please go ahead.

Steven Eliscu
Analyst, UBS Securities LLC
Q

Great. Thank you. First question around the semi-custom business. It raises a potential concern on cash flow if there isn't good sell-through on your customers' game consoles. Can you give us some assurance that there's some protection that you don't have to pay upfront for the wafers from your foundry partners without at least some guarantee that you'll get paid for your deliverables in a timely fashion, and not get left holding the bag?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, Steven, I think there's a historical set of data that shows the uptake with the introduction of new game consoles. We have a very reasonable commercial relationship with all of our business partners and customers, and we believe that we'll execute within the optimal cash range throughout the 2013 year.

Steven Eliscu
Analyst, UBS Securities LLC
Q

Yeah, it's more a concern in 2014, if beyond the holiday season the game consoles peter out.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From a standpoint, we're really talking about 2Q, and from a strategic standpoint going forward, I'd really go do my modeling based on the historical trend rates of consoles. They tend to build out and accelerate over a five to seven-year period and there's a curve. Our expectation will follow some resemblance to that curve.

Steven Eliscu
Analyst, UBS Securities LLC

Q

Understood on that. I have a follow-up question for Lisa on the comments that on Richland and Kabini and Temash are encouraging and also saw that VIZIO is using your products pretty well across their new product line. However, as you look into next year, Intel's going to be ramping its 14-nanometer processors through the year and at that point, you're going to be for the most part two nodes behind. So without getting into the details of your road map, can you at least help us understand in terms of the merchant market, some of the market opportunities that you believe you will have to differentiate in PCs and tablets?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, absolutely, Steve. I think it's fair to say that we have to be very diligent in executing our product portfolio. Our value proposition isn't necessarily based on technology nodes and CPU performance, it's really on user experience and how we turn our graphics and visualization advantages into something that could improve the end user experience. So this year, we have, as you stated, the Richland, Kabini and Temash launches, all very successful and executing in the first half of the year. We've also talked about our Kaveri APU in the second half of the year; we're on track for that and that gives us an opportunity to bring in our heterogeneous systems architecture, which really brings the microprocessors and the graphics capability together.

So we're going to continue to push that. We believe that APUs are the future, and that is where we can really get the performance. And we've gotten some validation of that with some of the game console discussions.

Steven Eliscu
Analyst, UBS Securities LLC

Q

So, just one last question here as a follow-up on that. So if you can give us one example of something, as you look with Kaveri that you'll be able to enable that the competition won't be able to do. Can you give us an idea of what that would be?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, we believe that Kaveri and the heterogeneous systems architecture will allow us to do things like natural user interface processing much more efficiently, especially in low-power environments. So things like facial recognition, speech recognition, those types of sort of graphics intensive types of applications, we'll be able to do at a lower power with higher performance.

Steven Eliscu
Analyst, UBS Securities LLC

Q

All right, thank you.

Operator: Thank you. Our next question comes from the line of Patrick Wang with Evercore Partners. Please go ahead.

Q

Hi, guys. It's actually [ph] Mike (51:41) on for Patrick. Thanks for taking my question. Just a quick question on what's the difference between the $379 million payable to GLOBALFOUNDRIES and the $240 million remaining that you talked about?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

That includes the $240 million that we owe. We owe that in the Q1 2014 timeframe and because as a related party we go ahead and disclose all the payables to GLOBALFOUNDRIES that are due to them over time. So if you look at the $379 million within the balance sheet ending March, there is the payables for the wafers that we have purchased over the last quarter, there is the $200 million payable that's due in Q1 of 2014 and then there is the $40 million that I talked about, which is going to be paid in the Q2 of 2013.

Q

Okay, so it relates to the wafers, got you. And then also the payable went down by $75 million, but you made a payment of $175 million. What was the delta there between the two?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

The delta is really – the $175 million is the primary delta. That was due as of the end of 2012; we paid that in the early part of 2013. So that obviously comes down. And the wafer purchases is kind of in and out; you have ongoing purchases of wafer as we pay this in the payment terms. And depending on the timing of when you buy the wafers and balance sheet cut off, you can have an increase or decrease from a payables standpoint.

Q

Okay. Got you. All right, and then looking at the second half, you guys talked about gaining share. What segments do you see the most opportunity in for you guys?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well I think there is definitely, from the standpoint the product portfolio that we've introduced, I think there's definite strength in the low-power segment in the entry. We've talked about Temash in terms of that area, Kabini and then of course in Graphics. We have the opportunity now to go after share with a very strong portfolio. I think those would be the traditional spaces. And then of course in the embedded/semi-custom, we talked about how that portion of our revenue will significantly change year-over-year and exit the year at the 20% of total revenue.

Q

Okay. Sounds good. And last question. On the inventory build in the first quarter and the outlook on second quarter, what's the composition of the inventory?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

It's a new product introduction, it's primarily, as we get ready to introduce the new products that Lisa and Rory have been talking about. We're getting ready for the launches and you had the slight increase in inventory from Q4 to Q1. And if you recall I did say when we had the earnings call for the Q4 quarter that we expected and planned for the inventory to go up as we accelerate into the second half of 2013.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And, Mike, it's important around that comment, in preparation for launches, the work that we've done around execution and the supply chain is very important as we reach these ramps and enter into these new markets. We've done a lot of work to improve our foundry relationships. Our foundry performance has significantly improved, and the supply chain activity has significantly improved since over the past year and a half. So that is all around an idea to have the parts be ready, launch in volume, and be able to ramp effectively. That's something that the company struggled with in the past and that's something that we've worked very hard around execution to improve.

Q

Sounds good, guys. Thanks for taking my questions.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.
A

Operator, we'll take two more questions from participants, please.

Operator: Yes ma'am. Our next question comes from the line of Srini Pajjuri with CLSA Securities. Please go ahead.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.
Q

Thank you. I have a question and a clarification. First, the clarification. Embedded, you said it's going to be 20% of sales exiting this year. Could you give us an idea where it is today or in Q2?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

It's substantially less, obviously. It's – our market is fundamentally changing as we move through the year. But we don't get into specifics in terms of our mix or a segment breakdown past Compute and Graphics.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.
Q

Okay, fair enough. And then, Rory, maybe for you. Obviously the PC market has been quite weak but both Intel and you have reported pretty solid ASP trends and even in the PC segment. I'm just trying to understand what's going on; given the weak PC I would have expected ASPs to at least, you know, see some declines.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think what you're seeing is that from our perspective, and I'll comment on that, is I think you're seeing an improving product mix and in terms of our product portfolio. We've worked to focus on meeting this Cloud era and in terms of the graphics around the APU to create that differentiated experience that Lisa was talking about. From our perspective, that's really important. And we're reaching into those low-power segments, and in terms of Richland I think we've seen some good uptake in terms of the premium wins and in terms of those interesting form factors going forward.

So it's a choppy market, Srini, there's no doubt, and we've got to continue to stay focused on the execution and on the cost side of it. But this is a good product portfolio. We've worked hard to get here and now we're looking forward to build on that throughout the year.

Srini Pajjuri
Analyst, Credit Agricole Securities (USA), Inc.

Q

Thank you.

Operator: Thank you. And we do have time for one final question. Our final question will come from Chris Caso with Susquehanna. Please go ahead.

Christopher Caso
Analyst, Susquehanna Financial Group LLP

Q

Hi, thank you. Thanks for squeezing me in. I wonder if you could just comment a little bit about the workstation Graphics business. You talked about that as an area of strength in the quarter. That's an area where you've had some relatively low market share in the past; could you just talk about that a little bit?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah. Absolutely. So if we look at our overall Graphics business, we were pleased with the progress. Looking at professional Graphics in particular it is a place where historically we've had relatively low share. We have a very good product, certainly from a hardware standpoint. We've improved our relationships with ISVs and some of the pull-through. And so we believe that'll continue to be a growth opportunity for us in Graphics. And I'll also say, if you look at the overall Graphics business, we also made some nice progress in the desktop channel, particularly in the AIB channel. And those two help to pull the Graphics revenue slightly up in the first quarter.

Christopher Caso
Analyst, Susquehanna Financial Group LLP

Q

Just as a follow-up to that, what's your view with – in terms of the Graphics business, particularly discrete Graphics, over the longer term? It obviously requires a fairly sizable commitment in terms of R&D resource. Do you think, with looking at the market going forward, is there still the return on investment for providing that R&D resource, or do you need to be a little more selective on it going forward?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, it's very important. I mean the Graphics business is basically core to our entire portfolio. And from a discrete Graphics standpoint, we think we have opportunities to gain share. I talked about the pro Graphics as well as the AIB channel. The Graphics IP also stretches throughout our entire client semi-custom embedded server portfolio. So it's really a core competency for the company and we'll continue to invest heavily in it.

Christopher Caso
Analyst, Susquehanna Financial Group LLP

Q

Great. Thank you very much.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, operator. This now concludes our First Quarter Earnings Conference Call. And thank you to everybody for participating.

Operator: Thank you, presenters, and thank you, participants. This does conclude today's conference. Thank you for your participation and have a wonderful day. Attendees, you may now disconnect.

22-Jan-2013

Advanced Micro Devices, Inc. *(AMD)*

Q4 2012 Earnings Call

CORPORATE PARTICIPANTS

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President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the AMD Fourth Quarter 2012 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ruth Cotter, Vice President of Investor Relations. Please go ahead.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's fourth quarter and year-end earnings conference call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary. If you have not reviewed those documents, they can be found on AMD's website at quarterlyearnings.amd.com.

Participants on today's call are Rory Read, our President and Chief Executive Officer; and Devinder Kumar, our Senior Vice President and Chief Financial Officer. Lisa Su, our Senior Vice President and General Manager, Global Business Units, will be present for the Q&A portion of the call. This is a live call and will be replayed via webcast on amd.com.

I'd like to take this opportunity to highlight a few dates for you. John Byrne, Senior Vice President and Chief Sales Officer will present at the Goldman Sachs Technology and Internet Conference on February 12th in San Francisco. Rory Read will present at the Morgan Stanley Technology Media and Telecom Conference on February 26th in San Francisco.

Our first quarter quiet time will begin at the close of business on Friday, March 15th. And lastly, we intend to announce our first quarter earnings on April 18th. Dial-in information for the call will be provided in mid-March.

Please note, non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measures in the press release and CFO commentary posted on our website. Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such, involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Please refer to the cautionary statement in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's quarterly report on Form 10-Q for the quarter ended September 29th, 2012.

Now with that, I'd like to hand the call over to Rory Read, AMD's President and CEO. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. We made progress in the fourth quarter, delivering on our commitment, managing expense and cash, and beginning to transform AMD for long-term growth and profitability. However, full-year results fell short of our expectation as the challenging macro environment resulted in a weaker than expected PC market.

As I mentioned on our last earnings call, we are executing a turnaround that will take several quarters. We expect continued choppiness in the PC market in the first half of 2013, and we will closely manage the business as we reset, restructure and ultimately transform AMD. We have the right strategy and a new set of products coming to market in 2013. We continue to make the investments required to drive a larger percentage of revenue in the high-growth adjacent markets, dense server, semi-custom, embedded and ultra low power client markets.

We are implementing three phases of our turnaround. First, complete the restructuring of our business. This is a critical step in reducing our operating cost model to enable a return to profitability. Second, accelerate our business in 2013 by executing the delivery and launch of a new set of powerful product offerings. And third, transform AMD to take advantage of high-growth opportunities in adjacent markets where our IP provides a competitive advantage.

As with any turnaround, it is critical we meet our commitments throughout each step. To that end, we effectively managed our cost, reduced our inventory and maintained our cash above our minimum acceptable levels in the fourth quarter. Revenue of $1.55 billion met our guidance, while decreasing 9% sequentially and by 32% from a year-ago.

For the second year in a row, we had a successful Black Friday as sales of AMD-based notebooks in North American retail grew from a year-ago. As a result, nearly one in every three notebooks sold in U.S. retail in the fourth quarter were powered by AMD. We also saw a sequential increase in desktop microprocessor ASP based on strong channel adoption of our new Athlon FX CPU and A-Series APUs in the quarter.

The value proposition of our latest processors drove demand and helped reduce channel inventory. Customers continue to embrace the differentiated value proposition of our APUs. We added VIZIO as a new customer based on the industry-leading graphics performance and long attery life of AMD's APUs. VIZIO's first AMD-based products will include two touch-based ultrathin and a Windows 8 tablet.

Now turning to our server business. We recorded significant revenue growth for our SeaMicro dense servers, driven by large scale cloud data center wins. SeaMicro solutions are being deployed and evaluated by a broad variety of marquee customers, demonstrating the value of our investment in dense server and setting the stage for continued future growth. Our Graphics business performed well in the quarter as well, highlighted by record workstation and gaming revenue and the launch of the Nintendo Wii U game system powered by AMD graphics technology.

To help accelerate desktop GPU sales in the channel and reinforce our long-term strategy to be a leader in gaming, we launched the "Never Settle" campaign in the quarter. This promotion was well received by partners and consumers, as we bundled some of the season's hottest games with our highest performing graphics cards. In the channel, unit shipments and revenue for our high-end Radeon graphics grew, driving a richer mix and increased ASP from the previous quarter. We will launch a follow-on promotion this quarter, pairing our highest performing graphics cards with some of the most anticipated game titles of 2013.

Now I want to return to the trends impacting AMD and the industry overall and the steps we are taking to restructure, accelerate and ultimately transform our business. We are well on our way toward implementing a new operating model that will allow us to achieve lower operating expense and enable a return to profitability.

In addition, the new products that will accelerate our business in 2013 have passed several key milestones in the quarter as we began shipping Richland and secured solid design wins for the Brazos follow-on Kabini and our new ultra low-power Temash APU. Both Kabini and Temash are currently going through final internal validation in parallel with customer evaluations in anticipation of launches that are planned for the first half of this year.

AMD's first mobile GPUs based on our Graphics Core Next Architecture also began shipping in the fourth quarter. ASUS, Lenovo and Samsung have already announced plans to offer these low-power GPUs, and we are seeing strong design win momentum for these GPUs because they deliver discrete-level graphics performance while stretching battery life in both traditional and ultrathin notebooks.

Our longer term transformation to drive growth in adjacent high-growth markets continues to gain momentum. In the server space, we will combine our extensive 64-bit design experience, x86 processor IP, and ARM processor cores with our SeaMicro Freedom Fabric to continue to drive leadership as the industry transitions to dense servers. We believe we already have significantly more dense server customer installations than any other competitor, making our SeaMicro technology the most tried, dense server solution available in the industry.

Now, in ultra low power clients, we bolstered our SoC design capabilities with new engineering talent, simplified our development processes to improve our execution, speed and quality. Our Kabini and Temash SoCs for notebooks, tablets and convertibles are exceeding our expectations. More importantly, the strong value proposition and differentiated features of these products are exceeding customer expectations as well. Kabini will be the first industry quad-core x86 SoC, and Temash is expected to be the highest-performing tablet SoC available in the market, more than doubling the graphics performance of our current generation tablet offering.

Finally, we have strong design wins for our embedded and semi-custom APUs. Initial products based on these APUs are expected to launch later this year, driving our embedded semi-custom business to more than 20% of our revenue mix by the fourth quarter.

So, in summary, we have made good progress in the fourth quarter with our turnaround. We delivered on our financial and customer commitment, effectively managed cash, reduced inventory and lowered operating expense in the face of a difficult market. We will complete the majority of a restructuring action this quarter, with the goal of reducing our overall cost structure by 25% from early 2012 levels by the third quarter of 2013. We are introducing strong new APU and graphics offerings in the first half of 2013 that will accelerate our AMD business, with the ultimate goal of returning AMD to profitability and positive free cash flow in the second half of this year.

We are also making good progress on the multi-year transformation of AMD that will allow us to deliver 40% to 50% of our future revenues from high-growth markets where our IP is a differentiator. Our embedded semi-custom APU business remains on track to contribute approximately 20% of our overall revenue by the end of this year. And our SeaMicro dense cloud server business continues to gain momentum. We will remain focused on the steps we must take over the next several quarters to turn AMD around and deliver consistent profitability and growth.

With that, I will now like to turn the call over to our newly appointed CFO, Devinder Kumar. Devinder?

Devinder Kumar

Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

Thank you, Rory. 2012 was a challenging year in which we made strategic investments and began to take the actions necessary as part of a corporate and financial reset to position the company for future success in a changing computing landscape. In the fourth quarter of 2012, we announced restructuring actions and operational efficiencies designed to reduce our expense structure and help return AMD to future profitability and free cash flow generation. The restructuring plan includes a reduction of AMD's global work force in the fourth quarter of 2012 and the first quarter of 2013 by approximately 14% and will result in operational savings of approximately $190 million in 2013.

By the third quarter of 2013, we expect to reduce operating expenses to $450 million per quarter, down 25% from the first quarter of 2012. As we ended 2012, we also successfully amended our Wafer Supply Agreement with GLOBALFOUNDRIES to better align our wafer purchase commitments with current PC market dynamics, strengthen our balance sheet and help us achieve our operating goals. Broader macroeconomic issues impacted consumer PC spend in the second half of 2012 as the challenges we faced in the second quarter continued through the end of the year. We faced a difficult selling environment, which negatively impacted our overall 2012 financial performance.

Let me provide some details on the full year 2012 financial results. Revenue for the year was $5.4 billion, down 17% year-over-year. Non-GAAP gross margin was 41%. Non-GAAP operating expenses were $2.2 billion, lower than what we guided due to the restructuring actions and alignment of expenditures with business expectations. We achieved non-GAAP operating income of $45 million. We managed capital expense – expenditures down to $133 million in 2012, below guidance of approximately $200 million. Tax benefit was $34 million, better than guided, due to a one-time benefit of $36 million related to the SeaMicro acquisition. Cash balance as of the end of the fourth quarter was $1.2 billion, above the optimal zone of approximately $1.1 billion and well above the target minimum of $700 million needed operationally.

Let's turn to the fourth quarter results. Revenue for the fourth quarter of 2012 was $1.16 billion, down 9% sequentially, driven by a revenue decline in Computing Solutions segment of 11% and a decline of 5% in the graphics products segment. Revenue declined due to lower volumes across both segments. To derive non-GAAP gross margin and other non-GAAP financial measures, among other items, we excluded the impact of the Lower of Cost or Market charge related to the GLOBALFOUNDRIES take-or-pay obligation of $273 million, discussed in more detail in my CFO written commentary, which has been posted online.

Non-GAAP gross margin was 39%, up 8 percentage points quarter-over-quarter. Gross margin in the third quarter of 2012 was 31%, and this was adversely impacted by an inventory write-down of approximately $100 million or 8 percentage points. Fourth quarter 2012 gross margin also benefited from sales of higher priced second-generation desktop APUs. Non-GAAP operating expenses were $506 million, lower than guidance, primarily due to tight spending controls in the quarter.

R&D expenses were $313 million, 27% of net revenue. SG&A expenses were $193 million, 17% of net revenue. Non-GAAP operating loss was $55 million and non-GAAP net loss was $102 million. Interest expense was $45 million, flat compared to the prior quarter. Tax provision for the quarter was $4 million, compared to zero in the prior quarter. The non-GAAP loss per share was $0.14, calculated using 747 million basic shares. Adjusted EBITDA was $30 million, better by $65 million from the prior quarter's negative $35 million, excluding the LCM charge of $273 million.

Now switching to the business segments. Computing Solutions segment revenue was $829 million, down 11% sequentially. Client product revenue declined 13% sequentially, primarily driven by lower microprocessor unit shipments. Server business revenue increased sequentially, driven by an increase in unit shipments of compute systems focused on dense servers, and chipset revenue declined in line with microprocessor unit shipments. Computing Solutions operating loss was $323 million, an increase of $209 million sequentially, primarily due to the $273 million LCM charge.

Graphics segment revenue was $326 million, down 5% sequentially primarily due to an 8% sequential decline in GPU revenue, partially offset by record game console revenue and record workstation graphics sales. Graphics segment operating income was $22 million, up $4 million from the prior quarter, primarily due to the higher game console revenue.

Turning to the balance sheet, our cash, cash equivalents and marketable securities balance, including long-term marketable securities at the end of the quarter, was $1.2 billion, down $297 million compared to the end of the third quarter of 2012. The decrease is primarily due to operating cash flow of $286 million, which include – included a few specific cash payments as follows. Payments to GLOBALFOUNDRIES of $130 million, comprising of $50 million for the limited waiver of exclusivity and $80 million termination fee related to the take-or-pay agreement, and cash payments of $46 million related to restructuring actions taken in the fourth quarter of 2012. We exited the quarter above our target optimal cash level and well above the target minimum cash level of approximately $700 million. Debt as of the end of the quarter was unchanged at $2.04 billion.

Accounts receivable at the end of the quarter was $630 million, down $53 million compared to the end of the third quarter of 2012, primarily due to lower revenue. Inventory was $562 million exiting the quarter, down $182 million or 25% from the prior quarter due to a decline in MPU inventory, primarily as a result of the amendment of the Wafer Supply Agreement with GLOBALFOUNDRIES.

Now turning to the outlook. For the first quarter of 2013, AMD expects revenue to decrease 9% sequentially plus or minus 3%. Gross margin is expected to be flat sequentially. Operating expenses are expected to be approximately $495 million, and we expect inventory to increase sequentially ahead of new product introductions and technology transitions.

For 2013, we expect operating expenses to be at $450 million by the third quarter of this year. Capital expenditures of approximately $150 million for the year. Taxes of approximately $4 million per quarter. We plan to be free cash flow positive by the second half of 2013, and we expect to maintain cash balances in the optimal zone of $1.1 billion for the year and well above the target minimum of $700 million.

Overall, we have taken significant steps to align our business with today's PC environment and position the company to capitalize on new opportunities in adjacent high-growth markets in 2013 and beyond. We expect our restructuring actions and our corporate reset to position us to return to profitability and free cash flow generation in the second half of 2013.

I will now turn it back to Ruth for the Q&A. Ruth?

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we're now happy to poll the audience for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from David Wong from Wells Fargo. Your line is open.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Thank you very much. Embedded revenues – Rory, I think you said you're still on track to hit 20% of revenues by 4Q for the embedded revenues. Can you give us some idea as to how things will ramp in the first, second and third quarter? Will you get any significant embedded sales in those three quarters?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, David, we already have an interested – interesting embedded business already in place. What we're going to see as we continue to invest in that area to leverage our differentiated IP and our leadership APUs is a move into some of the higher growth segments. We've mentioned on previous calls that those are currently confidential and they'll be announced as the year moves on. We should see us build that revenue starting in the next several quarters, and it ramps throughout the year to that 20% level.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Okay, great. And my other question is, over the last several quarters as you've been – since you've been at the company and you've been forming your long-term strategic goals, has your thinking changed on how AMD should be transformed? Are there new segments you now think AMD should address or alternatively areas that you've decided AMD should exit?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

It's interesting, David. Over the past 16 months of being here at AMD, it's clear that this company has a deep base of intellectual property. It has a huge asset pool in terms of the talented engineers and dedicated AMD-ers across the planet. And this is an unprecedented period of change in the industry. Our strategy has remained basically, fundamentally, consistent throughout this. The only thing that's really changed is the time period that we need to execute that change and accelerate into that. First, it's a three-phase turnaround – one, reset and restructure the company. And I think here in fourth quarter, you see us making that kind of progress where we're delivering on that commitment, we're executing and managing our expense, we're managing our cash properly and we've improved our inventory position significantly. With that, we're on a drive to get to $450 million by 3Q.

Then we need to execute and accelerate in 2013. That's where we hit the top of the curve of this restructure and reset phase and begin to move into the launch of these powerful new products that we have in place. At CES, Lisa and I spent a lot of time with customers, and they were excited about Richland, which is now launched, and they were excited about Kabini and Temash, Kabini, the follow-on to our most successful Brazos platform and then Temash into the low power segment. These are very interesting products, and we're going to continue our industry leadership into the Graphics segment. And then dense server had its best quarter ever and showing the foundation for future growth. But ultimately where we have to take this company is we need to transform AMD to take advantage of where the market is going. The high-growth segments, those areas where we can apply our innovation to lead. That's where we have to take the third part of our step. And we're making those investments now.

In dense server, we're already seeing the early progress with SeaMicro that I mentioned, and then moving into embedded semi-custom. This year we'll be 20%, but our ultimate objective within the next three years is to move to 40% to 50% of our revenue in those segments. And then obviously the opportunity for us to build on our long heritage in the client segment, around low – new form factors in the low-power segments. These are areas where AMD can create leadership, diversify its portfolio, build on its long history of success, and its differentiated IP for leadership. Dave, I think that's the one, two, three-step approach that we need to take.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Great. Thanks very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Our next question comes from John Pitzer from Credit Suisse. Your line is open.

Patrick Walsh
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Hi. This is Patrick Walsh calling in for John Pitzer. I just had a quick question relative to some of the charges. So in the fourth quarter, it looks like you guys took a larger than expected charge. How should we think about these kind of one-time charges going out through 2013?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

I think if you look at Q4, you're right about the one-time charges. Let me just take a moment to explain that. We had previously said a $165 million one-time charge and $110 million of our termination fee related to the WSA would be spread over Q4 and Q1. As we completed the analysis from an inventory standpoint, it was more appropriate to record almost the whole charge in Q4, and we went ahead and did that and that is $273 million. At this point in time, even with the restructuring charge that has been taken in Q4, we do not anticipate anything significant happening in the 2013 timeframe. There are some actions that might be taken that would lead to it but at this point I don't think anything is anticipated.

Patrick Walsh
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Okay, great. Thanks. And then just another question on the embedded segment. Just curious if you could give any color kind of how that mix could look over time in terms of what percentage of that is gaming versus I guess other type – other embedded revenue?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, Patrick, this is Lisa Su. Just a comment on the embedded revenue. So we put embedded and semi-custom designs in one bucket and we would certainly see – the embedded business tends to have a long design-in cycle and then a long life cycle as well. So we have very good visibility in terms of execution for the target that Rory mentioned, 20% of our revenue by the fourth quarter of this year, and then as we go forward, we would expect to add additional high volume design wins to that bucket.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And it's interesting, as we mentioned in the earlier comments, those parts are already in their validation phases here, we're working through those tracks, and that protects those key design wins that drive that 20% in terms of the revenue objective by 4Q. So we're on track and making solid progress in terms of the delivery of those key new solutions.

Patrick Walsh
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Great. Thank you very much.

Operator: Our next question comes from Hans Mosesmann from Raymond James. Your line is open.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Thanks. Hey, Rory, a couple of questions. You're going to end up being about six, maybe nine months ahead of the competition in a quad-core type of SoC. What are the skill sets that you're bringing forth to do that? And the second question is any commentary about the capacity additions that your rival is going to be making for next year and subsequent to that. Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, no problem, Hans. So, Hans, from a standpoint, we are working to create strength in our core businesses at the same time working to capture those new opportunities outside of the traditional space. And over the next two years, you're going to see us rebalance that business where we have a more even split across the non-PC portions and the PC portion. What's kind of interesting as you talk about the leadership in that quad-core space of the SoC, that's a powerful product with Kabini that's launching this year. Again, it's in its final phases of test. I'm sure Lisa will comment in just a second. What we're trying to do in this segment is, again, to create the leadership that we've done in the past with Brazos and then to apply that same kind of knowledge into Temash, which brings us down into the fanless tablet segment.

Now from a talent standpoint, what we've really focused on is a mix of industry knowledge across the semiconductor space and you've seen us bring in interesting players cross the past 12, 15 months, players that are from the who's who of the industry, they know the semi-custom space, they know microprocessor design, they know semi-custom and, of course, embedded. These talents also, you can see with the Keller's and Mark Papermaster's and obviously Lisa Su, the experience to deliver that in industry-leading microprocessor design. And that's why I think you're seeing some of that progress around Kabini. Lisa, do you want to add a thought or two?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, Hans, just to answer the question about the tablet category, we're very excited about our Temash tablet because it really is satisfying a new space in terms of performance tablets, that's separate from what today's consumption and sort of the higher power tablets that are out there. I think it is an opportunity for us to lead. I think from a mobile standpoint, this is where we think there's a sweet spot for full Windows 8 capable tablets and extending from – down to quad-core to very low power points. So as we build out this part of the roadmap, it's about system-on-chip designs, getting much more flexible in how we reuse IP and getting products out to market at the right time. So, having these products out the first half of 2013, very, very important to catch the strong back to school cycle.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Thanks. And the follow up was that comment on capacity?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Hans, on terms of capacity, what were you curious about?

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Yeah, your competition across the way there is going to add a lot of capacity it seems.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Our focus, again, I think is clear and very focused. You – we've got to stay on this reset restructure, get that done and behind us. I think we're moving through that well in terms of getting the cost model, then getting into the execution of the acceleration. That's the key. It's about getting those products in market. Lisa just talked about it in terms of Kabini and talked about it in terms of Temash, it's around the embedded segment. That's the key for us. And customer acceptance, whether it's in the industrial segment, the gaming segment, our traditional OEMs or ODMs, they're very interested in the products that we're creating in 2013. That's the key for us. We do that, we correct the turnaround, we get to the lower operating model, and we return to profitability and growth. At the same time, Hans, continue to focus on where the market is going around dense server and around the areas of that tablet, mobility segment, as well as continue to expand into the embedded semi-custom opportunity. I think we have to focus on what we're good at and getting the products executed. That's key for us.

Hans C. Mosesmann
Analyst, Raymond James & Associates, Inc.
Q

Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Hans.

Operator: Our next question comes from C. J. Muse from Barclays. Your line is open.

C. J. Muse
Analyst, Barclays Capital, Inc.
Q

Yeah, good afternoon. Thank you for taking my question. I guess first question on gross guidance guided flat despite revenues down 9%. Can you walk through the drivers there between mix, any sort of moving parts with the

WSA, with GF or any other drivers that we should be thinking about? And then how we should think about the trajectory post Q1?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

I think all of the factors you mentioned come into play from a product mix standpoint. The WSA is behind us, we renegotiated that and amended that as we announced in December. So it is in effect for 2013. We see a stability from a gross margin standpoint even though the PC environment continues to be dynamic. And from that standpoint, we are projecting in Q1 of 2013 that we'll be able to maintain approximately flat gross margin at 39%.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

Okay, that's helpful. And I guess given what you've seen and what you're guiding to here on the gross margin side, is there an update in terms of what you expect break-even wise in terms of top line on an operating level basis? I believe a few months ago you had said $1.3 billion but – sorry go ahead.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, rather than focus on that, I would just like to reiterate and maybe add some color on the guidance we're providing for 2013. The PC market, as Rory said earlier, we see it as challenging for the next couple of quarters at least. And, therefore, we're not providing any guidance from a revenue standpoint for the year. From an OpEx standpoint, we have a trajectory to get to $450 million by Q3 of 2013. CapEx, as I said earlier in my remarks, $150 million for the year. And then finally, free cash flow positive and profitable by the second half of 2013. So that's the guidance we are providing for the 2013 from a viewpoint of the financials as we sit here right now in the early part of 2013.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

That's helpful. And then last question for me. In terms of the cash out flows in Q1, can you confirm what those positions are? I believe you owe $175 million for SeaMicro and another $175 million to GF. Is that correct? And are there other moving parts there?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

You are correct. Luckily, just for one of the $175 million that you mentioned, the SeaMicro acquisition happened early part of 2012. We paid for that. That was all done as part of last year. But you are correct about the $175 million to GF to be paid in Q1 of 2013.

And the other payment that we have, which I mentioned in my remarks, is the $31 million for the severance charges for the actions we are taking from a restructuring standpoint. But those are the two specific payments that will occur in Q1 2013. And then from our standpoint, as I've said several times, from a cash standpoint, we have a target minimum of $700, but we plan to maintain a cushion between the $700 and actually maintain closer to the $1.1 billion, which is what we call the optimal cash balance.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Our next question comes from Joseph Moore from Morgan Stanley. Your line is open.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. First, just a quick follow up on the last question. Have you – where do you stand on the sale leaseback of the headquarters?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

It's in progress, and we are targeting to complete that within this quarter, and we should net somewhere between $150 million and $200 million for the sale leaseback transaction. The only clarification I'll make, there is, this is the Austin campus. The headquarters are still in Sunnyvale, California.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Thank you. And then with the R&D, I mean you've taken a lot out of R&D spending already. You're going to take that down further by Q3 but it seems like there's more on your plate now. You put the ARM server roadmap, SeaMicro, the embedded opportunities. Is there something coming out of R&D to let you make those cuts and feel like you're not cutting back or is there a risk that you've cut too far in any one area?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

No, the focus around expense management in terms of driving that op expense line is really across all parts of the business. We've tried to focus those areas where we thought there was efficiency and productivity to be gained. For example, there's opportunities for us to dramatically reduce the number of different process technologies we're running in our various foundries. That drives all the IP to be written to multiple libraries. We very much focused in terms of efficiency to drive the number of metal layers, the way we reuse our IP, the IP development process that Mark Papermaster and Lisa Su have implemented through our technology board. We are seeing efficiencies and productivities through that. At the same time, we're driving to improve our focus in terms of the types of design wins we go after. We don't – it's really not the best business practice to go after just a gigantic number of design wins. We want those high runners, those design wins that drive volume.

Every design win drives cost, drives back-end execution, testing resources. When we drive hundreds of design wins, some of those are 25,000, 50,000 units. Those are not efficient. We've been focusing with Lisa's business unit teams and John Byrne's sales teams to really identify those design wins that get the volume and get to the most efficient usage. That's how we're driving that kind of focus in terms of efficiency and productivity, and those are just a few.

We've implemented the financial transformation system on the back-end. John Docherty on the supply chain has an intense focus across each of his processes to drive that efficiency, to improve our execution. And what's interesting, what we had some schedule challenges in the middle of summer last year, the second half of the year, the progress that the business unit teams and the technology teams have made on our 2013 roadmap part has been very consistent and on schedule.

So I think we're making the right moves to push for that efficiency, look for the reuse of IP, create that ambidextrous architecture that's reusable and to drive efficiencies across the portfolio. And in fact, we announced a new Senior Vice President, Chekib Akrout, who is driving that transformation and efficiency focus across our entire business as a full-time job.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

If I may add, I'll just add one comment to that. If you look at our OpEx in Q1 2012, it was closer to $600 million, and in Q4 we've ended closer to the $500 million level, so we have already taken out approximately about $100 million of expenses. And the restructuring actions that we took from head count and some facilities actions that we are putting in place, happened very late in Q4 and obviously we have some going on in Q1 2013, so those benefits obviously, as you know, lagged the actions and we will see the full benefit of that expense reduction in Q2 of 2013 and that should help us while protecting the R&D investment that Rory talked about to get to the $450 million by Q3 of 2013.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And again, at the end of the day, our company hinges on the products that we create. 2013 roadmap looks strong. It's across the board in terms of the execution, the schedules and the launches are tracking right to the schedules that we laid out. We're working on 2014, 2015 and 2016 in terms of how to transform our business, in terms of those high-growth segments and how do we continue to leverage our leadership in the client space and the graphics space to continue to deliver that product focus. We have protected through this process of budgeting those areas where we know the highest growth will come over the next several years.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Joe.

Operator: Our next question comes from JoAnne Feeney from Longbow Research. Your line is open.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Hi. Thank you. I wanted to go back to the discussion about gross margin. So in the last quarter, desktop was stronger. I was wondering, first of all, if you could clarify whether that was purely a mix shift within desktop, say, on lower volume shipments, or if you actually saw an increase in units sequentially in the fourth quarter in addition to, it sounds like an ASP rise. So that's sort of number one.

And then number two, what are you thinking about for mix for 2013? Do you see more lower-end PCs and tablets? And then, how are your margins across those different kinds of products, and what do you think could drive either gross margin to stay where it is or perhaps to expand in 2013?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Okay. JoAnne, this is Lisa. Maybe let me take some of the comments on, sort of, the mix on the gross margin in the fourth quarter. So in the fourth quarter, I think we took a very balanced approach to managing the margins. I think we saw some positives and some negatives in the desktop business. We did see an increase in desktop ASP, primarily because we introduced our higher-end Athlon FX series, as well as the new A-Series Trinity APUs into the channel, and that drove ASPs up a little bit on the desktop side. There were some competitive pressures on the notebook side. So, all in all, a very balanced approach to the margins.

I think as we go forward for 2013 mix, we're not talking about full year gross margins. Devinder mentioned our guidance into Q1. When you look at the mix there, we would expect that as we get into the second half of the year, we will have the higher end of the A-Series, the A8s, and A10s, but there's of course a balance with what happens in the market. So, all in all, I think that's where we are.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay. And then a quick follow up. How much are you, I guess – well, let me back up. The changes that you have been talking about, you and Rory and Mark, on simplifying the manufacturing process, reducing the number of wafer processing steps, for example, adopting a more standard process, presumably is expected to do two things. One, lower unit costs, and two, speed your time to market. I guess, from our perspective of trying to understand where gross margin might go, can you give us any sense of the quantitative impact that you foresee from those simplifications on a cost structure?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, from a cost structure, that's how we're driving to – part of the way how we drive to the $450 million. That's one piece of it, as I kind of highlighted, JoAnne. The idea across the development process, the way we interlock now, the focus that we have. In the past, custom, hugely long complex designs were the way the PC market moved. In the future, it's going to be quicker, low power, more efficient design. Also you get from this approach, obviously you'll get time to market, you get lower cost – you also get better yield, which is also important in terms of really managing the business. So it has benefits across the board. And speed of execution, as we move forward in a model where you're going see a consortium-based model, and the proprietary control points of – as some of x86 break down, these kinds of models are going to be key. So we're going stay the course on that. That's helping us on the $450 million.

From the gross margin, I think we've given the guidance in fourth quarter. We need to focus on executing first quarter as we've given the guidance, excuse me, on first quarter. And then from there we'll go forward.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay. And then just one quick follow up. So it sounds like the simplification in manufacturing is doing both, it's reducing OpEx and potentially improving your gross margin. But perhaps you could just give us an update on how the spread is on gross margin across your different products, from your mainstream Trinity, Richland to your lower-end Temash and Kabinis. Is that something that's widened or narrowed, or can you really not talk about that yet?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, JoAnne, we wouldn't get into that level of detail. I think we've given a good outlook in terms of the guidance for 1Q.

JoAnne Feeney
Analyst, Longbow Research LLC
Q

Okay, thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thank you, JoAnne.

Operator: Our next question comes from Glen Yeung from Citi. Your line is open.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Hey, Glen, are you there?

C. Adeline Lee
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Hi, it's – yes. Hi. Can you hear me?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

We can. Go right ahead. But you're not Glen.

C. Adeline Lee
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Hi.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I know Glen's voice.

C. Adeline Lee
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Yes, it's Adeline for Glen Yeung. Can you discuss your gaming consoles, which is a potential market for you? And we just want to know when can we expect revenue to ramp and is that part of the inventory build that you've discussed in your CFO remarks? And I have a follow up.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Okay. Well, Devinder, why don't you touch on inventory, how we focus and manage it and how it progresses from here, and then we'll touch on our embedded strategy, which we covered before for Adeline.

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

Yes, I'll do that. Hey, Adeline. Inventory, as you observed, down 25% quarter-on-quarter, but that's largely in the MPU inventory space and partly and largely due to the WSA amendment. From my standpoint, if you talk about inventory going forward, it's more in the $650 million, $700 million range is what I would call it for 2013. And in particular, as you can imagine, as new business opportunities arise, new production introductions take place and, in particular, when you have process technology transition, that is going to lead to some increase in inventory and that's where it will be, but I'll let Lisa or Rory answer the other part of the question.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc. A

Okay. So, Adeline, on the gaming revenue, I think we talked about the Nintendo Wii U that was announced in the fourth quarter, and that was part of the revenue that was reported in the Graphics segment. In terms of going forward, what we've said is the embedded and the semi-custom business will ramp over this period in 2013 and we are on track for that 20% revenue target by the fourth quarter.

C. Adeline Lee
Analyst, Citigroup Global Markets Inc. (Broker) Q

So that will be more second half than first half? Can I make that assumption?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Our embedded business will continue to grow toward the 20% in the second half.

C. Adeline Lee
Analyst, Citigroup Global Markets Inc. (Broker) Q

Okay. And the follow up is that, now that you are seeing some success in the dense server market, do you have an opinion about ARM versus x86? And also, by the way, did you see – did that strength at SeaMicro that you saw came with Intel or AMD processors?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc. A

So the dense server market is where we believe the growth is in the server business, so we were pleased with the progress of our SeaMicro systems in the fourth quarter. I will say that in the fourth quarter we started shipments of AMD-based SeaMicro systems as well as Intel-based. And they've gotten a good reaction. I think as we go forward, we are committed to both ARM and x86 in the appropriate markets. And clearly, we've stated that we will be doing ARM-based server chips and that will be in the 2014 timeframe, and we continue to offer a strong lineup of x86 as we go through both our client and our dense server business.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Yeah, and this is all consistent with our focus to drive reusable IP, an SoC – true SoC methodology in an ambidextrous architecture. This is an area where AMD can clearly differentiate and create leadership in the marketplace.

C. Adeline Lee
Analyst, Citigroup Global Markets Inc. (Broker) Q

Great. Thank you.

Operator: Our next question comes from James Covello from Goldman Sachs. Your line is open.

Mark Delaney
Analyst, Goldman Sachs & Co.

Q

Great. Thanks very much for taking the question. This is Mark Delaney calling on behalf of Jim Covello. I was hoping first you guys could talk a little bit about your guidance on the revenue for the fourth quarter and why you think it is that you're guiding below your biggest competitor?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From my perspective, as I look at the PC market, Mark, that market is going to continue to be choppy in 2013, particularly in the first half. Remember, if you go back to 1Q last year, there was a lot of concern about the flood that affected Thailand and the hard disk file and it was quite surprising, as we kind of suggested, that supply chain would be quite resilient. The numbers were quite strong out of 1Q. We think there will be continued chop and pressure in that first half of 2013. And this market's a bit dynamic right now.

We do think Win 8 is a very important event in the industry, and I think that impact or effect will build over the course of the year, and we expect the second half to be stronger than the first half, from my perspective and if I looked at the overall year, weaker in the first half, stronger in the second half, probably a net flat to slightly down. That's our view of it in terms of where we're expecting the market and how we're planning to balance that in terms of the gross margin and in terms of the revenue lines. And that's how we came to the conclusion.

Mark Delaney
Analyst, Goldman Sachs & Co.

Q

That's helpful. Thank you. As a follow up question, the mobile space in particular and tablets, there's been a lot of new entrants, companies that don't historically participate in the PC market that have been introducing products. And now that you guys are closer and farther along with some of your products for that space, I was hoping you could help us understand to what extent you guys are working closely and partnering with some of these new companies that you traditionally haven't worked as closely with.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, I think what's important is that we see that same high-growth opportunity in those new form factors, and you can see it with the introduction of our relationship with VIZIO just here at CES and that introduction of those two ultrathins and obviously in the tablet space. You're going to see us continuing to work across OEMs, in the embedded space, new partners and across the ODM segment to get that expansion and begin to build that market. But again, our focus is to build that over a two- to three-year period to drive that to 40% to 50% of our revenue across those high-growth segments. Lisa, any additional comments you'd like to add?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

No. I would agree. I think that the key with the mobile space is that there are a lot of new innovations happening, both in the traditional OEMs as well as in some of the new entrants, as you mentioned. So, yes, we are working across the board with a number of customers with these new products.

Mark Delaney
Analyst, Goldman Sachs & Co.

Q

Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Mark.

Operator: Our next question comes from Steven Eliscu from UBS. Your line is open.

Steven Eliscu
Analyst, UBS Securities LLC

Q

Yes. Thank you. Actually regarding the last question, I want to take a glass half-full approach. This quarter, with your guidance, it appears you're going to lose a lot less market share to your competitor. Is this about Richland ramping? Or is this just about clearing excess inventories that you had on Llano in the channel last year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think we've had a clear focus for the past several quarters to improve our channel execution from a push model to a velocity model where I have sell-through tracking and the relationship and data all the way through the channel. I think we're making steady progress in 3Q, 4Q and as we move forward there. I think that inventory in our finished goods position, Devinder touched on it with our WSA work and the focus, we at the end of 2Q and even into 3Q we're seeing pressure in terms of potentially building more inventory. And while we did have to take a charge in 3Q to address some of that, I think we've done a strong job in terms of focusing on that inventory. That positions us for the new product introductions that we talked about at CES, Richland, Kabini and Temash. And I think that's what positions us to move forward and begin to build this turn and acceleration in 2013 with the objective to get to profitability in the second half and positive free cash flow at that timeframe again. That's the key to our business.

Steven Eliscu
Analyst, UBS Securities LLC

Q

And as – that's helpful. Thank you. And as a follow up, you lost a lot of Graphics share in Q2 and Q3. And I want to get your view if the new GCN parts reverse that share materially where you get back to a level you were in earlier in 2012? Or is this just about stabilizing share since your competitor isn't standing still either?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, Steve, let me take that on a Graphics business. So look, the Graphics business is very strategic to our overall strategy. I will say that we have lost some share over the last couple of quarters. I do believe we're at the low point in our Graphics share, based on what we can see in terms of new design activity. We have a very strong channel approach with our "Never Settle" Bundle that we talked about last quarter, and we will be building upon that this quarter. And we also launched our new HD 8000 series at CES that's now shipping in a number of mobile OEMs. So I think the share is indicative of decisions that were made 12 months ago. What we're looking at is really a strong portfolio as we go forward in Graphics.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And I made just a brief comment from the standpoint of my experience as I joined AMD. The Graphics team here that we have is leadership, the kind of IP, the kind of engineering skill, the ability for them to innovate and drive, I don't know if you had a chance to walk through, Steven, the CES work that we showed there.

Steven Eliscu
Analyst, UBS Securities LLC
Q

I did.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah. And I thought you saw some really interesting application of how you could create a sound – a surround compute environment, leveraging the graphics capability. Imagine that kind of solution moving forward. Say they're building a brand new building and that building is not even built, you could create with our technology a sales room that created the windows and the graphics representation and you said, well, what's this building on the 22nd floor look like at night? And all of a sudden the graphics engines fire up the windows. You can see that world and you can apply that kind of surround compute that we see emerging, this new trend of convergence that the cloud is fundamentally driving, and it's our graphics IP that's going to be a fundamental enabler of that future. That's the world we're chasing. We're not going after the past.

That standalone data and application on a singular device protected by a couple of proprietary control points, that era is ending. The era in front of us is an interconnected world where there's almost a tsunami of new devices that begin to emerge and they're all graphically linked because the data and information, the applications are running on cloud dense servers and these mega data centers and they're distributing information across the whole set of client devices. They're efficient. They're low power. They're across embedded devices. This is the opportunity, Steve, in front of us to really get after it and where we can see graphics taking the business moving forward.

Steven Eliscu
Analyst, UBS Securities LLC
Q

Thank you.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.
A

Operator, we'll take two more callers, please.

Operator: Our next question comes from Romit Shah from Nomura. Your line is open.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Romit, are you there? Are you on mute?

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.
Q

Hi. Rory, this is Sanjay for Romit Shah.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Oh, excellent. Perfect. Hi, Sanjay.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.
Q

Question I wanted to ask you if you could share some updates on 28-nanometer progress at GLOBALFOUNDRIES as it relates to some of the issues you faced last year at 32-nanometer?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

You know from our perspective, our supply chain has focused with our foundry partners across 2012 in improving execution. And as I've commented several times before, the work that we've done with GLOBALFOUNDRIES and across the foundry supply chain environment has significantly improved with that kind of disciplined approach. We introduced last year the first 28-nanometer graphics products and leadership and now as we move forward, we're positioning ourselves with that refocus, better executing supply chain to move forward in 28-nanometer.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, and, Sanjay, just to your question about 28-nanometer and GLOBALFOUNDRIES, we are pleased with our overall 28-nanometer bring up in all of our foundries. So from a 28-nanometer standpoint, we feel very good about where the technology is and what it's delivering for us from a product standpoint.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And one of the things, Sanjay, that we're focused on is to make sure that those parts are delivered to time to the market, the two seed launches, and that we get the parts and volume as we ramp through it so that it's not just an announce and a back end. These are focused in terms of the execution of the supply chain to build through the ramp at the beginning of the launch. So that's something we focus very hard not to repeat the Llano kind of events of 2011.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.
Q

Okay, thanks. And as a follow-up, I wanted to go back to the gross margin question, and I was wondering if you could give us a sense on your embedded and semi-custom business, what's the gross margin of that product line relative to your PC business? Is it lower? Is it higher? If you could give us any color there?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.
A

We don't get to that level of granularity, Sanjay.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.
Q

All right, thank you so much.

Operator: Our last question comes from Vivek Arya from Bank of America. Your line is open.

Aashish Subba Rao
Analyst, Bank of America Merrill Lynch
Q

Hi. This is Aashish Rao for Vivek Arya. Thanks for squeezing us in. A question for Lisa – could you provide an update on when you expect Piledriver architecture Opteron servers to come out? I mean, and related to that is, could this refresh your server business or do you think long-term growth is more a function of SeaMicro dense servers as well as the ARM-based servers?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah. So when we talk about our server business, we are definitely focused on increasing our investments in the dense server portion of the business. So we recently announced our Abu Dhabi lineup in Q4. We also announced earlier this month an open compute reference platform that was based on a system that we called Roadrunner. Those are both based on the Piledriver architecture. As we go forward, as we said, we are going to ensure that we double-down in the dense server business and that includes our SeaMicro Fabric as well as our chip technologies with APUs and CPUs.

Aashish Subba Rao
Analyst, Bank of America Merrill Lynch

Q

Okay, cool. Devinder, let me try asking you the semi-custom embedded business question in a different way. I mean, you have noted that you expected to represent about 20% of sales exiting the year. I mean, directionally, how should we think about gross and op margins both on a percent as well as on a dollars basis as you go from – progress through the year?

Devinder Kumar
Chief Financial Officer, Senior Vice President, Advanced Micro Devices, Inc.

A

Yeah, I think as I said earlier, the PC environment, it continues to be dynamic. Our business model based on what you observed with the 20% obviously is evolving. We are providing guidance for gross margin for Q1 2013 and we're not providing guidance beyond that time period.

Aashish Subba Rao
Analyst, Bank of America Merrill Lynch

Q

Okay, thanks.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Operator, that concludes today's earnings conference call. We would like to thank everybody for participating and for you to sign off now, please, operator. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's program. This concludes the program. You may all disconnect.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2013 Earnings Call for 18-April-2013 5:00 PM ET
Wednesday, January 23, 2013 01:22:01 AM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2013 Earnings Call for 18-April-2013 5:00 PM ET.

Press Release URL: http://phx.corporate-ir.net/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1808428&highlight=
Live WebCast URL: http://edge.media-server.com/m/p/2h7s2xxd/lan/en
Replay WebCast URL: http://edge.media-server.com/m/p/2h7s2xxd/lan/en
Slides Link :
http://phx.corporate-ir.net/External.File?t=1&item=VHlwZT0yfFBhcmVudElEPTQ5MDEwMzV8Q2hpbGRJRD01MDEzMDE=

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Event Type: Earnings/Results
Industries: Semiconductors
Primary Identifiers: AMD-US
Regions: US
Related Identifiers: AMD-US

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2012 Earnings Call for 22-January-2013 5:00 PM ET
Friday, December 07, 2012 03:00:02 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2012 Earnings Call for 22-January-2013 5:00 PM ET.

US Live Call Phone Number: (866) 814-1921

US Replay Call Phone Number: (888) 266-2081 US Replay Call Pass Code: 1600156

Intl Live Call Phone Number: (703) 639-1364

Intl Replay Call Phone Number: (703) 925-2533 Intl Replay Call Pass Code: 1600156

Press Release URL: http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTY4NzIwfENoaWxkSUQ9LTF8VHlwZT0z&t=1
Live WebCast URL: http://www.media-server.com/m/acs/4824c6606a426216d1dd7227edc3aead
Replay WebCast URL: http://www.media-server.com/m/acs/4824c6606a426216d1dd7227edc3aead

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18-Oct-2012

Advanced Micro Devices, Inc. *(AMD)*

Q3 2012 Earnings Call

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Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

OTHER PARTICIPANTS

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Hans C. Mosesmann
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JoAnne Feeney
Analyst, Longbow Research LLC

C. J. Muse
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Analyst, Bank of America Merrill Lynch

Steven Eliscu
Analyst, UBS Securities LLC

Craig S. Berger
Analyst, FBR Capital Markets

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey and I'll be your conference operator for today. At this time I'd like to welcome everyone to AMD's Third Quarter 2012 Earnings Conference Call. All lines have been placed on a listen-only mode. After the speakers' remarks you will be invited to participate in the question-and-answer session. As a reminder, this conference is being recorded today. I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Huey. Welcome to AMD's third quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings press release and CFO commentary. If you have not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com.

Participants on today's conference call are Rory Read, our President and Chief Executive Officer; Devinder Kumar, Senior Vice President, Corporate Controller and Interim Chief Financial Officer; and Lisa Su our Senior Vice President and General Manager, Global Business Units and she will be present for the question-and-answer portion of the call.

This is a live call and will be replayed via webcast on amd.com.

I'd like to take this opportunity to highlight a few dates of note for you. Rory Read will present at the Credit Suisse Technology Conference on November 27, Devinder Kumar will present at the Raymond James Conference on December 10, and a fourth quarter earnings Quiet Time will begin at the close of business on Friday, December 14. Lastly, we intend to announce our fourth quarter and fiscal 2012 earnings on January 17, 2013. Dial-in information for that call will be provided in mid-December of this year.

Please note non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measures in the written CFO commentary posted on our website at quarterlyearnings.amd.com.

Before we begin today, let me remind everyone that today's discussions contain forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Please refer to the cautionary statement in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's quarterly report on Form 10-Q for the quarter ended June 30, 2012.

Now with that, I'll hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. Our third quarter financial performance fell significantly short of our expectations. We understand the dynamics behind the shortfall and we are taking decisive actions to address the core issues. To help return the company to profitability, we also announced a restructuring plan designed to strengthen AMD's competitive positioning and reduce our expense structure. I will cover that plan in greater detail shortly, but first I wanted to discuss our third quarter results.

Broader macroeconomic issues are impacting consumer PC spend. OEMs are also taking a cautious approach to managing inventory in advance of the Windows 8 launch. And tablets continue to grow as a consumer device of choice.

As a result, we faced a very challenging selling environment, especially in the lower end of the consumer client space. Yet, against this backdrop, we saw continued consumer adoption of our Trinity APU in the quarter. Trinity notebook unit shipments increased more than 70% sequentially and accounted for nearly one-third of our total notebook shipments in the third quarter.

Although Trinity is targeted at mainstream price points, ultrathin notebooks featuring the low-power APU are also competing effectively at higher system price points. As a result, we believe we gained share in the $600 to $799 retail notebook price band globally in the third quarter.

More than 125 AMD-based systems are expected to launch with Windows 8, including tablets and several new ultrathins. While we look forward to the introduction of Win 8, the fourth quarter will continue to be challenging and we do not expect PC market conditions to improve for several quarters. Our graphics business performed in-line with our expectations. Despite market softness, we continue to see improvements in our desktop discreet channel business and game console revenue increased.

Our industry leading graphics technologies remain a cornerstone of our end-to-end product strategy and we plan to further invest in our graphics business to drive differentiation and future growth across the entire product portfolio.

Now let's turn to the changes in the market and how they are affecting our business and the steps we are taking to address them. Shortly after joining AMD, I talked about the fundamental changes occurring in the PC industry. These trends are occurring now at an even faster rate than previously anticipated. We underestimated the speed of change in our industry, and we expected to have several years to transform the AMD business. But we must implement our transformation on a more aggressive time line.

Here is what we will do. First, we are restructuring our business and building a more efficient operating model. This reset will put in place a business model capable of delivering consistent profitability at lower breakeven revenue points. Second, we must diversify beyond the traditional PC market and become a leader in fast growing and adjacent markets where we can differentiate and create leadership. Our restructuring will simplify our product development cycles without jeopardizing our ability to innovate or deliver products in a timely manner.

We will do this primarily by building reusable IP blocks that will help lower development costs and improve our speed of execution. The restructuring plan is expected to lower our expense base by approximately 25%. This will result in an annualized cost savings of approximately $190 million. A large portion of these savings will come from a head count reduction of approximately 15%. These are difficult, but necessary steps to ensure our plan has the right scale and scope to address the market and competitive challenges we now face.

In addition, we are resetting to a new business model designed to deliver breakeven results with approximately $1.3 billion of quarterly revenue. We expect to hit this level by the third quarter of 2013. As we move through

2013, we will see the results of our work with a more efficient business and a portfolio of powerful new products. There is strong customer interest in our next generation offerings. Design win momentum is solid. And we see opportunity to regain share in 2013.

We already have working silicon for many of our new 2013 products in-house, including our next generation 28-nanometer Kabini APU, which is the successor to our highly successful Brazos platform and our first true SoC design. We are making good progress with the bring up of Kabini, which remains on track to launch in the first half of next year.

Our long-term strategy will rebalance our business towards faster growing segments of the market. Today, approximately 85% of our business is focused on the legacy PC portion of the market projected to have slowing growth over the next several years. We intend to drive 40% to 50% of our portfolio to faster growth markets where our IP is a key differentiator.

We have strong opportunities in three fast growing areas. First, in server, the dense cloud market is one of the fastest growing parts of the datacenter market. Our long-term path to success is in providing customers with disruptive technologies and choice, just as we did when we brought 64-bit computing to the mainstream server market with AMD 64. We will look to leverage AMD's full suite of processor and graphics IP, third-party processor cores and SeaMicro's innovative Supercompute Fabric to deliver differentiated solutions with industry leading performance per watt.

Second, our low-power APUs, graphics IP and reusable design blocks give us a distinct advantage to build semi-custom APUs for new embedded markets. We are focused on growing our share in targeted embedded markets. These include communications, industrial, and gaming, which will outpace the PC industry growth for the foreseeable future.

Our semi-custom APUs already have a number of confidential high volume design wins in place. We plan for our embedded business to comprise approximately 20% of our quarterly revenue by the fourth quarter of 2013, up from 5% today.

And finally, as we noted earlier, we will continue to focus on driving down into the ultraportable and ultra low-power form factors that continue to grow rapidly. APUs are ideally suited for these new products. From ultrathins and tablets to a new breed of entry-level notebooks that will drive growth in the emerging markets.

So, in summary, we are facing the challenges in the global IT market head on. We are resetting and restructuring our business to reduce our cost base from earlier this year by 25%. We are targeting a $1.3 billion revenue breakeven point by third quarter 2013. We are also delivering powerful new APUs in 2013. And finally, we are aggressively pursuing fast growing adjacent markets where our IP provides differentiation and the opportunity for AMD to grow share.

These include dense serving, new embedded markets, and new lower power form factors. Together these actions will return AMD to profitable growth.

With that, I'll to turn the call over to our interim CFO, Devinder, to discuss our financial results for the third quarter.

Devinder is an experienced financial executive with more than 28 years of experience at AMD. He has served as the company's corporate controller since 2001. Devinder?

Devinder Kumar

Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

Thank you, Rory. Revenue for the third quarter of 2012 was $1.27 billion, down 10% sequentially driven by an 11% decline in the Computing Solutions segment and a 7% decline in the Graphics segment revenue. Gross margin was 31%, down 15% sequentially partially due to the $100 million inventory write-down, which adversely impacted gross margin by eight percentage points.

This write-down was the result of lower than anticipated future demand for certain products and mainly comprised of the first generation A-Series APUs codenamed Llano.

Third quarter gross margin was also negatively impacted by weaker than expected demand in the quarter and this contributed to lower ASPs for microprocessor products as well as lower utilization of our assembly and test manufacturing facilities.

Non-GAAP operating expenses were $516 million, 8% less than prior guidance primarily due to tight spending controls and lower bonus and commission expenses. R&D was $328 million, 26% of net revenue. SG&A was $188 million, 15% of net revenue. Non-GAAP net loss was $150 million and non-GAAP operating loss was $124 million both of which include the aforementioned $100 million inventory write-down.

Interest expense was $44 million, flat compared to the prior quarter. The tax provision for the quarter was zero, compared to a $6 million tax benefit in the prior quarter.

Non-GAAP loss per share, including the impact of the $100 million inventory write-down was $0.20, calculated using 745 million basic shares.

Adjusted EBITDA was negative $35 million, down $208 million from the prior quarter due to an operating loss, which resulted from lower revenue in the third quarter as well as the $100 million inventory write-down.

Computing Solutions segment revenue was $927 million, down 11% sequentially due to lower ASPs driven primarily by weaker than expected demand as well as lower unit shipments.

Client product revenue declined 11% sequentially due to lower unit shipments and ASPs in the quarter especially for desktop processors. We shipped a record number of Trinity based products in the third quarter and Trinity is a growing portion of our planned product mix. In addition, we made substantial progress in the desktop channel reducing Llano inventory in the third quarter.

Our server processor revenue declined from the prior quarter mainly due to lower unit shipments and an ongoing mix change away from higher density servers. Chipset revenue declined sequentially primarily due to lower unit shipments in the quarter.

Computing Solutions segment operating loss was $114 million, down $196 million sequentially primarily due to lower revenue in the quarter and the previously mentioned $100 million inventory write-down.

Graphics segment revenue was $342 million, down 7% compared to the prior quarter due to lower GPU unit shipments to OEMs partially offset by higher channel sales and royalties. Game console royalty revenue was up sequentially.

Graphics segment operating income was $18 million, down $13 million from the prior quarter primarily due to a decline in revenue.

Turning to the balance sheet: cash, cash equivalents and marketable securities, including long term securities ended the quarter at $1.5 billion. Cash declined $279 million compared to the previous quarter, which was primarily the result operational cash flows.

Given the reduced size of our current business and OpEx reductions, we are adjusting our optimal cash balance from $1.5 billion to approximately $1.1 billion. Additional cash outflow that will occur in the fourth of 2012 include a $50 million GLOBALFOUNDRIES in the fourth quarter related to the 28 nanometer product limited waiver of exclusivity, as provided in the 2012 amendment to the Wafer Supply Agreement with the final payment of $175 million related to the waiver to be paid by December 31, 2012.

Debt as of the end of the quarter was $2.04 billion. In the third quarter AMD repaid in full all of the outstanding principal and accrued interest on the company's 5.75% Convertible Senior Notes due 2012, or approximately $499 million, and issued $500 million aggregate principal amount, 7.5% Senior Notes due 2022.

Accounts receivable at the end of the quarter was $683 million, down $61 million compared to the end of the second quarter of 2012 due to lower revenue.

Inventory was $744 million exiting the quarter, down $89 million primarily as a result of the $100 million inventory write-down.

Now turning to the outlook: for the fourth quarter of 2012, AMD expects revenue to decrease 9% sequentially plus or minus 4%. Operating expenses are expected to be approximately flat sequentially.

As Rory stated in his opening remarks, we are realigning our company with the business realities of today. We are reducing our workforce by approximately 15% in the fourth quarter, and we will have a restructuring charge of approximately $18 million in the fourth quarter of 2012 primarily consisting of severance charges.

Cash expenditures related to the fourth quarter restructuring will be paid almost entirely in the fourth quarter of 2012 and the first quarter of 2013. We are taking additional actions to reduce our expense base and align our cost structure with lower anticipated revenue. Our skills and capabilities must be realigned with our market opportunities in order to position AMD to execute our strategic priorities while focusing on returning to profitability.

We continue to evaluate our cost structure and anticipate restructuring actions in the first half of 2013, which will result in additional restructuring charges. However, we are currently unable to quantify these amounts.

Finally, as part of our financial reset the company is targeting to breakeven at the operating income level at a $1.3 billion quarterly revenue and quarterly operating expenses of approximately $450 million by the third quarter of 2013.

With that, I will turn it back to Ruth. Ruth?

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Devinder. Operator, we'd now like to open the call to questions and answers, please.

QUESTION AND ANSWER SECTION

Operator: Yes ma'am. [Operator Instructions] Our first question comes from the line of Ross Seymore with Deutsche Bank. Please go ahead. Your line is open.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, Rory. First a question on the restructuring actions. What's the math or the thought process behind choosing the $1.3 billion revenue level to get to breakeven? It seems about 20% roughly above the fourth quarter guidance, so it seems like you're baking in some pretty good news that's going to happen between now and then? Can you just talk about how that revenue level was chosen?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We basically looked at how the market was beginning to change and how we could refocus, Ross, in terms of where the growth opportunities would be across the next 12 months. We think by focusing to take down cost is the right approach here in a tactical timeframe because it's clear the trends that are reshaping the PC industry are clearly occurring faster than everyone anticipated. We'll continue to look at that, Ross, as we go through next year and make assessments as we see the year unfold. But we clearly wanted to set a breakeven point at a lower level than we've been running, and to be able to consider those opportunities as we move forward in those new growth areas which we're going to target where we see bigger growth.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

I guess as the one follow up, Devinder or Rory, whomever wants to answer it, how should we think about the OpEx trajectory to get to that total saving number you gave next year, especially considering you said you are going to have cost lowered in the fourth quarter but you're guiding OpEx to be flat?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, so, Ross, what we've talked about is from earlier in the year we've driven a set of programs in restructuring to reset the company at a 25% lower expense structure. We believe that will position us to move forward at this lower breakeven point.

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

Yeah, so just to remind you, I mean as Rory said the cost structure, if you go back and look at the OpEx in Q1, was right about the $600 million level. We have taken it down to about $500 million plus. To your specific question about Q3 and Q4 being flat, there are some offsets, in particular in the engineering area related to some 28-nanometer product tape-outs and other R&D expenses. There was some timing between Q3 and Q4 and in particular given the holiday season that's coming, we have some marketing campaigns for which we're going to go spend some money. So there were some offsets there. But if you read through the press release, we've said that with the restructuring action that we are taking, we will save about $20 million this quarter and then on a quarterly basis that will be $40 million on a go-forward standpoint.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And that will start in 1Q from an absolute perspective quarter-over-quarter?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

Yes. That will start in 1Q and on absolute basis and then, as Rory said earlier we are going to continue to drive the cost structure down to get to the $450 million OpEx structure by Q3 of 2013.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question in the queue comes from line of Hans Mosesmann with Raymond James. Please go ahead.

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

Yeah, thank you. Rory, you mentioned as part of your new strategy that you would be incorporating third-party cores in – and if you could just clarify the third-party cores, would that be for the server cloud market or is it more broad?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We're clearly focused in terms of bringing those cores into the SeaMicro Freedom Fabric, the Supercompute Fabric. I think that's very important in terms of building that basis in which to lower the cost of those cloud compute environments, Hans. Maybe Lisa, you want to add a little bit to that?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, let me just add some color to that. I think we said from our strategy all along that we believe we want to build into the larger ecosystems in the industry. So, we'll continue to build x86 products, but as we've announced before we also have a partnership with ARM in the TrustZone Security area. And we'll continue to look at how we incorporate more third party IP over time to address some of these higher growing markets.

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

Okay. And then as a follow on, the timing for these x products hitting the market, is that the end of 2013, 2014?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

It will probably be in the 2014 timeframe.

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

Great. Thank you.

Operator: Thank you. Our next questioner in queue comes from JoAnne Feeney with Longbow Research. Please go ahead. Your line is open.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Yes. Thanks. I was hoping perhaps you could help us understand how you accomplished two seemingly divergent goals. One, being to accelerate the transition to these new adjacent faster growing markets while at the same time cutting your expense bases? And given all the recent cuts there have been at the company, it's really brought things down to some very efficient levels it would seen. It seems now you're going to be stuck cutting sort of more of the creative talent. So, I'm just wondering how you're thinking about doing both at the same time? Two things that seem kind of contradictory.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, thanks, JoAnne. I think what's important is to look in terms of how we're simplifying our product development cycles, and we've talked about this before in terms of creating the reusable IP blocks to create the structure in order to streamline our development and also to lower our cost of that development. We believe with the work of many talented engineers across AMD, their focus is to really streamline that activity, lower that cost and deliver our base set of offerings. And then to build off of that with our reusable IP base in order to go attack those markets. They're adjacent, JoAnne, they're not fundamentally different. These are APU graphics oriented opportunities that allow us to take solutions like Kabini and like our APU base into those segments at a lower cost base and across the portfolio.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

That's helpful. Thanks, Rory. And then perhaps sort of related to that as you've talked about moving more into the embedded space and you say you have some design wins in place now that you're not at liberty to reveal. But could you perhaps let us know what – you have a target for something like 20% of the business. How far along are you to that 20%? How many design wins? What's the state of design wins in place now that gives you visibility to – are you halfway there, a third of the way there? How many more design wins do you have to get in place? Because that tends to be a longer design-in process, so I'm just wondering where you feel like you are there?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, thanks, JoAnne. From a standpoint of the market, today 85% of our core business is focused on the legacy PC market and that's obviously a slowing segment. And we believe those market trends that are affecting that are going to continue for the foreseeable future. This embedded opportunity is one we've been working on for some time. It's also around semi-custom. These opportunities are areas that are going to be significantly higher growth for the foreseeable future. Those confidential design wins are in place. We have silicon in play – already coming back to AMD that gives us the basis to execute those plans. We believe that we're on pace to deliver those objectives in the second half of next year.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay, great. Thanks a lot. Appreciate the help.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, JoAnne.

Operator: Thank you. Next questioner in queue comes from C. J. Muse with Barclays. Please go ahead. Your line is open.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

Yeah, good afternoon. Thank you taking my question. I guess first question running through the numbers on your new breakeven of $1.3 billion and $450 million OpEx, it would appear that your target here gross margin-wise is 35%, 36%. So curious, are we seeing a permanent reset on the gross margin side? Or how should we think about that?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

Let me answer that. That's not true. We are not giving guidance either and that's not a statement on either profitability or gross margin. It is really putting in place an expense structure that allows us to break even at the operating income level at $1.3 billion by Q3 2013.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

Right. But you told us $450 million in OpEx. So just doing the math suggests 35%, 36%. So I guess, is there something that we should be thinking about in terms of your agreement with GLOBALFOUNDRIES? Or what's driving that lower run rate?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

No, I think what you should take away from that is at the $1.3 billion revenue level, we will have an expense structure, the OpEx level of $450 million.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you. And if I could just quickly follow up, on the gaming side, you talked about impressive wins there. Can you comment on what the margin profile should look like in that business relative to the overall business?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

No, we're not going to give that kind of guidance at this time.

C. J. Muse
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

Operator: Thank you, sir. Next questioner in the queue comes from the line of Stacy Rasgon with Sanford Bernstein. Please go ahead. Your line is open.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks firstly for taking my questions. One on the embedded growth. So you've got embedded at about 5% today in the ballpark of $1.3 billion in revenues. You think you'll beat 25% of revenues by Q4 of next year and in Q3 of next year you expect to be at the same revenue level, about $1.3 billion. I guess that implies two things. One is a pretty big ramp of embedded over that timeframe. And second, it seems like a permanent haircut to your outlook for your own PC and graphics revenue. I just was wondering if you could comment a little bit on, I guess, the long-term outlook for your current business and the trajectory that you think you have on those embedded wins.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Stacy. Yeah, we talked about 20% in fourth quarter of 2013. There's no doubt that the PC market trends that are obviously occurring are happening much faster than people had anticipated. And I think it's our judgment to make sure that we put in place the structure and the game plan, that breakeven point that reflects our understanding in the market as we see it today. That visibility is difficult at this point and we need to see how Windows 8 rolls out, how we enter into next year. The embedded – that's in terms of this market step-down. But we do see the PC market as one that will continue to be under pressure for the foreseeable next several quarters. In terms of the embedded and semi-custom space, this is obviously a key area, it's an area that leverages the graphics in the APUs and allows us to move that technology which we've invested a huge amount of effort on with the talented engineers across AMD into an adjacent space that has a better competitive profile for us. Lisa, did you want to add anything around the semi-custom or embedded segment?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, I think to the question of Stacy, how long does it take? They really are different segments whether you're talking about consumer or you're talking about communications and industrial. So as Rory stated, we were targeting about 20% of our revenue in the second half of 2013 and we'll continue to grow that business as we go forward.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

And I guess along those lines, though, if you're going to get back to $1.3 billion by Q3, so Q4 is obviously pretty bad, Q1 would typically be seasonally down and Q2 usually not much better. That implies a pretty big healthy ramp seasonally into Q3 of next year to get there. But at the same time, if you're talking about your presence in PCs, your focus on PCs declining and moving toward embedded, what is actually driving that big ramp into the back half of next year to get even back to your breakeven revenue?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

Well, let me take that question. I think you are taking away from the statement on the breakeven plan that we are targeting or guiding you towards the $1.3 billion revenue plan in Q3 2013. That's not true. We have given guidance for Q4, right, as you heard Rory talk about the challenges in the PC market and some opportunities that we're pursuing, but we are not at this time giving any guidance on revenue either for Q1 or Q2 and definitely not for Q3 of 2013.

What we are talking about is an expense structure whereby at the $1.3 billion revenue level, we have an OpEx structure in place at $450 million. One is an OpEx statement and the other one is about a revenue statement in terms of what you can do the math on the gross margin. I don't think the two are directly linked, but if you go and make some assumptions about the gross margin, you can draw your own conclusions in terms of either what the revenues levels would be or what the profitability levels would be.

....

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

And one last quickly, if I could. In terms of your expense cuts in OpEx to get to $450 million, how much of that's coming from R&D versus SG&A? Are you holding more of your engineers in place and cutting sales and administrative or where are those cuts coming from?

....

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

After the actions we take in Q4, we obviously are going to continue to assess the situation but we're not going to give the granularity in terms of where the cuts are coming from. Overall, we're going to continue to assess, we're going to kind of look at areas in particular with a reduced labor base. There might be some opportunities to do some consolidations at certain sites or facilities that may trigger some savings but we're not going to go ahead in any granularity in terms of how much is R&D and SG&A.

....

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Well, just at a gross level, can you give us some feeling for at least is more of it coming for one category versus the other if you don't want to give any specific numbers?

....

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

It's across all functions and globally.

....

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Thank you, guys.

....

Operator: Thank you, sir. Our next questioner is Joseph Moore with Morgan Stanley. Please go ahead. Your line is open.

....

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. As I have talked to your OEM and ODM customers really throughout the year, it seems like there's a fair amount of enthusiasm for the products, but it's also clear that the enthusiasm, there's some reluctance to build product lines around some of the products. I mean Trinity brings some unique capabilities to the market, but with a tough environment and maybe people who had Llano issues last year, they haven't been as fully committed as maybe I'd like to see. When I talk to IT people at Opteron, there's a lot of excitement around the product, but there's also issues of, is there enough OEM support. So there's not a clear line of when they are going to implement Opteron-based servers even looks good for a lot of the workload. So my question is how does that gap get closed and is there a risk when you talk about restructuring and financial streams of cutbacks that that situation of kind of getting that credibility gets tougher?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

I'd like to talk a little bit about both segments. So if you look at the client or PC market, we have had actually very strong product success with Trinity and we continue to believe that we'll see strong ramps as we go into the holiday season into 2013. With Windows 8, we'll see over 125 systems that will come out with AMD-based processors. We do have to continue to build our execution credibility and all of the focus is on executing both our current products as well as our 2013 products. So that is job one from the product side. On the Opteron side, similarly, we continue to build stronger relationships with the OEMs as well as the end customer base. So on the product side, I think there is a lot of focus on execution and we continue to build that momentum with the customer set.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, Joe, we're interested to see the customer momentum around Win 8. As I mentioned earlier in the prepared remarks, we have over 125 platforms launching with Win 8 across tablets, ultrathins and across all the traditional space. I think that's a good reflection of the interest and the dynamics we have in place.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then second question to follow up on Stacy's, I mean the cuts that you're making you don't want to be specific about where they're coming from and I can understand that. Are there any kind of, of the major initiatives that you guys talked about at the analyst meeting and talked about through the year? Is everything there still a priority or any kind of activities-based things that you want to take out?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, from the perspective of what we've done in terms of our business plan and roadmap and technologies, this company is an engineering-based company, there is no doubt about that. And our focus is to create those set of products that allow us to move forward. As I mentioned with Kabini, we already have most of the silicon in-house for our launches for 2013 and we believe that's a strong portfolio and positions us well. We've continued to identify and hire new talent to the corporation to build our engineering and our bench strength across the portfolio.

Joseph Moore
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you, Joe.

Operator: Thank you, sir. The next questioner is John Pitzer with Credit Suisse. Please go ahead.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah, good afternoon, guys. Thanks for letting me ask a question. I guess, Rory, on the embedded target of going from 5% today to 20% by, I guess, the fourth quarter of next year, can you just help me understand a little bit about the visibility around that? Is that just mostly gaming of some of the rumored wins you guys already have, or do you think by the time you get to 20%, you're broad-based among many end markets or is it concentrated? If you could help me there, that'd be helpful.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, John, I think Lisa will kind of go into this in a little bit of detail, but the main point here is, this is a segment – it's an area that we can leverage our IP and the APU and the graphics prowess that we have. This is important because this segment will grow faster. It's also got a better competitive framework, and we have the design wins in place on pace to deliver that objective in 4Q. We've got to continue to execute and continue to build that market, but we are not done there. We need to continue to grow that segment as we move forward. Lisa, some additional thoughts?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, John, I think to your question of do we have good visibility and to what needs to happen to ramp those design wins, I think the answer is, yes. I think there is execution to be done on our side, but we have good visibility. Our goal is to broaden into more end markets and some of the other markets take a little bit longer in terms of developing but we are creating vertical industry teams to attack some of those other verticals as well.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Great. And then you guys did a good job kind of explaining the GLOBALFOUNDRIES payments through the balance of this year. As we think about next year, if I remember correctly, if nothing happens, the contract reverts back to cost plus, or can you help me understand the GLOBALFOUNDRIES relationships beyond the calendar fourth quarter?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From a GLOBALFOUNDRIES' perspective, John, we've seen an improving relationship and partnership with this key partner across 2012 and we've also seen an improving environment around their execution and we appreciate that. As we've talked about previously, we are in ongoing discussions around the WSA both for 2012 and 2013. Devinder?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

Yes. So I can add, I mean, I've been involved, as you might know, with the WSA discussions for several years now having worked on the deal from the inception when we formed GLOBALFOUNDRIES in 2009. And we're continuing to discuss with our partners. And many times, as you've seen over the last couple of years, we have worked through some difficult situations in the spirit of partnership but also what is mutually beneficial for both companies. The 2013 take or pay WSA as well as the 2012 WSA as well as the 2013 WSA discussions are ongoing. We'll continue those discussions. They're not yet complete. But from my standpoint, they're going very well.

John W. Pitzer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Great. Thanks, guys.

Operator: Thank you, sir. Our next question in the queue comes from the line of Chris Danely with JPMorgan. Please go ahead.

Chris B. Danely
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks, guys. Are there any plans to sell the written-down inventory?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

No, when you go ahead and take inventory write-downs from an overall standpoint, accounting-wise, what happens is we have a product transition from Llano to Trinity. Trinity, as you heard Rory say, up 70% quarter-on-quarter, doing well. And with the market conditions, from an accounting standpoint, you also look at, evaluate the inventory against the future demand and, in particular, customer commitments. We did that in the early part of this quarter, after Q3 ended and we took the incremental inventory write-down. Typically, in these situations, it's not a plan to go ahead and sell that inventory.

Chris B. Danely
Analyst, JPMorgan Securities LLC

Q

Okay, great. And then if you could just follow up on how you think gross margins can trend and can you get back to the 45% mark you hit a few quarters ago?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

We're not giving guidance at that level. But I can tell you, from a Q4 standpoint at least and especially given the market conditions, there are some factors that could be positive or negative, right? You have a weak macro environment. We are in a consumer-based holiday season quarter; and then, based on low-end competition from an overall standpoint and obviously, those are negative factors.

The Trinity product, being accretive to the margin, and especially being a higher mix of the product in Q4 is going to be helpful. And then the other thing is the Win 8 launch. But beyond that, given especially the uncertainty, we are focused on our breakeven model, as I discussed earlier, $1.3 billion or the $450 million OpEx number and not looking at it from a gross margin standpoint. I can add that just to explain that further, if you take the $1.3 billion and the $450 million, if revenue is higher, then obviously, we could do better than breakeven. If gross margin is higher, we could do better than breakeven, or better than the 35% that was computed earlier. And then if both are higher, we could go ahead and be better than breakeven. But we are prepared, in particular with the trending that's occurring, to assess the situation, work specifically on the cost structure and especially with the uncertainty that's out there, we want to stay nimble and be prepared to react as the case might be. This is not a guidance for Q3 2013 revenue. It is not a guidance for Q3 2013 gross margin. It is just an expense statement as to how we're going to drive the expenses from where we are today to the $450 million by Q3 of next year.

Chris B. Danely
Analyst, JPMorgan Securities LLC

Q

So just to be clear, are you not telling us where your gross margins can go because you don't think they can get to 45 or you just don't want to tell us?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc. A

I'm just not saying anything at this point.

Chris B. Danely
Analyst, JPMorgan Securities LLC Q

Got it. And then just for my last question, a quick clarification, I believe, on John's question on the embedded opportunity. Is it safe to say that by the end of next year, most of that revenue will be coming from the gaming industry or what about between the comm and the industrial side?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

There's no doubt that this is a set of confidential wins, and we can't get into any of those specifics. We're clearly targeting industrial, communications, gaming, those areas where the APUs and our graphics IP make the most sense. But we can't announce them. We'll announce them in due course over the course of the coming quarters.

Chris B. Danely
Analyst, JPMorgan Securities LLC Q

Fair enough. Thanks, guys.

Operator: Thank you. Our next questioner in the queue comes from the line of Mark Lipacis with Jefferies. Please go ahead. Your line is open.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc. Q

Thanks for taking my question. My question is in Q2, my understanding of the original miss in Q2 was driven in large part because you had supply issues, you sorted the channel in favor of the OEMs and you lost traction with the channel because of that. And I guess my question is, where do you think you are in winning back the channel? What do you have to do to win it back? And where do you think you are in that process? Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Sure, Mark. We saw the channel stabilize in the third quarter at the 2Q levels, and we also began to work down the inventory that we discussed in that period. We saw an improvement in sales out velocity. That means the rate of sell-through through the channel. And we're going to continue to work on improving that sell-through rate and reducing that inventory in the coming quarters. As we mentioned last quarter, that was a multi-quarter effort to go forward. But the progress and the stabilization of the channel in 3Q was a good step forward.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc. Q

Thank you.

Operator: Thank you, sir. Next questioner in queue comes from the line of Kevin Cassidy with Stifel, Nicolaus. Please go ahead. Your line is open.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hello, this is Dean Grumlose calling in for Kevin. It seems that when you look at the PC industry lately, there's a number of moving parts, a potential share erosion to tablets and smartphones, Windows 8 and a general macro decline. Have you talked to – as you have talked to your customers around the world? Can you please expand your views on how you may allocate share, if you will, or blame amongst these various factors to what makes up the current declining situation?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

There's no doubt, Dean, that we're seeing three significant factors as we mentioned in our earlier remarks that are affecting the overall PC industry. And these trends are definitely occurring at a faster rate than the industry had anticipated. You're right to note that the macro environment is soft, and it's different across different geographies and that weakness is likely to continue for the foreseeable future. We also saw OEMs in the market take a rather conservative approach to inventory in the lead up to Windows 8. This will be an interesting fourth quarter in terms of how Windows 8 moves forward. We think it's an interesting and important event, but this is one we need to see play out. And clearly, tablets have taken an important point in the consumer's mindset, both in the experience that the tablet creates but also becoming an interesting device of choice at that lower end of the consumer client space. I think all three of these factors have accelerated this fundamental shift in the PC market and we expect this shift and these pressures to continue for the next several quarters.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.

Q

When you look at the impact of smartphones and tablets, do you think this is temporary and can be reset by perhaps more compelling portable solutions or do you think this is a permanent shift in demand particularly in the mature, developed economies?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

A statement like that is clearly hard to predict out in time. I do believe the PC market is a market that will be here for the next decade. I don't think there's any question about that. But the dynamics of it and its growth rate are really fundamentally shifting right now. A lot of the historical forecast and trend lines have broken over the past two quarters and we need to see this reset stabilize and move forward. I think what's most important is to innovate, to continue to create solutions that match the customers' and commercial market's needs, all-day battery life, touch, the right kinds of experiences with the graphical capabilities that we deliver are all important in this segment I think that's key. And at the same time while this is somewhat unpredictable, let's take our outstanding IP and engineering resources and focus those on areas we know will continue to grow and grow faster than a legacy PC market. That's core to our strategy moving forward, and we need to accelerate that strategy based on these shifting trends.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you very much. Very helpful.

Operator: Thank you, sir. Next questioner in queue comes from the line of Cody Acree with Williams Financial. Please go ahead. Your line is open.

Cody G. Acree
Analyst, WFG Investments, Inc. — Q

Thank you. Thanks for getting me in. And, Rory, thanks for the details; been very helpful. Maybe ask for a couple more. So you've given this target of 40% to 50% of revenue from IP differential products. Can you maybe talk about a timeline? I think Lisa said some of the new products probably wouldn't really be impactful until 2014. Is that correct? And can you draw a path between here and there?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. — A

No, I think we've kind of laid out the basic concepts here across the call. Clearly, in a tactical timeframe, continue to build on the semi-custom embedded market. There's a good opportunity. It's where our IP and APUs play well. It's near adjacent segment, so it's easy to move there. And I like the competitive market there much better than the PC market, which is dominated by a single player in a big way.

I think also as we move forward there's opportunities in dense serving. That market will continue to evolve as low-power and cloud serving becomes even more prevalent. This will be the fastest-growing segment going forward, and I think the SeaMicro acquisition and the work Lisa and her team are doing to build that out will occur over the next one, two, three years.

And at the same time, how do we take our deep engineering capability into the new low-power ultraportable emerging form factors in the traditional client space? This is an opportunity that is already presenting itself with our next-generation APU called Kabini, replacing our highly successful Brazos. And we'll follow that on with a series of other solutions. Lisa, would you like to add anything more?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc. — A

Yeah, I think the best way to describe it is it's a portfolio that we're managing. So we've talked about semi-custom and embedded having good visibility towards the end of 2013, and then as we get into some of the dense serving spaces beyond that, because it takes a little bit longer in those markets. But we're trying to build a portfolio to really enhance the growth prospects of our business.

Cody G. Acree
Analyst, WFG Investments, Inc. — Q

And, Lisa, on the micro server side, it's pretty nascent for you and for everyone from an ecosystem standpoint – I guess what are the hurdles? What are the – I guess some of the marks that you need to hit or that the industry needs to hit to get through to make this more of a mainstream product?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc. — A

Well, we continue to work with our differentiated IP base. So the SeaMicro acquisition has been helpful in terms of our work with the large data center customers, and then we continue to need to build out the ecosystem to really build broad-based support. So I think it's a several year journey but it's certainly one that we're very committed to and continue to build out all of the aspects of the ecosystem.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

I guess – but, Lisa, more specifically on that ecosystem, are there certain elements that need to be knocked over first that could start to see adoption, knowing it's going to take several years to get it fully built out, but are there certain hurdles that may be met in the near-term?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

No, certainly, there are and they come with both the hardware and the software ecosystem as well as the ODM ecosystem. So, all of those are aspects that we are working on.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

And then lastly, on the pricing side, Intel was pretty adamant that they were actually seeing some stability in pricing, which doesn't really seem to make a lot of sense given the backdrop. Rory, I think you were pretty adamant that pricing has been competitive. What would you expect given what you're looking at the backdrop?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

As we talked about several times on the call, the market dynamics that are occurring now are going to continue. Those macroeconomic factors, the Win 8 launch as well as the tablet phenomena will continue to impact the PC market. I expect the market to be competitive, and I expect the market to continue to fall under pressure for the foreseeable future the next several quarters.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

Okay. Thanks, guys. Good luck.

Operator: Thank you, sir. Our next questioner in queue comes from the line of Chris Caso with Susquehanna. Please go ahead.

Chris Caso
Analyst, Susquehanna Financial Group LLP
Q

Yes, thank you. Just returning to some of the discussion about the break-even point, and I understand you're not providing revenue guidance going forward but could you talk perhaps in principle and given the uncertainty in revenue and some of the strategic changes that need to be made, what further actions can you take or perhaps are contemplating to protect cash flow and prevent from going into a money-losing situation if the transformation takes longer than what you expect?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.
A

Yeah, actually, we are very focused on the free cash flow break-even and actually trying to get back to positive free cash flow. The restructuring actions that were announced today in the call will help, the OpEx reduction on a go-forward standpoint will help. I also referenced earlier about the continuing discussions of the WSA related to the 2012 take-or-pay and the 2013 WSA discussions that are ongoing. And that will obviously have an impact on the free cash flow on a go-forward standpoint. So we are laser-focused on getting to free cash flow break-even at lower revenue levels, but we're not giving guidance on the standpoint of the revenue on a go-forward basis except for the Q4 guidance that we have given.

Chris Caso
Analyst, Susquehanna Financial Group LLP

Q

As a follow up to that, I mean is there anything you could say about cash flow over the next several quarters? I mean, should we expect cash flow to still come down as the cost cuts are being implemented or what's your view there?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

I think related to the restructuring actions with the savings that we will have on a quarterly basis and for the year in 2013, for sure the cash flow – cash needs will come down and therefore that will help the cash flow. On the guidance for 2013, we're not prepared to talk about it right now because a lot of open items that we need to go through, in particular, as I talked about the WSA discussions that are going on. So it's really too early to tell. Once we sort through those things and we look at where things fall both from an expense standpoint and the WSA and the reduced cost structure, we can come back and give the guidance from a free cash flow standpoint, on a go-forward standpoint.

Chris Caso
Analyst, Susquehanna Financial Group LLP

Q

Okay, thank you.

Operator: Thank you, sir. Next questioner in queue comes from the line of Jim Covello [Goldman Sachs]. Please go ahead. Your line is open.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Great. I was hoping to go back to a little bit of a follow up from some of the other questions about pricing. I guess what kind of pricing environment are you assuming in the restructuring actions that you're taking. And then both for yourself, in other words how much leeway are you leaving yourself for your prices to come down and still hit these targets and then what are you assuming in the way of pricing and aggression from Intel in that regard as well?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I believe as we've talked about several times on the call, Jim, we believe it'll be a competitive pricing market, not unlike what we've seen over the past several quarters. What we're doing is basically restructuring our cost structure to position us for break-even at a lower revenue level. We'll continue to assess that as we move through the next several quarters and make the appropriate adjustments.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

I mean, I guess, I had heard you said that before on the call but I guess maybe with some granularity, I mean if you look at – the pricing the last couple years has been abnormally high and there is two ways to think about what's gone on in the last couple of quarters. It's sort of the beginning of a resumption of a trend that would put us back on a trend line of lower pricing or that was the new normal, the better pricing and what we're seeing these last couple of quarters is just sort of temporary. Which one of those do you think is the case as you begin to think about these restructuring actions?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, as we talked about earlier, I think what's clear is the market trends that are driving the PC market right now have accelerated faster than we expected and clearly affected the trend lines and forecasting. Visibility is difficult right now and I think, Jim, what we have to do is look at how each of the next several quarters unfold. There's clearly pressure in the market and there will be competition.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Thank you.

Operator: Thank you. Our next questioner in queue comes from the line of Patrick Wang with Evercore. Please go ahead.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Great. Thanks. Two quick ones and then a longer one. The first one, Rory, just a quick clarification, can you help us understand which buckets are being defocused in your actions right now?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Patrick, from a standpoint is, what we are trying to do with the restructuring efforts is to reduce and simplify our development cycles and development processes across our portfolio as well as simplify our global structure. I think that's clear in terms of the focus we have in terms of reusable IP, how we're going to use the system, the Heterogeneous Systems Architecture. All of those strategies that we've talked about are reducing our complexity and shortening the development cycles. And we have to push for more efficiency on that. That's the basis of what we're trying to accomplish.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay. So, there aren't any particular product lines or anything that was ongoing that's getting killed or canceled?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Nope, we're not changing anything on that activity at this point.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay. And just a second quick one, Devinder, just some clarification on the Wafer Supply Agreement, can you disclose kind of or walk us through what's left of your commitments for the fourth quarter? I think you guys had disclosed $700 million or so for the second half of the year?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

The way I frame that is, for 2012, we had a take-or-pay agreement for a certain number of wafers and what we disclosed is the total cost of that'll be $1.5 billion. We have paid approximately $1 billion of that, so $0.5 billion remain. But the question is, the time period at which we take those wafers, which is the basis of the discussions, we continue to have with our partners. So I think you have to look at it in terms of the remaining 2012 take-or-pay, there's $0.5 billion left, and what timeframe are the wafers going to be taken and what timeframe the cash is going to go out if that's what you're asking. Then the second thing we are discussing as we typically do on a yearly basis is go ahead and discuss the 2013 WSA and both of them taken together is what we're trying to get to a conclusion to with our partners at GLOBALFOUNDRIES.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Okay, got it. And then just last question, I guess, Rory or Lisa. Can you talk about the competition in this newfound embedded space and maybe perhaps where you feel your key advantages with the system-on-chip are? Thank you.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, maybe let me take that. I think the key differentiation we have is really in the high-performance design methodology, the microprocessor technology, as well as the graphics IP that we have. And we're really going after high volume opportunities that can really use this IP in adjacent markets. So I think it's a very unique capability that doesn't exist in many other places and we really need to continue to build that model out over the next few years.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Okay. Can you also quickly just mention a couple of the key competitors that are currently in that space today?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

I think you're familiar with many of our competition. I think our ability to be flexible and really put a semi-custom approach in place is something that's unique to our capability.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Okay. I'll go do some homework. Thanks so much.

Operator: Thank you. Next questioner in queue comes from the line of Vivek Arya with Bank of America. Please go ahead. Your line is open.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question. I'm wondering how we should think about CapEx for next year? I think Devinder you did describe how you expect to break-even on an operating basis, but how do you break-even on a cash flow basis? What are your CapEx plans?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

I think it's really too early to get into 2013 at this point. I think most likely if you come back in about a quarter at the call that we have for the Q4 results, we could probably give you some visibility into the early part of 2013 and then give you the guidance on that standpoint.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Right. Maybe, Rory, one for you: what's going on on the discrete graphics side? NVIDIA has had a strong product with their Kepler architecture for a few quarters, is that a segment you think would be deemphasized going forward or is that still a priority business for you?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

There's no – as I mentioned in my earlier remarks, Vivek, that business performed in line with our expectations for the quarter and the graphics business remains a cornerstone for our technology portfolio across AMD. But I think Lisa probably is the best person to take that question.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, let me give you some color around the graphics business. The graphics business is actually a fairly stable portion of our portfolio. We continue to believe it's one of our key differentiators. In the third quarter, we had the macro effects that affected the PC industry that also affected graphics but we actually grew quarter-to-quarter in the discrete AIB channel so I think we believe that our products are quite competitive and we'll continue to invest in the graphics area to ensure that competitiveness.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right. And then one last one, Rory, in case things stay soft in the PC area next year, is there a plan B? Are there other partnerships or M&A arrangements that you can pursue or you can think about because I think that's really the focus of a lot of these questions on the call? Because the PC market is slowing substantially and you have a very large competitor with very significant competitive advantages. So beyond just breaking even, how do you position AMD and how do you reward shareholders going forward?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Vivek, I think it's around what we talked about. There's two steps that we need to take here. One, restructure and reset AMD. Reduce our cost structure and improve our efficiency by lowering our break-even point on lower revenue. And as we've talked about several times in the call, we'll continue to assess that as the market unfolds. And then, second, take our IP and our differentiation in graphics and across our engineering portfolio and take them to the high growth segment.

We talked about driving over the next several years 40% to 50% of our portfolio on those growth segments. We had planned this strategy. What we've seen now with the trends accelerating that we need to move in a more aggressive path to tackle that now, both in the high growth, ultra low-power new clients, that dense server space and then of course in the embedded semi-custom space, all around the capabilities in IP that we have in AMD.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we'll take two more questions, please?

Operator: Sure thing. Next questioner in queue comes from the line of Steven Eliscu with UBS. Please go ahead.

Steven Eliscu
Analyst, UBS Securities LLC

Q

Yes, thank you. I have a couple questions for Lisa. First question, I'm trying to understand this reusable IP strategy. When I think about what that means from a P&L point of view, I just think of it as a shift of OpEx into COGS because I just – if you're going to cut staff, you're going to have compromises in terms of the IP blocks you can develop. And as a result, you're going to have some give-ups in die size, especially as you try to recover for some of the lost performance for those compromises that you're making. Can you help me understand if I'm thinking about that correctly or if I'm missing something?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, let me describe it this way. I think what we mean by reusable IP is really getting to a much more system-on-chip infrastructure so that we're able to spin products faster as well as customize them for their various markets. So I wouldn't see it as a shift from R&D to COGS but more as building a foundation so that we can move quickly into new markets as they developed and that's a very key thing for us. We still will invest heavily in our differentiating IP, such as graphics IP we talked about as well as our microprocessor IP. So that part doesn't change.

Steven Eliscu
Analyst, UBS Securities LLC

Q

Okay. And as a second question here. Just thinking more philosophically about your APU strategy, and you have differentiating graphics yet when look at the third-party market research data, you're not getting paid for it, at least when we look at what was done with the Llano. And trying to understand if there is something we're missing in terms of maybe you are starting to get some of that uplift on Trinity and you'll get more with Kaveri or is there perhaps a basis for rethinking your strategy and focusing instead of higher performance GPUs on smaller die sizes that could get your gross margin back to the mid- to upper-40s where it's been your goal?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, I think the question around APUs is a good one. We are very clear that the APU strategy is the right strategy for us. Now in terms of ensuring that we get the value for it, it's not just a piece of silicon, but it's also what we can do in the solutions environment. So we have been doing a lot of work to ensure that the applications can take advantage of all of the compute that we have on the silicon. And you can see that with some of the moves that we've made with the Heterogeneous Systems Architecture creating industry consortium around the heterogeneous compute and we've had a number of new members, we talked about Qualcomm and Samsung joining as well as

ARM and Imagination. So I think it's evolution over time but it's clear that the APU strategy is the right strategy and we need to get more of the applications taking advantage of the APUs over time.

Steven Eliscu
Analyst, UBS Securities LLC

Q

When do you – just as a final follow up, when do you think that will show up in the average selling price data?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

We continue to work on sort of the APU evolution over time.

Steven Eliscu
Analyst, UBS Securities LLC

Q

Okay, thank you.

Operator: Thank you. And our final questioner for today comes from the line of Craig Berger with FBR. Please go ahead.

Craig S. Berger
Analyst, FBR Capital Markets

Q

Hey, guys, thanks for taking my question. Just in looking at your core business, do you have any idea where end consumption is relative to what your fourth quarter guidance is? Is there channel inventory declines baked in? And where's kind of a bottom for this business as you're down 35% year-over-year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Craig. From a standpoint as I commented earlier on the channel business, we've seen that business stabilize in 2Q and 3Q at the levels that we saw there. That is also continuing to work off that inventory that I talked about in the previous earnings call that was down channel from a sellout perspective, and we're going to continue to work that. I think we're making good progress there. In the overall PC market, there's no doubt that these trends have occurred, they've accelerated and we believe they will affect the market for the next several quarters for the foreseeable future. We're taking clear and decisive action to restructure our business, lower our cost structure to enable us to hit break-even at a lower revenue base, which we think is prudent given the market trend.

Craig S. Berger
Analyst, FBR Capital Markets

Q

Just as a follow up on the gross margins. Is it – I guess we should be assuming that they continue to move lower from the normalized non-inventory write-down level that you printed in Q3? I mean, is there a reason for the decreased transparency?

Devinder Kumar
Chief Financial Officer, SVP & Controller, Advanced Micro Devices, Inc.

A

We're just not giving guidance for gross margin at this point. The market environment as you observed and many have observed is uncertain.

Craig S. Berger
Analyst, FBR Capital Markets

Q

Okay, thank you. Good luck.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Operator, thank you. That concludes the call.

Operator: Thank you. Again, ladies and gentlemen, this does conclude today's conference. Thank you for your participation and have a wonderful day. Attendees you may disconnect at this time.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2012 Earnings Call for 18-October-2012 5:00 PM ET

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2012 Earnings Call for 18-October-2012 5:00 PM ET.

Press Release URL: http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTU3NTM2fENoaWxkSUQ9LTF8VHlwZT0z&t=1
Live WebCast URL: http://www.media-server.com/m/acs/57eea4e895c53511e7aebf377ae8cd9d
Replay WebCast URL: http://www.media-server.com/m/acs/57eea4e895c53511e7aebf377ae8cd9d

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Advanced Micro Devices, Inc. *(AMD)*

Q2 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey and I'll be your conference operator for today. At this time, I'd like to welcome everyone to AMD's Second Quarter 2012 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you'll be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's second quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary. If you've not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com.

Participants on today's conference call are Rory Read, our President and Chief Executive Officer; and Thomas Seifert, our Senior Vice President and Chief Financial Officer. For the Q&A portion of the call, we will be joined by Lisa Su, our Senior Vice President and General Manager, Global Business Units. This is a live call and will be replayed via webcast on amd.com.

I'd like to take this opportunity to highlight a few dates for you. Rory Read will present at the City Technology Conference on the 4th of September in New York. Our third-quarter quiet time will begin at the close of business on Friday, September, 14. And lastly, we intend to announce our third quarter earnings on October 18. Dial-in information for the call will be provided publicly in mid-September.

Please note any reference to non-GAAP financial measures are reconciled in the CFO written commentary posted on our website, quarterlyearnings.amd.com.

Before we begin today, let me remind everyone that our discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations. Please refer to the cautionary statement in our press release for more information.

You'll also find detailed discussions about our risk factors in our filings with the SEC and in particular AMD's quarterly report on Form 10-Q for the quarter ended March 31, 2012.

Now with that, I'd like to hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. Clearly our performance in the quarter was disappointing and did not meet our commitments. When I joined AMD last year, we laid out a set of priorities to improve our execution and transform the company to sustain our long-term growth potential. This has not changed. In spite of the setback in the quarter, we continue to move forward confidently, and we are taking the right steps to strengthen and transform our business.

For the second quarter, our revenue of $1.41 billion decreased 10% from a year ago and 11% sequentially, missing our expectations. After a reasonable start, we saw business velocity slow in the later part of the quarter, driving this revenue miss.

This second quarter revenue shortfall was largely driven by two key factors: first, weak sales of desktop processors in the channel, primarily in China and Europe; and secondly, a soft consumer PC market that impacted OEM notebook processor sales. We reacted quickly to this revenue softness by focusing on maintaining margin and effectively managing our expense position.

As a result, we reduced expenses sequentially and maintained margin at approximately 46%, generating a net income of $37 million in the quarter.

Looking at the specifics of the desktop business; sales to OEMs increased sequentially based on their continued adoption of the APUs. However, our desktop channel revenue declined significantly as our Llano product did not experience the same uptake it had with our OEM customers.

Looking back, when we were significantly 32-nanometer supply constrained last year, we prioritized shipments of Llano to our OEM customers. As a result, channel partners saw a dramatic change in supply linearity and a misalignment with motherboard availability. This clearly impacted Llano's sales and built inventory in the channel.

Correcting our channel challenges with Llano is largely within our own control. Moving forward, we will focus on accelerating desktop channel sell-through, and share proper supply linearity and more effectively position Llano's value proposition in this area. It is clear that the overall PC market experienced softness in the second quarter, particularly in the consumer space; this impacted our notebook processor business.

As the slowdown accelerated late in the quarter, OEMs responded quickly in an effort to reduce their inventory exposure at retailers and limit their on-hand inventories. We made the decision to protect our notebook margin and not chase lower margin business as the environment weakened at the end of the quarter.

While our notebook processor business did not meet our revenue expectations, we did see mobile processor revenue and unit shipments increased from the year-ago period. And Trinity notebook shipments more than doubled sequentially and we have no supply constraints.

We are also seeing good response to the recently launched Trinity systems, including the first ultrathins from HP and Samsung that hit the mainstream price points. We expect a second wave of ultrathins will launch in the second half of the year aligned around the Windows 8 introduction.

Also, the introduction of Brazos 2.0 helped drive the sixth straight quarter of notebook share gains in the $499 and below retail price band globally. This is a good indicator that our products continue to compete at compelling price points that represent nearly one-third of the overall retail notebook market.

We expect that the notebook softness that began in the second quarter will continue in the second half of the year. And while overall notebook market will grow, we anticipate it will be at a lower rate due to third quarter softness and anticipation of Windows 8, the macroeconomic conditions and overall inventory build in the PC ecosystem from the first half. Our record number of design wins remains intact and will help fuel our notebook business through this challenging environment.

Now, turning to our server business; revenue increased from the year-ago period, but declined sequentially and was below our expectations.

With the introduction of our Bulldozer-based Opteron processors at the end of last year, we saw strong initial adoption in a high-performance compute end market.

In the second quarter, we experienced a pause in our server business and our focus has to be on building similar acceptance with mainstream IT buyers. Bulldozer is a solid technology and as we have discussed previously, our growth opportunities are in the portions of the market, where our product delivered clear performance advantages. Based on the competitive landscape, we believe Bulldozer can drive modest share growth in the near-term.

In the server space, we also see market expansion opportunities with the growing adoption of dense server technology. We have a differentiated leadership position in this market as a result of our acquisition of SeaMicro. Our IP foundation allows us to deliver disruptive server products and a technology roadmap that strengthens our long-term competitiveness in this emerging market.

Our Graphics business executed well and our results were within historical seasonal patterns. We continue expanding our AMD Radeon 7000 desktop and notebook discrete graphics solutions in the quarter. And we recaptured the title of world's fastest graphics chip and launched the first member of our new workstation family based on our latest Graphics Core, it is clear that global economic activity is slowing and this is impacting the PC market.

For the first time since 2001, client PC shipments have declined sequentially for three consecutive quarters and have been below historical averages for the last seven quarters. We expect macro headwinds will continue for the third quarter. We also believe the PC industry may be resetting to a new baseline and that full-year industry growth estimates will be reduced.

For the year, we now expect AMD processor unit shipments to grow in the low single-digits. AMD will face these current challenges straight on, focused on delivering improved and consistent results. Profitability remains a key priority, as we execute the action plans we have discussed here, while managing expenses and driving future growth.

We have made progress in building a better AMD. In the second quarter alone, we formed the HSA foundation with other industry leaders. We announced a technology partnership with ARM to drive the adoption of an end-to-end security ecosystem.

We also introduced the world's fastest graphics chip. We released the successor to our most successful platform ever with Brazos 2.0 APU. And we launched our next-generation Trinity APU for the mainstream and ultrathin notebooks. Still, there is much more work to do. We remain steadfast in our efforts to improve our execution and capture the growth opportunities in the changing market landscape around low-power, disruptive server technology and cloud-based computing.

As we control our expenses, we will protect our investments in our customer-facing activities and innovation that produces our next generation of relevant competitive products that will drive growth. There is no doubt that the second quarter was disappointing, but we have the determination and the commitment to deliver improved results.

With that, I will turn it over to Thomas, who will cover the financials for the second quarter.

Thomas J. Seifert

Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

Thank you, Rory. Revenue for the second quarter of 2012 was $1.41 billion, down 11% sequentially, driven primarily by a 13% decline in the Computing Solutions segment. Graphics segment revenue was seasonally down 4%.

Non-GAAP gross margin was 46%, flat sequentially. Non-GAAP operating expenses were $557 million, 8% less than prior guidance, primarily due to lower bonus and commission expenses, as well as discretionary spending cost controls late in the quarter. R&D was $345 million, 24% of net revenue. And SG&A was $212 million, 15% of net revenue.

Non-GAAP net income was $46 million and non-GAAP operating income was $86 million. Interest expense was $43 million, flat compared to the prior quarter. Tax provision was a net credit of $6 million in the quarter, compared to $32 million in the prior quarter. The difference was primarily a one-time tax benefit of $36 million in the prior quarter related to the SeaMicro acquisition.

Non-GAAP EPS was $0.06, calculated using 755 million fully diluted shares.

Adjusted EBITDA was $173 million, down $48 million from the prior quarter due to lower non-GAAP operating income, which resulted from lower revenue in the quarter.

Computing Solutions segment revenue was $1.05 billion, down 13% sequentially, driven primarily by lower channel sales in China and Europe, as well as a weaker consumer buying environment impacting sales to OEMs.

Client product revenue declined 13% sequentially, primarily due to lower ASPs. Units also decreased in the second quarter. Both were primarily driven by lower demand for desktop processors and product mix in the channel in China and Europe.

Our server processor revenue declined from the prior quarter, mainly due to lower unit shipments and the slight ASP reductions. Chipset revenue declined in the quarter, primarily due to lower ASPs.

Computing Solutions operating income was $82 million, down $42 million sequentially, primarily due to lower revenue.

Graphics segment revenue was $367 million, down 4% compared to the prior quarter, due to seasonally lower unit shipments in the channel. GPU revenue was also down seasonally. Game console royalty revenue was flat sequentially.

Graphics segment operating income was $31 million, down $3 million from the prior quarter, primarily due to seasonal declines in the revenue in the quarter.

Turning to the balance sheet; cash, cash equivalents and marketable securities, including long term securities ended the quarter at $1.76 billion. In the quarter, we made a $50 million cash payment to GLOBALFOUNDRIES, related to the 28-nanometer product limited waiver of exclusivity.

Accounts receivable at the end of the quarter was $744 million, down $218 million compared to the end of the first quarter of 2012 due primarily to lower revenue.

Inventory was $833 million exiting the quarter, up $248 million from the prior quarter, primarily due to lower sales in the quarter and in preparation for previously anticipated demand. The inventory build consists primarily of our latest generation of products. Debt at the end of the quarter was unchanged at $2.02 billion.

Now turning to the outlook; AMD expects third quarter revenue to decrease 1% sequentially, plus or minus 3%. Gross margin is expected to be approximately 44%. Operating expenses are expected to be approximately $560 million in the third quarter.

We are working to match revenue and expenses to match profitability and ensure we have the appropriate cost structure from which to grow and one that allows us to continue to make the necessary strategic product and roadmap investments. Our goal for the third quarter inventory is to be approximately flat sequentially; however, we'll need to carefully manage and focus on this as we transition throughout the quarter and monitor how our latest generation of products will gain traction in the marketplace as our customers prepare for the Windows 8 launch.

We are disappointed by the softness in our business late in the second quarter and are now focused on stabilization and recovery. Protecting the value proposition of our new and refreshed product portfolio in the second half of the year is paramount, in conjunction with continued profitability.

Despite the ongoing challenges our channel business faces, the choppy macro environment and some lackluster PC demand, I am confident we will succeed and be ready to capitalize on the Windows 8 launch, better inventory management and realize the ongoing value proposition of our APUs.

And with that, I'll turn it back to Ruth.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Thomas. Operator, if you could now poll the audience please for the question-and-answer session?

QUESTION AND ANSWER SECTION

Operator: Yes, Ma'am. [Operator Instructions] Our first questioner in queue is Hans Mosesmann with Raymond James. Your line is open. Please go ahead.

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

Yeah, thanks. Hey, Rory, would you mind going through the mechanism that occurred in the channel in terms of the mismatch between motherboards with the Llano? I got a little confused in terms of what may have happened and how you can fix that here over the next several months? Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, Hans. From the standpoint, this originated back in last year when we had that first Llano supply chain issue. And, of course, Hans, that we had to target our supply to our OEMs and that was the right thing to do. As we introduced Llano late in the year to the channel that those motherboards had been there for some period of time and really damaged linearity and pricing wasn't at the right levels as we exited the year.

As we move forward, into 2012, the uptake on Llano in the channel wasn't as strong as we expected, and what we're doing here moving forward, Hans, is we're focused on improving and focusing on sell-out activity throughout the tiers of the channel, improving the communication of our value proposition in this key segment and to make sure that we deliver on this momentum in the desktop channel around linearity with our channel partners. Does that help, Hans?

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

Yeah, just to confirm, so the uptake in the channel was due to a sudden availability of Llano, or had the motherboards been already kind of designed for another processor?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

No, the mismatch occurred early in the cycle as we went through this, in terms of they were introduced to the channel earlier in the cycle. Then, as the Llano product came in late in the year of 2012, there was a mismatch in terms of the pricing, et cetera. This impacted linearity, and then we didn't enjoy the same uptake that we saw around Llano that we saw with our OEMs.

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

I see. Okay. And then, as a follow-up, in terms of market, you very likely lost market share as a result of that. But do you believe in notebooks? How's the situation market share-wise there in microprocessors?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I believe that we lost market share in the quarter. I don't think there's any doubt about that. In the channel, we've talked about in the earlier comments about how we're going to focus to improve that going forward. In the OEM space, in the notebook space, our value proposition, our product set is strong with the APUs. I believe that in that segment, we've got to continue to focus on building that momentum with the key OEMs and to make sure that they see this next-generation of APUs make the impact that we believe it will have.

We've seen Trinity APUs double sequentially in terms of its volume. We've seen our early releases of our first ultrathins with HP and Samsung. These are hitting mainstream price points and they're being well accepted.

And then around Brazos 2.0, the next-generation to our most successful platform ever of Brazos, we've now had again for the sixth quarter in a row, the leadership growth in terms of the $499 and below price band across the planet. That shows that those products are competitive, they are compelling and we're going to continue to stay the course on that set.

Hans C. Mosesmann
Analyst, Raymond James & Associates

Q

Okay. Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Hans.

Operator: Thank you, sir. Next questioner in queue is Glen Yeung with Citi. Please go ahead. Your line is now open.

Q

Hi. It's Irene for Glen Yeung. Can you just tell us a little bit about what your debt reduction plans are regarding the debt due in August? Thanks.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, let me take this question. It's Thomas. As I have said previously, we are very comfortable paying the debt off using cash from our balance sheet on the August maturities. But in addition, we continue, of course, now to monitor the markets closely to explore potential opportunities. I believe our strong balance sheet has allowed us to invest both organically and via acquisitions and we want to maintain such a strong balance sheet moving forward, especially given the uncertainty in the macroeconomic environment and ensure that way that we are in a position to invest according to our plans.

Q

And a follow-up, can you tell us a little bit about how you can retake share in the server markets?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From a server standpoint with the introduction of the Opteron-Bulldozer product, we saw a good uptake in the initial launch around the high-performance compute segment. There is no doubt that, that success is a good foundation and showed early progress there. We've communicated before that we need to leverage our Opteron-

Bulldozer solution, which is a solid technology on the key workloads and the key customer segments where we enjoy a performance advantage. This is key. And we'll continue to build that where we can add modest share gains quarter-on-quarter, quarter-after-quarter.

And now, we're also pleased with the progress that we're seeing around our SeaMicro acquisition. SeaMicro positions us with strong IP and a strong offering in the new emerging dense server computing area. And I think this is a very important opportunity, as I believe this will expand the market as we move forward. Lisa, do you have any comments on how SeaMicro is going so far?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Just to add to Rory's comments on the server business – so the SeaMicro, we closed that acquisition at the end of the first quarter and they've been part of us for the second quarter. I would say the integration has gone very smoothly and we've been pleased with the capability and the talents that the team have brought onboard. We continue to have very positive conversations with customers of the technology and we do this as a long-term growth path, in addition to obviously the near-term work on our Opteron-based series, which we believe, as Rory said, has the opportunity to continue to grow.

Q

Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Irene.

Operator: Thank you. Next questioner in queue is David Wong with Wells Fargo. Please go ahead. Your line is open.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Hey. Thank you very much. What do you expect to be the ratio of Trinity versus Llano sales in the September quarter?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We wouldn't get into those specifics in terms of communicating; but clearly, we've already launched the Trinity activities with our notebook OEM partners and we'll continue to build that. That doubled sequentially. Llano is an important product throughout the balance of this year and into 2013. It's very relevant to leverage both of those solutions as we move forward and we'll continue to do that.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Okay.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc. A

Thanks, David.

David M. Wong
Analyst, Wells Fargo Advisors LLC Q

Okay. Thanks.

Operator: Thank you, sir. Next questioner in queue is Uche Orji with UBS. Please go ahead. Mr. Orji, your line is open.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Uche, are you on?

Uche Orji
Analyst, UBS Securities LLC Q

Hello?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

We'll double back to Uche.

Uche Orji
Analyst, UBS Securities LLC Q

I'm right here. Can you hear me?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Oh, we can, there you are, Uche. Please go.

Uche Orji
Analyst, UBS Securities LLC Q

Hi, Rory. How are you?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

I'm well, sir.

Uche Orji
Analyst, UBS Securities LLC Q

Just real quick, I just wanted to clarify the weakness in desktops. Was it just CPU or was it also a problem with graphics in desktop products?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Graphics enjoyed – had a solid quarter. It was within seasonal expectation and history. We saw a good performance out of our next-generation 28-nanometer products and we have strong supply there. We did not see issues in terms of the Graphics space in terms of that. Where the big issue in terms of the quarter and that is largely in our control is around the desktop business in the channel around CPUs and around the APU product. We did not see the same up tick as I talked about earlier – uptake that we saw with the OEMs.

And it's interesting, Uche, in the OEMs we've done very well with Llano in terms of notebook and in desktop at the OEM. So, I believe that we've not done a good job in terms of linearity and managing our supply to our partners, communicating the strong value proposition deeper into the channel and to ensure that our promotions are focused on sell-out to drive this launch and that's what we're going to focus on in 3Q and 4Q.

Uche Orji
Analyst, UBS Securities LLC
Q

Okay. That's helpful. Just very quickly, if I were to look at how you – if we look ahead into Intel introducing hot-swap products and one of the things we expect from that product is much lower power from that architecture. There are two questions I have. One is, how do you position Trinity and Kaveri out there? But what's even more worrying for me is, how do you think that, as Ivy Bridge or even as a Sandy Bridge today, rolls into the N minus 1, rolls into the value segment? Are we seeing a significant shift in terms of the competitive positioning of both companies? Or do you think that the way you're positioning yourself, you can actually compete in what I think is an interesting change from your competitor in terms of product rollout?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Uche, I want to emphasize that I believe firmly that we're on the right strategy. This execution in second quarter is disappointing and we will correct it. But I firmly believe that we're on the right strategy around our APU technology, around cloud computing and enhancing our low-power solutions. This is the right strategy and the right differentiation for AMD. AMD is going to continue to deliver interesting and differentiated products that leverage this cloud environment and lower our power envelope and introduce an interesting value proposition to our customers moving forward. Lisa, some comments?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

Yeah, Uche, maybe – let me add some color to that. So, definitely, the APUs are our strategy, and we're very pleased with the value proposition that we have there, especially in notebook and especially as you go into the low-power space. So when you look at any of the comparisons on Trinity and the battery life that we have on those APUs, very good improvement over the previous generation.

As we go forward, we're going to continue to focus on this strategy and as we go into the next-generation APUs, similar focus on getting longer battery life, thinner, lighter, those areas. So the APUs were our initial strategy and they continue to be where we believe we're going to be able to differentiate going forward.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Also, Uche, it's very important to take part of our strategy that we've talked about and we've talked about with you is the idea to expand and take the APUs into adjacent segments around the embedded areas. We think that offers a very attractive opportunity for us moving forward and I believe this is the proper focus.

Uche Orji
Analyst, UBS Securities LLC
Q

That's great. And just one last question, your engagement with mega-data centers in terms of your server business, has been an area where I'm a little not clear what the strategy is. Some of the products you've rolled out recently have had fairly good reviews. Are you starting to – how do you think you might start to change or shift the perception from those kind of – and engage those kind of customers, especially given that today, that seems to be the only category that seems to be spending a lot of money now.

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

Yes, Uche, this is certainly a very good point. We like the mega-data center market. It is the fastest-growing market in the server business. As we've discussed before, the server business is one that takes a little bit longer to actually see product adoption. But we're very focused with both our Opteron product line as well as our SeaMicro products with the fabric-based technology and attacking those mega-data centers and lots of customer conversations in those areas.

Uche Orji
Analyst, UBS Securities LLC
Q

Great. Thank you very much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Uche.

Operator: Thank you, sir. Next questioner in queue is JoAnne Feeney with Longbow Research. Your line is open. Please go ahead.

JoAnne Feeney
Analyst, Longbow Research LLC
Q

Yeah, thanks. I had a question about the gross margin dynamics, Thomas. Could you explain the moving parts for the second quarter given that ASPs were down on, I assume lower channel, must be a yield improvement I suspect? And then third quarter, what's happening there?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

Yeah, so let's start with the second quarter. So, we guided for 46% to slightly up and we ended up right there, mainly driven by the right product mix, good share of gaming royalty revenue and very good improvements on the productivity side, in terms of cost of goods sold, yield and other measures beyond yield. That helped us to end up in a good space despite the challenges we saw on the revenue side.

If you look at guidance now for the third quarter, there are certain headwinds and tailwinds you have to keep in mind. I think we are going to continue to see productivity improvements, we also will see tailwind by a higher share of Trinity products getting into the market, and then we will see some – and see some headwinds. We will have lesser royalty income in the third quarter from a gaming perspective. We see additional cost in terms of having the full impact of our 28-nanometer portfolio hit us from a ramp-up perspective, and we will see some pressure from a pricing perspective in those parts of the business that Rory has been talking about, where we have to show velocity in order to move the channels. And I think this is getting us in the space that I have guided for.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay. And then as a follow up with regard to inventories. Can you describe a little bit the mix of inventories? Is this because of a shortfall in Llano sales, primarily Llano-based? And if so, what gives you confidence that the channel is going to continue to be enthusiastic for Llano when they know Trinity desktop is right around the corner? Is that really part of it, that the channel just doesn't like to be second place to the OEMs in terms of getting the new products and really just want to wait for Trinity at this point?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, so let me start with the inventory mix first and how we look at that and then Lisa and Rory can comment on the velocity in the channel. The inventory build, that comes really in two parts. We – to be very honest, we have planned for certain inventory increase anyway in preparation for the second half. So, I think about half of their – the increase is really only attributable to the demand shortfall.

And the good news is that the inventory is pretty much all current products and the part where we saw demand shortfall is pretty much driven by Llano. We feel confident and our aim, of course, is as I said before in my script that we try to manage inventory slightly quarter-over-quarter, but we have to carefully manage the transition of the new products and how the demand environment is going to change. And regarding velocity, Lisa?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, let me make a couple of comments on that. So, Llano is a good product. If you look at where we're selling, it's selling into both notebook and desktop OEMs as well as the channel. We got ourselves a bit out of position admittedly and that's a big reason for our shortfall; but when we look forward, it's really the focus on sell-out velocity and getting the overall positioning correct with both the CPUs as well as the motherboards. And we think we're doing that. Trinity will also be an excellent product that will go into the channel and I think we will run with both products for some time in the channel.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay. And when you refer to positioning being a bit off, is this mismatch that you and Rory have talked about referring primarily to pricing or to the allocation of different qualities of Llano to different particular channel partners?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

A

Yeah, it's really the – where we had motherboard supply relative to CPU supply and the resulting non-linearity in the channel.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay. And then – sorry, I picked up something Thomas said. You said Trinity is expected to be a greater share of revenues in the third – in this quarter? And is that relative to Brazos or relative to both Brazos and in Llano?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

It's – I'm not going to go into that detail. It's going to have – it's going to increase velocity. We have increasing volume and as part of our higher share overall of Trinity as part of our product mix, we will have a tailwind in the gross margin development.

JoAnne Feeney
Analyst, Longbow Research LLC
Q

Okay. Got it. Thanks very much. That's very helpful.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Thank you, ma'am. Next questioner in queue is Chris Danely with JPMorgan. Please go ahead.

Chris B. Danely
Analyst, JPMorgan Securities LLC
Q

Okay, thanks, guys. So it sounds like we're going to get a little more aggressive on price to clear out the inventory at AMD and in the channel. How long do you think it will take to clear it out? And then, if you can just talk about gross margin plans beyond Q3 and the impact that that would have on it as well?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

We've seen a slowdown obviously in the overall consumer spending and global marketplace. And that's obviously impacted the PC segment. I believe we'll see forecasts from IDC and Gartner continue to be reduced in the second half. Based on that, we have to make sure that we're positioning our products properly and that we execute the plans around inventory burn off, as well as introduction of new products. So I believe that macroeconomics will cause some slowdown and obviously will make us focus on executing that business more assertively.

In the desktop channel, I believe that's more around our control. I think we executed not as effectively as we could have and I believe that we did not enjoy that same uptake in that channel space. We will make sure that our promotions and our incentives are focused around sales out and that our marketing communications help build the understanding deeper into Tier 2, 3 and 4 in the channel to make sure that we get that velocity.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

With respect to margin, we're here today to talk about Q3, and I'm not going to provide guidance on Q4 margin. With that being said, we gave guidance for the full year in the range of 44% to 48%, and we are well within this range at this point.

Chris B. Danely
Analyst, JPMorgan Securities LLC
Q

And can you just give me – give us an estimate on how long you think it will take to get your inventory and the channel inventory back to a level where you feel comfortable?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We're going to work on that in 3Q and in the second half of the year. We believe that that's the right focus and we'll work through that in each of those next two quarters. We believe that we'll track that week-on-week and ensure that we have that right focus.

Chris B. Danely
Analyst, JPMorgan Securities LLC

Q

Great. And then just as my quick follow-up, when do you think we can start to see the – you guys regaining share show up in the numbers like Q4 or do you think we're looking at it next year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Our objective is to gain share in every quarter and that's going to be our focus going forward. Obviously, there's headwinds in terms of the macro environment, our channel development. But we have interesting products that hit the right point with our customers and value propositions that make sense. We have to focus our entire team across AMD to get that share growth objective in each quarter. We'll work that each of the next several quarters and that's clearly our objective.

Chris B. Danely
Analyst, JPMorgan Securities LLC

Q

Great. Thanks, guys.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Chris.

Operator: Thank you, sir. Next questioner in queue is Stacy Rasgon with Sanford Bernstein. Please go ahead. Your line is open.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. First, a question on your take-or-pay arrangement with GLOBALFOUNDRIES, how does the lower demand outlook that you're looking at now actually affect that take-or-pay, given I thought that you were supposed to give them a forward 12-month fixed forecast? What impact has that actually had on your inventory build? What impact will that have going forward? And what impact did that actually have in – on your gross margins, given that you've already apparently committed to those forward purchases?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

First, I'd like to comment on our relationship with GLOBALFOUNDRIES. And I want to personally acknowledge the progress they've made over the past several quarters in improving their execution. We're building a stronger partnership, where every week we're in ongoing dialogues with them in terms of how to improve yield, how to deliver the supply and improve our businesses going forward. We've seen significant progress from GLOBALFOUNDRIES and their execution has improved dramatically year-over-year.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

So with that being said, Stacy, there – the commitment is pretty much a 2012 commitment and not so much a from-here-on 12-months moving forward commitment. And both companies are very focused on making sure that we have a mutually successful business arrangement. And in light of a weakening PC environment, we are in discussions, of course, not only with GLOBALFOUNDRIES, but with all of our foundry partners and with all of our suppliers, as a matter of fact, in order to make sure that we manage inventory correctly in the light of the weakening demand environment, to be very honest.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

So...

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

This is not so much a matter of gross margin, it's much more a matter of inventory and cash, how you have to look at this topic.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah, but if you have too much inventory, eventually if you've got to discount it to get rid of it, it hits gross margin. So, are you still going to be committed to accepting your 2012 forecast as you gave it to them in the beginning of the year, under – the way the agreement is currently written?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

As I said, we are in discussions with all of our foundry partners to make sure that we manage inventory responsible and working capital responsible, in light of their demand environment as it has developed late in the second quarter.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. And for my follow-up, just two quick ones: OpEx, at what point or what revenue levels do we start to see OpEx start to grow again, when do bonuses and everything else start to come back? And how does – I guess the weaker outlook right now temper or not your investment needs as you ramp into more of the HSA products into 2013 and beyond? And one more quick one, do you think you'll be free cash flow positive in Q3 and Q4 of this year?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

So let me start with the operating expenses first. I think we have shown a very disciplined approach over the last quarters, how we can manage our operating expenses. And this is, of course, an approach that we continue to exercise as we move forward, especially in light of a weaker demand environment. And the controls and the processes that we have put in place so far have allowed us to react fast and swift to the shortfall in demand in the second quarter. And those principles will guide us how we manage aggressively operating expenses moving forward, always keeping in mind that we protect and safeguard the investments from the roadmap perspective that secure our future. There's no doubt that we protect those investments. And we've been talking a lot in the past on the initiatives we have started that allow us to generate this productivity in order to realize those benefits. So, very disciplined moving forward, very strict moving forward, but protecting our future.

And operating expense guidance for the third quarter is as it is and we will take it from there depending where the demand environment is going to take us.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

And free cash flow in Q3 and Q4, positive?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc. A

For Q4, I'm not going to provide guidance. For the third quarter, our free cash flow is going to be driven pretty much by the revenue we have seen in the prior quarter, Q2, plus the linearity we are going to experience through the course of the current quarter.

We are not far enough into the quarter to see how that is developing yet. And that's why it's difficult to make a statement in that perspective. Of course, we are running at high chip (sic) [clip]. You could see that in the second quarter not only on a cost – from on a cost perspective, but also from a free cash flow perspective. And we'll try to maintain this, of course, as we move through the current quarter.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC Q

Thank you, guys.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Thanks, Stacy.

Operator: Thank you. Next questioner in queue is Mark Lipacis with Jefferies. Please go ahead. Your line is open.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc. Q

Thanks for taking my questions. Could you quantify how far above normal you thought channel inventories had gotten or how far above normal they are now?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

No, we didn't get into those specifics. We – as I mentioned earlier in my comments, we believe that the expectation in the PC market was across 2012 at the beginning of the year was to be expanding each quarter. And as you could see in 2Q, the macroeconomic headwinds have obviously slowed that PC growth. We believe that will continue in the second half. And based on that, we think there's pressure in the entire ecosystem of the PC environment moving forward.

We believe that the right focus is to be very disciplined in our execution around that channel management and to create our promotional focus and dollar investment around driving sell-out activities, but we did not give any specifics.

Mark J. Lipacis Q
Analyst, Jefferies & Co., Inc.

But it's fair – am I fair to assume that they're above-normal right now?

Thomas J. Seifert A
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

Yes.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

That's okay.

Thomas J. Seifert A
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

We said, yes.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

That's fair.

Mark J. Lipacis Q
Analyst, Jefferies & Co., Inc.

Yeah, okay. And then the – you're talking about the channel marketing programs, your OpEx is flat. So is this – is the increased budget in the channel programs – does that come from improved efficiencies or do you just shift marketing programs from OEMs to the channel? Is that how that works?

Thomas J. Seifert A
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

Yeah, I'm – we are not going to go in that much detail, but of course, we generate productivity and we are flexible in how we allocate dollars with – under the umbrella and within the boundaries that we have guided for.

Mark J. Lipacis Q
Analyst, Jefferies & Co., Inc.

Fair enough. And a last question, 28-nanometer APU, I guess my understanding was that this would – you would start production this year and start shipping next year. Does that still sound reasonable?

Lisa T. Su A
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.

Yeah, so on the 28-nanometer, we are shipping 28-nanometer graphics this year and we will be shipping 28-nanometer APUs next year in 2013.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc.
Q

Thank you.

Operator: Thank you, sir. Next questioner in queue is Cody Acree with Williams Financial. Please go ahead.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

Hi, guys, and thanks for taking my question. Rory, if we could take a step back, so we've got about a 14% differential from the original guide. Could you give as much color as you can as maybe the rankings to whatever weight you can give? You have several things impacting here, like from inventory corrections to share loss to price pressure and just shifts in the macro to – how that 14% came about?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, from my perspective, as I've shared earlier, there's really two key drivers around that. Obviously, the soft PC market that impacted processor sales, that's a market phenomenon. We think that affected the market in general. I'd say that's an important factor in terms of the impact and the revenue impact late in the quarter. And then, obviously, the weak sales of desktop processor in the channel, which again manifested itself first in China, late in the quarter and then it spread across the globe. I think that the channel impact had more of an impact in terms of the revenue in the quarter, but obviously, both were significant.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

From a pricing standpoint [indiscernible] (49:14) outside of this channel, do you think that, that had an impact in those [indiscernible] (49:18)?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Cody, can you repeat it? You got muffled on that part. Didn't hear you clearly.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

Yeah, just from a pricing and competition standpoint, how much did that factor into this, just not – maybe a soft – and to what is sitting out in the channel?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

From our perspective, we saw these impacts in terms of linearity, the channel situation and then the softness in the market. That rippled through the entire market. You've seen feedback from some of the players in the ecosystem communicating that. We – as the quarter deteriorated, we made the conscious decision to not chase those bad deals late in the quarter and I think that was the right decision.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

I guess, Rory, as you look forward then, to what extent do you think that, that pricing decline continues and maybe accelerates. I guess when you look at what Intel is doing as they're making a transition from one process to the other, what do you expect from a pricing environment, not just this quarter but as we finish the year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, I don't think there is any doubt that the market will face headwinds in terms of the macro impact. And I think it'll be more centered around consumer than other parts of the market. Given that, I do think the market and PC notebooks will expand in the second half, although at a muted level. I also think that everyone remains excited about Win 8. It's now been documented when that launch will be. That's important, because we'll introduce those products into third quarter and get those shelves ready to go as we go into 4Q and that should offer some opportunity. But clearly, that overall softness and weakness is part of the focus that Thomas talked about when we gave the guidance around 3Q and the actions we'll take to move forward.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

I guess lastly, Rory, are you prepared to get more aggressive to chase product maybe you weren't ready to take at the end of Q2?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Our focus has to be around profitability and profitable growth. Profitability allows us to continue to invest in the company and the areas that help us grow and build the company over time. We're going to focus on profitability. Of course, we need top line and a combination of that. But again, we made the conscious decision to manage the expense, run a tight ship, make the decisions around those activities. And while we're taking actions to improve sales velocity in the channel to make sure that we capture the notebook growth in the second half, our primary focus is to continue to deliver a profitable engine moving forward even in this difficult environment.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

Great. Thanks, guys.

Operator: Thank you, sir. Next questioner in queue is Kevin Cassidy with Stifel, Nicolaus. Please go ahead. Your line is open.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hello, this is Dean Grumlose calling in for Kevin. Thank you very much for taking my call. Looking forward on manufacturing strategy, could you please explain your thoughts around your options and choices of fab flexibility versus optimizing performance? Meaning, to what degree will you need – do you believe you'll need to commit to a very small set of foundry partners in order to achieve competitive performance?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Today, we have a foundry relationship with two industry leaders in the space. And as I mentioned earlier, GLOBALFOUNDRIES has done a very strong job of improving their execution. They've delivered across 2012, addressed the challenges they had last year and the partnership that we are building with them is very positive. And I feel optimistic of that relationship and improvement that they've made.

As I mentioned earlier, we have also seen strong work out of our other foundry activities, around graphics. That 28-nanometer implementation has allowed us to deliver a solid quarter in our Graphics business again. So, we believe we have the right mix at this time.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

And we also said in the past that the number of foundries we can support or can support us is also a function of the overall size the company has. With the size we have to – that we have today, it's difficult to see that we could add a third partner.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Thank you very much.

Operator: Thank you, sir. Next questioner in queue is Vivek Arya with Bank of America. Please go ahead.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Thanks for taking my question. I'm wondering how discrete the Graphics market share trended. Your competitor did launch a new product, you also had new product. So, how did the market share evolve in the last quarter and how do you see it evolving in the second half of the year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

From our standpoint, I think it's important to acknowledge again we recaptured the position of the world's fastest graphics chip. And again, the – within the quarter, a solid quarter within seasonality. Lisa, any comments you'd like to offer around Graphics?

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

No, I would say that we're pleased with our Graphics performance from a competitiveness standpoint. We did launch in the last couple of weeks a very strong offering to get to the gigahertz level with our Radeon series. So, we continue to believe that this is a very strong product portfolio for us.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Okay, any comments on market share? Do you have any sense for that now or...

Lisa T. Su
Senior VP & General Manager-Global Business Units, Advanced Micro Devices, Inc.
A

I think we have to wait until the numbers come out.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Got it. And a different question, Rory, I'm curious what do you think about how close or far is the ARM ecosystem in becoming a real threat to you in the low end of the PC market?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

It's interesting, Vivek. Based on my experience in the marketplace as a leader in the OEM segment, we've looked at that for a long time in my previous experience as well as in this current one. And as I look at the velocity of the business and I look at the market as it's evolving here, I think ARM in the client space will be muted for some period of time. I believe that the performance out of the x86 offerings as well as forward and backward compatibility offer an intriguing value proposition at very attractive price points. And I believe we'll be able to continue to build on that marketplace as we go forward. Do I think ARM will make progress in the PC segment over time? I do. But I think that's in the 3-plus year timeframe to really see it make significant progress.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Got it. And just lastly, Rory, do you think Windows 8 tablets changed the game in any way or Windows 8 RT specifically, do they change the game in any way?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure, so from a standpoint, obviously we'd seen softness in the second quarter. It's driven primarily by macroeconomic issues. We've seen it manifest itself more assertively in the consumer segment. But there's no doubt in some of the mature markets that tablet had some impact. It is not a significant portion, but it is a portion.

As we look forward, the Windows introduction of tablet offers interesting opportunities as we move forward. And I do believe that Windows tablets will make progress over the next one, two, three years and ultimately could enjoy as much as 20% market share in that time period.

Vivek Arya
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Got it. Great. Thank you.

Operator: Thank you, sir. Next questioner in queue is Ambrish Srivastava with BMO. Please go ahead. Your line is open. Mr. Srivastava, your line is open.

Gabriel Ho
Analyst, BMO Capital Markets (United States)

Q

Hi.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Hi.

Gabriel Ho
Analyst, BMO Capital Markets (United States)

Q

Hello, this is Gabriel for Ambrish.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, we're here. Go ahead. Ask your question, please.

Gabriel Ho
Analyst, BMO Capital Markets (United States)

Q

Thank you. Just wondering what is the ASP trend for the MPU for the discrete graphics? That's the first question.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

For?

Gabriel Ho
Analyst, BMO Capital Markets (United States)

Q

For the discrete like desktop [indiscernible] (57:49) notebook.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

In the second quarter or in the third quarter?

Gabriel Ho
Analyst, BMO Capital Markets (United States)

Q

In the first quarter and going forward.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We wouldn't break out that level of detail around those specific numbers or ASPs.

Gabriel Ho
Analyst, BMO Capital Markets (United States)

Q

Okay. And next question would be, do you have any comment on the channel? Actually, do you have some sense of what kind of like finishing goods in terms of nano or Trinity versus your competitor?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, as I've covered several times around the channel, I think we've articulated where the issue is around the uptake around the Llano business in the channel and I believe that our focus around the three core actions to improve linearity. As you know, the channel partners make money based on their terms of their business and return on capital. You must have strong linearity.

Second program, make sure we focus on the promotions that drive sell-out, lower into the second and third tier of the channel. And then finally, make sure we're educating and training the channel on the value proposition we offer. It's interesting because Llano has enjoyed a strong uptake with our OEM customers and in both notebook and desktop. And we've seen a sequential improvement of our Llano desktop business with OEM, which we – which says we need to do a better job of articulating that in the channel.

Gabriel Ho
Analyst, BMO Capital Markets (United States)
Q

Okay. Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thank you.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.
A

Operator, we'll take two more questions, please.

Operator: Yes, ma'am. Next questioner in queue is Craig Berger with FBR Capital. Please go ahead.

Craig S. Berger
Analyst, FBR Capital Markets
Q

Hey, guys. Thanks for taking my questions. I guess one of my questions is when is the product that you feel you've had a heavy hand in developing going to be coming to market?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

All of the products we develop are part of our technology team here that's in place. If you're referring to based on new leadership and management team, semiconductor development occurs over 24 to 30-month time period. But all of the products here are products that we are delivering from AMD.

Craig S. Berger
Analyst, FBR Capital Markets
Q

All right. Thank you. And then can you just go over the timing of cash payments to short-term debt and GLOBALFOUNDRY (sic) [GLOBALFOUNDRIES]?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

So as I said before, we have made $50 million payment the current quarter. So there remains $225 million to go. And this will be paid completely down by the end of the first quarter of fiscal year 2013.

Craig S. Berger
Analyst, FBR Capital Markets
Q

And is there a short-term debt due in the next year also?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc. A

Well, short-term debt in this sense of the maturities that are going to be due in August, they're $485 million. That is what I referred to with the earlier question and how we want to handle this. And then the next maturity tower is coming up in 2015.

Craig S. Berger
Analyst, FBR Capital Markets Q

Perfect. Thank you so much.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Thanks, Craig.

Operator: Thank you, sir. And we have time for one final question. Our final question comes from Mike McConnell, Pacific Crest. Please go ahead.

Michael McConnell
Analyst, Pacific Crest Securities LLC Q

Yeah, I was just curious with the outlook for Q3. Will – both Computing and Graphics both be down commensurate or will one be – will there be growth in Graphics relative to a larger decline in Computing?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Clearly, Mike, again we're disappointed with the performance of the business in Q2. And as we look forward, there's no doubt that the macroeconomic headwinds will dampen the second half progress in the overall PC market. But having said that, I do believe that notebook will expand in the second half. And that's an opportunity for us to target our differentiated next-generation APUs to capture that growth.

While I expect it to be muted and lower than current expectation in the market, I do believe that's going to be an area of growth. We have strength in terms of our Graphics business and our offerings, but we have to make sure that we're driving that business as we go forward around future design wins and future generations of our technology.

Michael McConnell
Analyst, Pacific Crest Securities LLC Q

So, units up in both and ASPs will be the reason for the decline?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

No, I would...

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc. A

We normally don't provide guidance on this level looking forward and I don't want to go into such a detail at this point in time.

Michael McConnell
Analyst, Pacific Crest Securities LLC

Q

Okay. Thank you.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Operator, and this concludes our call today, and we'd like to thank everybody for participating.

Operator: Thank you, ma'am. Again, ladies and gentlemen, this does conclude today's program. Thank you for your participation and have a wonderful day. Attendees, you may disconnect at this time.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2012 Earnings Call for 19-July-2012 5:00 PM ET
Tuesday, May 15, 2012 09:56:01 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2012 Earnings Call for 19-July-2012 5:00 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1716633&highlight=
Live WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-eventDetails&EventId=4781518
Replay WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-eventDetails&EventId=4781518

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19-Apr-2012

Advanced Micro Devices, Inc. *(AMD)*

Q1 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your conference operator for today. At this time, I'd like to welcome everyone to AMD's First Quarter 2012 Earnings Conference Call. All lines have been placed on listen-only mode. After the speakers' remarks, you'll be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the call to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's first quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary. If you've not reviewed these documents, they can be found on AMD's website, at quarterlyearnings.amd.com.

The participants on our call today are Rory Read, President and Chief Executive Officer, and Thomas Seifert, our Senior Vice President and Chief Financial Officer of AMD. This is a live call, and it will be replayed via webcast on amd.com. The replay will be available for the next 10 days, starting later this evening.

Before we begin today, I'd like to highlight a few dates of interest for you. Mark Papermaster, our Senior Vice President and Chief Technology Officer, will present at the Jefferies Global Media & Telecom Conference on May 7 in New York. Thomas Seifert will present at the Bank of America Merrill Lynch Technology Conference in San Francisco on the 8th of May. Rory Read will present at the J.P. Morgan Technology, Media, and Telecom Conference in Boston on May 15. And our second quarter quiet time will begin at the close of business on Friday, June 15. Lastly, we intend to announce our second quarter earnings on July 19.

As a result of the 2012 amendment to the Wafer Supply Agreement with GLOBALFOUNDRIES, as of March 5, 2012, AMD no longer has equity ownership in GLOBALFOUNDRIES.

I'd like to take this opportunity to remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and as such, include risks and uncertainties that could cause actual results to differ materially from our current expectations. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially from our current expectations.

You'll also find detailed discussions about such risk factors in our filings with the SEC, and in particular, AMD's annual report on Form 10-K for the year ended December 31, 2011. Finally, any non-GAAP financial measures or references on this call are reconciled in the CFO Written Commentary posted on our website.

Now, with that, I'd like to hand the call over to Rory. Rory?

Rory Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. Q1 was a solid quarter for AMD. We made good progress improving our execution, becoming more consistent, and building trust with our customers and partners. We have taken steps to position the company to seize the opportunities in front of us, both in the high-growth markets and in the product categories where our innovative technology provides us with leadership opportunities.

Our improved execution resulted in better than expected revenue of $1.59 billion for the seasonally down first quarter, a 6% sequential decrease and a 2% decrease year-over-year. First-quarter non-GAAP income was $92 million. This is a 64% improvement from the year-ago period, which was driven by gross margin improvements resulting from a richer product mix and operational efficiencies. A steady supply of 32-nanometer products allowed us to meet our customer commitments in the quarter. Consistent execution that builds trust with our customers remains a fundamental part of our near-term growth strategy.

We are also pleased with our 28-nanometer graphics product ramp. We met our new product introduction commitments in the quarter, and we are now the only company offering a top-to-bottom family of 28-nanometer discrete desktop GPU offerings. Customer demand for these industry-leading graphic products is strong.

Adoption of our APUs continued to accelerate. APUs accounted for nearly 100% of our mobile unit shipments in the quarter, helping drive an approximate 30% increase in mobile processor unit shipments and significant mobile revenue growth from a year ago. We saw strong success in the critical $400 to $700 mainstream retail notebook price band, which accounts for nearly 50% of all notebooks sold in retail in 2011. For example, the best-selling premium notebook SKU of the first quarter at Best Buy was, in fact, powered by our AMD A8 APU.

Our next-generation Trinity APU for mainstream notebooks extends our leadership opportunity in this large and growing price band. Trinity improves on virtually every aspect of our current A-Series APUs, while doubling the performance per watt. By integrating a discrete-level GPU into the die, Trinity enables outstanding video and gaming experiences, with superior battery life.

Trinity is a great value, excelling at running the types of software increasingly used by our consumers buying these mainstream notebooks. We are successfully ramping production of Trinity APUs as customers prepare to launch a record number of AMD notebook designs beginning this quarter.

Our momentum with Brazos continued in the quarter as well, helping driving a double-digit percentage increase in emerging market revenue from the period one year ago. Brazos delivers an unmatched value proposition and experience for consumer in these emerging markets.

The introduction of Brazos 2.0 this quarter builds on the momentum, thanks to many new features, and improves performance and extended battery life. We have made it easy for customers to take advantage of these advancements by simplifying platform transition and reducing their time to market. Trinity and Brazos 2.0 systems will be available globally this quarter, and we expect broad availability for the key back-to-school period.

Our Server business continues to make steady progress. We achieved our third consecutive quarter of server processor unit shipment growth, driven by increased adoption of our Bulldozer-based offerings. For the first time, Bulldozer processors accounted for more than 50% of server revenue and unit shipments in the quarter.

We are strengthening our server customer relationships, refining our capabilities, and methodically laying the foundation required to build long-term growth and leadership. We are fully committed to build this business step by step over the long term.

We accelerated our disruptive server strategy in the quarter with the acquisition of SeaMicro. This acquisition positioned AMD to take a leadership position in the fast-growing cloud data center market, and sets the stage for AMD to provide unmatched low-power, high-bandwidth server solutions that expand our market opportunity. This is an exciting area of the business that I look forward to discussing more in future calls.

In Graphics, solid demand for our next-generation AMD Radeon 7000 graphic cards, particularly in the channel, drove sequential GPU revenue increases. We are focused on growing the profitability of our graphics business by attacking and winning more channel business. We will introduce our first 28-nanometer notebook discrete graphics chips this quarter, and we expect to quickly transition the majority of our product mix to these industry-leading products.

So, in summary, we are excited about the opportunities in front of us, and we know we have the right ingredients to win and grow.

First, we're refreshing our entire portfolio of APU offerings, strengthening our growth opportunity in high-volume segments and fast-growing markets. Next, we have amended our wafer supply agreement with GLOBALFOUNDRIES to create a win-win business arrangement. We are also seeing continuous improvement in 32-nanometer yields, helping ensure we have the right product to meet customer demand. And then, step by step, we're becoming a more consistent execution engine. We're building more trust with our customers and partners and having a greater opportunity to win more of their business.

We're seeing results with our efforts. For example, with the strong adoption of our Trinity APU for ultra-thin notebooks, customers are excited that Trinity fits into virtually any ultra-thin design, providing unmatched visual experience, superior battery life, at a very attractive mainstream price point. Trinity-based ultra-thins provide superior performance and value for all customers, not just a small portion of the market buying expensive premium notebooks.

We have a number of high-volume ultra-thin design wins across our customer base, setting the stage for continued growth, as mainstream notebooks continue their transition to these thinner and lighter designs that will dominate the market in the years to come.

With that, I'll turn it over to Thomas, who will cover our financials for the first quarter.

Thomas J. Seifert

Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

Thank you, Rory. Revenue for the first quarter of 2012 was $1.59 billion, down 6% sequentially, driven by a seasonal decline in the Computing Solutions segment. The Graphics segment revenue was sequentially flat in a typically down quarter. Non-GAAP gross margin was 46%, flat sequentially, and a point higher than expected. The delta to guidance is a result of higher than anticipated demand for certain 32-nanometer Llano products, particularly in emerging markets.

Non-GAAP gross margin for the quarter was calculated net of the $703 million one-time charge related to the 28-nanometer product limited wafer exclusivity from GLOBALFOUNDRIES associated with the 2012 amendment to the Wafer Supply Agreement.

Operating expenses were $598 million, which includes $6 million in one-time expenses related to the SeaMicro acquisition. R&D was $368 million, 23% of net revenue, and SG&A was $230 million, 15% of net revenue. Non-

GAAP net income was $92 million, and non-GAAP operating income was $138 million. Interest expense was $43 million, flat compared to the prior quarter.

Tax provision was a net credit of $32 million in the quarter, compared to $4 million in the prior quarter. The difference is primarily a one-time tax benefit of $36 million related to the SeaMicro acquisition, which closed at the end of the quarter. Net of this one-time tax benefit, 2012 tax guidance is approximately $12 million.

Non-GAAP EPS was $0.12, calculated using 748 million fully diluted shares. Adjusted EBITDA was $215 million, down $45 million from the prior quarter due to lower non-GAAP operating income resulting from lower revenue in the quarter.

Computing Solutions segment revenue was $1.2 billion, down 8% sequentially, driven by seasonally lower sales in the Client business. Client product revenue declined sequentially due to lower units and ASP, primarily driven by lower 45-nanometer desktop processor unit shipments.

APUs continued to increase as a percentage of our Client products, and Llano, our first-generation 32-nanometer APU power top-selling notebook SKUs in North America priced above $400. Our server processor revenue declined from the prior quarter, mainly due to ASP decline, and unit shipments increased, with continued adoption of Bulldozer-based offerings. Chipset revenue declined in the quarter due to seasonally lower unit shipments.

Computing Solutions operating income was $124 million, down $41 million sequentially, primarily due to lower revenue. Graphics segment revenue was $382 million, flat compared to the prior quarter. GPU revenue was up in a seasonally down quarter due to improved desktop GPU ASPs in the channel, offset by seasonally lower game control royalty revenue. Graphics segment operating income was $34 million, up $7 million from the prior quarter, primarily due to higher gross margin.

Now, turning to the balance sheet, our performance was strong, as cash, cash equivalents, and marketable securities, including long-term securities, ended the quarter at $1.71 billion. Cash declined by $201 million compared to the end of the previous quarter, which was primarily the result of cash payments of $281 million related to the SeaMicro acquisition and $150 million related to the 2012 amendments to the Wafer Supply Agreement. Despite strategic cash outlays in the quarter, we maintained positive free cash flow of $67 million.

Accounts receivable at the end of the quarter was $962 million, up $43 million compared to the end of the fourth quarter of 2011 due to the timing of sales. Inventory was $585 million exiting the quarter, up $109 million from the prior quarter, primarily in preparation for new product launches. Debt at the end of the quarter was unchanged, at $2.02 billion.

Now, turning to the outlook, AMD expects revenue to increase 3% sequentially, plus or minus 3%. Operating expenses are expected to be approximately $605 million in the second quarter, as we continue to fine-tune our operational efficiencies, executing to our financial targets. We are pleased we delivered solid results in the quarter, with a richer product mix. We expect to build on this financial and operational momentum moving forward, and look forward to the upcoming launches of Trinity and Brazos 2.0 later this quarter.

With that, I'll turn it back to Ruth.

Ruth Cotter

Vice President, Investor Relations, Advanced Micro Devices, Inc.

Thank you. Operator, we'd now like you to poll the audience for some questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, ma'am. [Operator Instructions] Our first questioner in queue is Uche Orji with UBS. Your line is now open.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Uche, are you there?

Operator: Please check the mute button on your phone, sir.

Ruth Cotter
Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we'll move on, and maybe Uche will come back.

Operator: Sure. Next questioner in queue is Sanjay Chaurasia with Nomura. Please go ahead.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.

Q

Oh, hi. This is Sanjay for Romit Shah. Congratulations on the good results. My first question is on 28-nanometer. Some of the industry participants have talked about capacity issues in 28-nanometer, and my question is are you seeing any impact to your graphics business on this, and what are you seeing going ahead in 28-nanometer?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Sanjay. You know, 28-nanometer is a very important part of our business. As you may know, we're the first company that has launched our entire desktop discrete graphics product set on 28-nanometer, and I can tell you that, within the first quarter, we were able to deliver on all of our customer commitments in that graphics segment. What we're doing is we're monitoring this closely. We believe that a focus on execution consistently, day in and day out, will yield better returns and better execution. We think that, from our perspective, that we have the execution in place, the relationships with our key foundry partners, to deliver on our 28-nanometer product ramp.

Of course, we're going to monitor it, we're going to track it, week in and week out, to make sure, and we do hear some of the information in the quarter. We believe that we can deliver our base plan and our commitments to the customers. Right now, we're looking to the ability to reach upside. That's what's probably holding us back on the 28-nanometer going forward. But, again, we're focused on going after that, and we have the execution and plans in place, Sanjay.

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

And let me put some color on that too. As you heard from Rory, we met all of our customer commitments in the first quarter. When demand is strong and your product is good, this opens up opportunity for upside. And that is an area where we would like to see more velocity, to be very honest, and that's why we have to monitor the situation very carefully. We meet commitments, we are limited on upside, and that is not a good situation when your product is good and demand is strong.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.

Q

Thanks. And my follow-up is on server ASPs. So, given that 50% of server revenue came from recently-launched Bulldozer chips, how is that server ASPs are down? And now that these products are – just before the launch of Ivy Bridge products, what trends can we expect on ASPs on your PC client business and as well as on server?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah. From a standpoint of server, again, as we mentioned in the earlier remarks, server has shown three consecutive quarters of solid improving momentum and execution, and we believe with Bulldozer now reaching over 50% of the revenue and unit shipments, we're positioned to continue to build on that execution and momentum. It is about building a business over a long term, and we believe that, step by step, we can create that business momentum and continue to build on that server. In terms of the ASP, we see some impact in terms of the mix in certain deals that were there, but we continue to believe that we'll build on that mix and continue to move forward from there.

Also, you may reflect on that with the acquisition of SeaMicro, it uniquely positions us to continue to participate and build on this server momentum in the fast-growing mega data center segment around dense computing, and we're very excited to bring on this solution into our portfolio of products. From a client perspective, our ASP models, in terms of matching our customer demand, are consistent. We'd like to build on that, moving each quarter out, and from the perspective our partners and customers are very excited about the APU solutions, whether it was Brazos and Llano, and now with the launch of Trinity and then Brazos 2.0, with an unprecedented number of design wins, I think we're uniquely positioned to continue to build on that and move further up the price band stack with our APU offerings with the new Trinity offering, which again, based on what we're seeing, is better at basically every key dimension and two times the performance per watt.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.

Q

Okay, thanks.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Sanjay.

Operator: Thank you, sir. Our next questioner in queue is Uche Orji with UBS. Please go ahead. Your line is open.

Uche Orji
Analyst, UBS Securities LLC

Q

Sure, thank you very much. Sorry, I didn't punch back in quickly enough when you called me earlier. Rory, could I just ask you how the OEMs are perceiving your ability to compete in the ultra-thin market? Obviously, Trinity seems to be ramping well, but my perception here is that with Intel having done a lot of the heavy lifting in Ultrabooks, some of them may be hesitant to use somebody else on the ultra-thin form factor. Is that a concern at all? Or are there other ways that you are going about making sure that you get a fair share of that market as they ramp in the second half?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Sure, Uche. Well, it's very nice to speak to you, and I'm glad you were able to get back on.

Uche Orji
Analyst, UBS Securities LLC
Q

Thank you.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Around ultra-thins, with the new Trinity launch and the record number of design wins we've been able to capture, I think this is an exciting time for AMD. And with the introduction of Trinity and our ability to reach just about any thickness and ultra-thin design that our customers have designed, I think, again, we're positioned very well to take advantage of this continued movement to thin and light. Trinity has outstanding battery life. It has the ability for us to introduce it into this very thin ultra-thin form factor.

And what's powerful about this, Uche, and how you need to think about it, ultra-thins are not just for the few in the premium high-price segments. We need to look at the ability to bring ultra-thins and high mobility to all customers, to bring it into mainstream. And what's exciting about the design wins that we're seeing and the continued momentum around ultra-thins around AMD is around our ability to reach mainstream price points, to open this up to everyone. And that's an opportunity where I think we can play off some of this initial energy and buzz that's all kind of crowded at the very high-price band, but with a set of AMD offerings with our key partners, I think they're very interested in entering into this mainstream segment, and I think it uniquely positions us in the second half to participate in a very powerful way as we move forward.

I like how we're set up in this segment, and that's where the volume is. That's where the business is, and that's where our designs are being won, and that's where we believe will be some high-runner high-volume part wins, and we're excited about it.

Uche Orji
Analyst, UBS Securities LLC
Q

Great. But one for Thomas; Thomas, first of all, real quick, how should we think about Q2 gross margins, given that the non-GAAP 46% you achieved in Q1, above what we were all expecting. What does that mean for Q2? And with all these new products you're ramping, should we expect that the trajectory should start to move higher from there? And related to that, also, I know you've made some positive comments about your traction in servers. Can you just update us where the market share situation is in servers [indiscernible] (26:04)? Because obviously that has implications for gross margin. Thank you.

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.
A

Yeah, let me start with the gross margin question first. So, without any doubt, we have made good progress on the yield side on 32-nanometer. We entered the quarter with a lot of momentum, and we saw some benefits in terms of product mix earlier than we expected. We expected some of those benefits in the second quarter, and that's allowed us to come, gross margin-wise, in the first quarter a little bit higher than expected.

So, moving into the second quarter, what are the headwinds and the tailwinds? We expect to continue to build on our yield improvement on 32-nanometer. We expect to build on the momentum we see on the product mix side. And we will see some headwinds from quite a significant number of 28-nanometer products that are going to start to ramp in the second quarter. So, if you put all the gives and takes together, we will see the benefits continue that we see in the first quarter, and we expect gross margin to be slightly up, flat to slightly up, in the second quarter.

Uche Orji
Analyst, UBS Securities LLC

Q

And servers, maybe Rory could take that; from the progress you've seen so far, you gained share in servers last quarter. The reviews we've read on your new Interlagos, they're very encouraging. But has that initial bump in market share continued? And if you have any sense as to where you think it will be exiting 2012 in terms of market share?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, Uche, server is obviously a key business for us, a business that we want to consistently build over the long term. We're in this space for the long haul. We're going to build this business over a quarter-by-quarter execution focus. We're working to build out our capabilities and our go-to-market, our support from the ecosystem, and the technology that we can bring to market. I think we've made some good initial progress here in terms of the momentum that we're creating in server, but this is a step-by-step and long-term set of initiatives. We have plenty of work to continue to do around execution and around server, and we're going to be intensely focused on that.

The key to winning in server is to create the solution that allows the customer to get a better experience in terms of price performance, performance per watt, floor space usage; and we really play very well in terms of virtualization, and I think this positions us well going forward. So, again, I think good initial progress, Uche. I think we'll continue to build on that. We clearly want to keep that momentum going and adding server share quarter in and quarter out. But this is a long-term strategy, one that we're in it for the long haul, and we're going to build on that strategy.

That's why we went after SeaMicro. And we believe, with SeaMicro, it positions us to capture that high-growth dense server play. Think about that fabric and what that's going to do in that server segment, where we're going to weave 16 and 32 servers in a fabric that creates a dense solution that dramatically lowers power consumption, floor space, all the components that matter to these big cloud server structures. We believe we've gained share, and we believe that with a continued focus, a continued build-out of our capability, this quarter, next quarter, and well into the future, we can continue to build out that model.

Uche Orji
Analyst, UBS Securities LLC

Q

Fantastic. Thank you very much.

Operator: Thank you, sir. Next questioner in queue is John Pitzer with Credit Suisse. Please go ahead. Your line is now open.

Patrick Walsh
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Hi. Yeah, this is Patrick Walsh calling in for John Pitzer. I just had a quick question on the inventories. There was kind of a pretty big uptick there, and I was wondering if you could kind of speak to just maybe give us some color as to what happened there.

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

Yeah, you heard Rory talk in his part about the product launches we expect. We have a complete top-to-bottom refresh of our APUs with Trinity and Brazos 2.0, and at the same time we are going to launch all the new graphic 28-nanometer mobile graphic products for the mobile segment. So, in preparation of the launches of all those products, we position product, we position inventory, and inventory build is based around the product launches for those products.

Patrick Walsh
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, great. And then I guess my follow-up question is on the OpEx line. You guys have been running a little bit below the $610 million trend that you guys laid out. Would you expect to stay below $610 million in the second half, or do you think you're going to make up, I guess, the $15 million to $20 million that you've done here in the first half?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

Yeah, so very good question. We said already at our Analyst Day that we expect the operating expenses to be somewhat back-end loaded, so we expect them to pick up in the second half. Has a lot to do with getting ready for significant amount of work and launches around 28-nanometer products; tape-outs around the launches, getting ready for 2013 is going to happen that year. So flat and flatter in the first half, first and second quarter, and you will see a pickup in the second half. But we still expect to stay, for the year, within the range that we gave.

Patrick Walsh
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Awesome. Great, thank you.

Operator: Thank you, sir. Our next questioner queue is Glen Yeung with Citigroup. Your line is open. Please go ahead.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Thank you. Thomas, you've printed now a quarter in Q1 where you had 46% gross margins. It sounds like you'll likely do the same for Q2. How should we think about, then, the full-year gross margin guidance of 44% to 48%? Do you now feel more confident in the upper half of that, or are there things in the back half of the year that we should think about that might hurt gross margin?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

A good question. So I think the trends that we see in Q2 will continue for the remainder of the year. We continue to expect to make progress on the yield front. We continue to expect to make progress on the product mix. And we will see in the second half, however, also some more headwinds with 28-nanometer products going in production at GLOBALFOUNDRIES. Those headwinds will impact the second half. Despite of that, I think we're on a good trajectory within the guidance that we gave at Analyst Day, 44% to 48%, and we expect to move to the high end of that range over the course of the year, as we said at the Analyst Day.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Okay, great. Thanks for that, Thomas. And my follow-up is thinking slightly longer-term about AMD and thinking about opportunities for processors outside of the PC environment. I know there's going to be some focus on things like tablets, so I'm actually interested in what the potential is that you see in the gaming market, not just for graphics, but also for compute devices.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

No, I think this, Glen, is a very interesting segment in terms of the embedded opportunity for us. This is an important business already for us, and I think there's continued opportunity as we introduce the next family of core solutions around Trinity and Brazos 2.0. We've seen a very strong interest in terms of the embedded market. We'll continue to build that out in 2013 as we introduce the next family of those sets of products, whether that's in thin client or around gaming or any of the verticals, there's a lot of interest in this capability of the APU, combining a compute complex with the graphics complex that allows the processing and the power of the solution to be brought to bear at a very attractive, valuable price performance scenario. So I think we're going to see some increased focus from us in terms of our embedded business and to really leverage the infrastructure and capability we've created.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Thanks, Rory.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, Glen.

Operator: Thank you, sir. Next questioner in queue is Stacy Rasgon with Sanford Bernstein. Your line is open. Your questions, please?

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, guys. Thanks for taking my questions. First, I'm curious to learn what you're seeing in terms of hard drives. Did you see any sort of impact at all in Q1 from any sort of impact from hard drive shortages? And is there any sort of lift tier Q2 guidance maybe from the end of potential hard drive destocking? And do you see maybe potential for recovery in hard drives as giving a boost to what might typically be considered seasonality to your CPU top line as you move through the rest of the year?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, thanks, Stacy, good question. From a hard file perspective, we've not – as we've talked about before, this is a very resilient supply chain in the PC industry. Having been in it for a long time, I've seen many parts situations come and go, and this is no different. Once we got past the January timeframe, the hard file situation has pretty much gotten past everybody in the industry. We saw no significant impact in terms of hard file to our business results in 1Q, and with the only issue being some residual higher pricing that's floating around in the market around files, I don't think there's a significant impact into 2Q and 3Q. I think this is fundamentally behind the industry and should be able to move forward.

In terms of it having impact and a lift going forward, I think we've already seen that strong capability in both February and March, where we've been able to really catch up on that business and position us to move forward from there.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. That's helpful. And if I can ask one follow-up, so you mentioned lower 45-nanometer desktop sales. I know two quarters ago, you had been impacted as you were moving that capacity over to 32, and then last quarter you were impacted because you had a process excursion, I would assume, as you were moving it back. Lower sales now, is this because there's still an issue with the process, or is this just more evidence of OEMs moving off of 45 and onto 32? And on that line, if you could give us some feeling for how much your 32-nanometer shipments actually increased quarter-over-quarter, that'd be really helpful.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, from a standpoint of desktop, there's no doubt those earlier issues kind of held that back. We are intensely focused on increasing our ability to deliver and really recapture that share in desktop. This is important for our business and important to go forward. I don't really see, from a desktop perspective, any significant issues. We've just got to deliver the 45 processor load and the 32. We've got to ramp that up as now supply positions are dramatically better. In terms of trade-off between 32 and 45, 45 still plays well in the market; 32 is beginning to ramp up now that you've gotten the supply situation behind us.

We are focused on this. You could talk to any of our business unit leaders; this is an item that we have to continue to focus on and make progress. I'm not seeing anything from an execution standpoint that should hold us back. We need to deliver on this capability and put us in a position to go forward.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. And so last quarter you said Llano was up like 80%. What were your 32-nanometer shipments up this quarter in that environment?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

We are not going to comment, but was up significantly. We're stopping giving concrete guidance here. I think it's important for you to understand that the progress is significant, and we are not any longer supply-limited on that note.

Stacy Aaron Rasgon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Got it. That's very helpful. Thank you, guys.

Operator: Thank you, sir. Next questioner in queue is JoAnne Feeney with Longbow Research. Your line is now open. Please go ahead.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Thanks and congrats on a nice quarter. But I have a question about how your customers are handling the transition from Llano to Trinity and Brazos – your original version to Brazos 2.0. Are you seeing any of them pause in their purchases, and are you instead sending perhaps some of those existing inventories out to emerging markets and channel customers rather than the OEMs? Can you give us a hint about that transition and if there's a lull in the second quarter here because of that?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Okay, no problem. Thanks, JoAnne, for the question. From a standpoint of emerging market, I do want to reference the emerging market. In the quarter, we've definitely seen continued microprocessor revenue growth, up about 21% year-over-year. And, clearly, the Brazos APU has done very well in emerging market, and Llano has followed that up. As we've begun to launch Trinity, there's been a real interest in Trinity. We've shipped Trinity. We're making all of the ramp figures that we've made commitments to our customer, and there's strong interest from both OEMs in terms of their – across all OEMs in that segment.

And then with Brazos 2.0, of course they're looking for the increased performance, the increased capability that we're introducing into that segment. They like that segment. Brazos has done well. Brazos 2.0, with that additional, has strong interest from the OEMs. So I'm not seeing that, JoAnne, in terms of any pause or concern. Right now, in the channel, we're focused on 45-nanometer product [ph] and Minus One (40:26). We're also focused on building up the Llano because 32 nanometer is now under control, and the execution and yields are performing very well out of GLOBALFOUNDRIES. And then what we've got to do is now launch this record number of designs with Trinity and the Brazos 2.0 in the quarter. OEM interest has never been stronger, and we look to continue to build on that.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

As a follow-up, there's been a lot of discussion about how perhaps these ultra-thin builds will wait towards later in the year when Windows 8 is available. Can you give us a hint as to the trajectory perhaps for the Trinity and Brazos ramp into your ultra-thin design win?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, we've already run a substantial number of design wins in that space, and as I continue to meet with OEM customers, our large global accounts, there's more and more continued interest around that. You're going to see that continue to go into the second half, and that's very important. As I mentioned earlier, JoAnne, I really think that the current ultra-thins that are being kind of grouped in this very high price band in a very crowded way is going to kind of cause a problem. If we think about it, and we go where we've gone and attacked with our customers is to say, let's go after mainstream. Let's bring this to everyone. People are going to want this solution at a great price, and we think we can fly right under that pricing umbrella and really attack it with this Trinity launch with some high-volume runners.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

So then it sounds like you think that the price advantage on the AMD APUs is bigger than the implicit price advantage being doled out by Intel through these marketing dollars supporting the Ultrabook launch. Is that a fair way to think about this?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From my perspective, because of the way we're constructing the solutions with these large global accounts, and the way we're using this superior APU kind of architecture that gives an outstanding experience, we can hit that ultra-thin form factor, and then total bill of material puts us in a very interesting price point that allows us to get into that upper mainstream segment. I think that opens it up for some really interesting discussions on what's the better play here.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay. Thank you very much.

Operator: Thank you, ma'am. Next questioner in queue is Chris Caso with Susquehanna. Please go ahead. Your line is open.

Chris Caso
Analyst, Susquehanna Financial Group LLP

Q

Hi. Thank you. I'm just wondering if you could address, going back to some of the hard drive issues that the industry has faced over the last quarter or so. With your guidance in the second quarter, is that anticipation that there's some degree of channel restocking that goes on, or are you anticipating that basically what you're shipping out is in line with customer demand for the quarter?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, as I mentioned earlier, I really believe that the hard file situation, based on the resiliency of this PC ecosystem supply chain, always works itself out, and we saw this really come fundamentally under control in early February. Any residuals in terms of demand issues from fourth quarter, which were relatively small, kind of moved past that. And we've seen that momentum continue through February and March. Again, there are some residual pricing issues around hard files because they haven't come all the way back down. That always takes a little longer to happen. But I don't see any reason that, based on our expectation and guidance for second quarter, there's not anything significantly unusual driven by hard files at all.

Chris Caso
Analyst, Susquehanna Financial Group LLP

Q

Okay. And I guess as a follow-up, as you look into the second half of the year, your competitor is sort of pointing to a better than seasonal second half, and a lot of that's driven by the Windows 8 launch and some of the product cycles that happen there. Would you guys endorse that view? What do you guys think with regard to the second half, understanding that it's a bit away now?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, clearly, based on when you look at the information from the big players – IDC, the Gartners, et cetera, Mercury, across the board – there's a general feel that 2012 is going to be better than 2011, and we agree with that.

We believe that there's single-digit performance across the year. We think that it's going to build on itself quarter on quarter, but it's going to be nothing like a hockey stick or anything like that. It's going to be consistent improvement quarter after quarter, and what we want to do is to capture our unfair share of that growth moving forward.

Chris Caso
Analyst, Susquehanna Financial Group LLP

Q

Okay, great. Thank you.

Operator: Thank you, sir. Next questioner in queue is Mark Lipacis with Jefferies. Your line is now open. Please go ahead.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc.

Q

Thanks for taking my questions. First one, on the APUs increased as a percentage of the client products. I guess I would have expected the ASPs to also increase, so I was hoping you could provide some color on that one.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, remember, what we're doing is we're bringing that APU solution into those key price bands where we play strongly, entry and mainstream. And we've driven a nearly 30% year-over-year mobile processor unit shipment increase. I think that's pretty exciting, with virtually, basically almost 100% of the first quarter mobile shipments now being APUs. We're targeting those price bands, and we put those APUs right in those segments that allows us to create that great experience for the customer. That combined power of the GPU graphics complex with the CPU complex on one SoC allows us to create the experience that's tailored to the movement around the cloud and how application and data are going to move information to these clients. That experience is unique. And by creating a great value proposition, that's how I think we're seeing this 30% year-over-year – basically 30% year-over-year mobile processor shipment increase.

I think what we're doing here is positioning right into those price bands to continue this momentum. And now as we launch the next-generation, top-to-bottom refreshing this APU with Brazos 2.0 and Trinity, and the amount of design wins that we've created, step by step we continue to build on this momentum in the mobile space and bringing APU across the board.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc.

Q

Fair enough. And then as you launch Trinity, it sounds like you're going to be reaching a little bit higher even into the performance area, so is it fair to assume that there's going to be an upward bias on the ASPs as you ramp Trinity?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

From a standpoint, there's no doubt that Trinity improves just about every key aspect of the previous generation of APUs, and it is a very exciting product. We did some pre-launch work with a number of analysts and press in a controlled environment. They were excited to see this product. And we're excited about this product. I think we're situated very well with our performance per watt, which is basically double the last family. And I think we can cover a wider swath in terms of that entry and mainstream portfolio between Brazos 2.0 and the Trinity family.

But I believe that we should be looking to increase it, but it's not going to be in any gigantic number. We want to continue the momentum, continue to build on this, and continue to build on this quarter after quarter, through clean execution. Meeting our commitments to our global accounts and our partners; that's job one.

Mark J. Lipacis
Analyst, Jefferies & Co., Inc.

Q

Thank you.

Operator: Thank you, sir. Next questioner in queue is Cody Acree with Williams Financial. Your line is open.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

Thanks, and congrats on the quarter. As we look at the Windows 8 launch and you look at ARM competitors coming in, look at Brazos 2.0 performance per watt, do think that your roadmap for Brazos matches what maybe your competitor is doing with Atom, and what you're seeing with ARM is getting down to that lower power envelope?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yes, it's interesting. I think Win 8 is going to be more of an x86 event, in my opinion, having come from the OEM side of the business. I think it's an important event. I think it'll generate interest. It'll create demand. There's no doubt, forward and backward compatibility will be very important. And I think, over time, lower power in the client space will be important. What we've done with Brazos has demonstrated, what, over 30 million units shipped in that within the first year ear. Brazos 2.0 builds on that. And then next year, as you've seen in our roadmap work at Analysts Day, the next generation of that family even takes it further.

And I think what we believe is there's the opportunity for us to continue to win in that space with a great price performance, a great performance per watt, forward and backward compatibility, in a segment that's very attractive.

For the other players that are now entering it, it's going to take a bit of time to build out that ecosystem. They've got to make sure that they've got enough performance to do the things that have to be done on that device. Remember, there were some other solutions that were introduced in the past that had difficulty as they moved into the segment because maybe they were slightly underpowered. We believe that we can reach the price point, the performance point, and the power per watt that we need to do to win in this segment. And of course we'll continue work on our ambidextrous agile architecture that'll give us a lot of flexibility, both in the server and client space, moving forward.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

Well, Rory, I guess that brings up the question, then, as you get the ecosystem up in the competitors and the ARM-based systems, maybe longer-term, I guess, is the question I get most often from investors is that after Windows 8's a bit more mature and that ecosystem is more mature, what's to keep AMD from being marginalized as an alternative to Intel?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think you're almost looking at it the wrong way. I think that this is part of the inflection point that we talk about. Think about what that kind of convergence, right, and the cloud, those two C's are really going to do in terms of this processor and compute environment. This, where we play strongly, entry and mainstream, is going to be the dominant segment. And as you see us continue to drive low-power into every one of our offerings and the capability with an ambidextrous architecture that reduces our time to market, gives us higher quality, allows us to do it with more efficiency, and gives us flexibility across architectures with more consistent use of IP, I think that AMD is uniquely positioned to capture this.

It isn't about following anybody, and it isn't about being an alternative. That's not what it's about. It's about seeing where the market is going, and this market is beginning to change. And I think AMD, with the technology, the architecture, the kind of skills that we have in the company, we play our cards right, this change in terms of this inflection point introduces an opportunity for us.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

That's great. Thank you very much.

Operator: Thank you, sir. Next questioner in queue is David Wong with Wells Fargo. Your line is open. Please go ahead.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Thank you very much. To begin with, sequential growth, 3% sequential growth that you're guiding for June, is this organic growth, or is there a significant contribution from SeaMicro?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

Yeah, very good question. That is very much organic growth. We said that while we see for a startup some substantial revenue this year, in terms of the overall aggregated amounts and revenue we look at, it's very small. So next quarter, it's very much driven by AMD core organic growth.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Okay -

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.

A

To put this in perspective, over the last seven years, our seasonality in the second quarter was about minus 4%.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Yes, great. And within this, do you expect server revenues will be up sequentially in the June quarter?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.
A

We fully expect to continue to build on the momentum we have seen on the server side in terms of unit growth, yes.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

And the $605 million operating expense guidance for the June quarter, is this a GAAP number that includes amortization and other charges associated with SeaMicro?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.
A

So what we have seen in Q1 was, I think, a one-time effect. We will have no spillover in terms of one-time effects; in a bigger scale, maybe $3 million or $4 million, but they're already contemplated in that number.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Right. And when you said earlier, 28-nanometer products going into production at GLOBALFOUNDRIES in the second half here, that was one of your takes on the gross margin. These are GPU products, are they, or do you have any microprocessor or APU products in that mix?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.
A

They are APU products.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

They're APU products, so 28 – so you will be actually – you expect to be selling 28-nanometer APUs in the second half that are made at GLOBALFOUNDRIES?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Oh, no, no. [indiscernible] (54:45)

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.
A

From a volume perspective, very little volume, but we start the manufacturing ramp in the second half so we can get ready for the launches in 2013.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Okay. My final question, are you able to supply all the demand you're currently seeing for 28-nanometer GPU products?

Thomas J. Seifert
Senior Vice President and Chief Financial Officer, Advanced Micro Devices, Inc.
A

I think we addressed that in one of the earlier questions. We were able to meet customer demand in the first quarter. The products are good. The demand is strong. We would like to see more access to upside volume, but we have met pretty much all demand in the first quarter.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Right, thanks.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, David. Hey, Huey, before you go to the next question, I do want to make a comment. I apologize for anyone on the phone. I do refer to HDDs, the hard disk drives, as hard files. That's based on my IBM legacy from being in the IT environment. So if I confused anyone, when I talk about hard files, I'm talking about HDDs, so apologize for that.

Operator: Thank you, sir. Our next questioner in queue is Hans Mosesmann with Raymond James. Your line is open please. Please go ahead.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Thanks. Most of my questions have been answered, but just a clarification, if you talked about this. Do you expect both graphics and computing to be up in 2Q?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Graphics, what we've seen is a very interesting continued progress around the graphics portfolio. We began the year the way we began 2011, with the fastest GPU card on the planet, and we believe that with the work that we're doing now here with 28-nanometer products across the entire discrete graphics portfolio, we're very well-positioned. Now we're going to introduce the discrete graphics around 28-nanometer into the notebook space. There is always going to be some slight pressure down as that market continues to move toward APUs, but I believe, with the portfolio and product set and the introductions that we'll continue to do through the year, that we're positioned to continue to move forward.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Okay, so will that grow in Q2?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, I don't really get into that specifics. It's really part of the overall 3%, plus or minus 3%.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Very well. Thanks again.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, no problem. Thank you.

Ruth Cotter
Vice President, Investor Relations, Advanced Micro Devices, Inc.

A

Operator, we'd like to take two more questions from the audience, please.

Operator: Understood, ma'am. Next questioner in queue is Patrick Wang with Evercore Partners. Your line is open. Please go ahead.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Great. Thanks so much, and congrats on the great quarter. First question is it looks like you're really focused on growing your core businesses. For instance, you're seeing growth in server, but ASPs is declining despite a greater mix of Bulldozers. So I was hoping you could talk about your assumptions behind pricing trends over the course of this year, particularly as Bulldozer ramps and you get more Trinity and the Brazos 2.0.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, from a standpoint of server, it's about rebuilding our capabilities and our relationships, of course, across the portfolio. Over the past several years, we saw our share position decline consistently in the server segment. What we've done is we've got a renewed focus and a commitment to a long-term strategy to build a set of server offerings. With the SeaMicro acquisition, it positions us in the fastest-growing segment of the server market. With Bulldozer, we've begun to build out our capability in terms of our go-to-market, our ecosystem relationship. And you're going to see us focus very, very well in terms of execution on server. Because server's different than consumer products; you've got to deliver high quality, you've got deliver on time, on schedule. That's what CIOs count on and they believe on.

We made good momentum the first three quarters, but that's just the beginning of the journey that we're on. This is a long-term game plan, and we're going to use this server experience here, and with the introduction of our next generations around Abu Dhabi and the future roadmap items, you're going to see us continue to move down that path, but again, long-term strategy.

In terms of ASPs, this space is, again, there's always about the mix that you have and the certain deals that you want to win. We want to continue that momentum and to continue to build on that server space to create the base for future growth as we move both in the traditional server space and into the dense space.

In terms of the APUs, we talked about it earlier. We're in the key price bands. We play very well in those price bands. We believe, with Brazos 2.0 and Trinity and with the design and interest around those two products, we're well-positioned to continue the momentum that were created. Up 30% year-over-year in mobile processor unit shipments, or just about; 100% are now APUs; we believe that we can continue to capture parts of this growing market moving forward that positions us well in that segment.

And then, again, the last piece I'll answer, Patrick, is around the ultra-thin. I think the ultra-thins is a very interesting space for us and something we really need to watch. Ultra-thins are for everyone, and ultra-thins and thin and light are going to be a core product across the industry. This is nothing new. Thin and light's been going on for the past 15 years. We're taking it to the next level, and we're going to bring it to everyone.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Okay. No, that's helpful. So when I sit here and listen to what you're saying, it almost seems like ASP drift to the upside is almost less important because you're really targeting the more mainstream segments that may just require lower ASPs. Is that a right way to think about it?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Well, you always want to have a balanced perspective, right? This isn't a full-out attack, where it's all about just share. We're in a balanced perspective. Thomas and the financial team have constructed a strategy that allows us to expand earnings and allows us to position future growth. We want a balanced approach. We want to make that we're gaining and competing well in terms of volume and share, particularly in emerging markets, particularly in the key segments and price bands where we know the future global and the inflection point will be, and we want to continue to build on that. That's how you want to do it.

And at the same time, you want to make sure that the margin is there so that you can continue to drive the cash generation and the ability to invest in future opportunities to go forward. This is not a one-trick pony. We want to build this on a consistent, sustainable model, quarter in and quarter out, year after year. That's what we want to be recognized as an execution engine that delivers on its strategy and its commitments to its customers, shareholders, and partners.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

Got it. Okay. And then just lots of low-hanging fruit in server; can you give us an idea of when you think you'll be double-digit market share growth once again – market shares?

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, of course I'd like to do it as soon as possible. That would always be good. But this is a long-term strategy. We made some initial momentum. We're going to continue to build on that. But, no, we're in this long-term. We went after SeaMicro. We're building the traditional server space. You're going to see us continue to work in terms of ambidextrous capability. You're going to see us continue to work in terms of building out that roadmap. This is just the beginning of a long journey, and a journey that we believe that we're making good initial progress, but again, it's over a period of time that that consistent execution will pay dividends, or pay results.

Patrick Wang
Analyst, Evercore Partners (Securities)
Q

All right, thanks so much, Rory, and long live the hard file.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah. Yeah, spent too much time in IBM talking about hard files. Sorry about that, everyone. Last question?

Operator: Yes, sir, we do have time for one final question. Our final question comes from Kevin Cassidy with Stifel Nicolaus. Please go ahead. Your line is now open.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hello. This is Dean Grumlose calling in for Kevin. Thank you very much for taking my question. I was wondering if you could provide, Rory, some comments on what you're seeing in the strength of various geographies at this time and the rate of recovery, and also how this may line up with where you think your best opportunities may be geographically.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, there's no doubt, as this inflection point continues to accelerate – and it will over the next three to five years – that emerging markets are going to be key. Consumerization is going to continue to drive a different mindset around the commercial segments, around the client. You're going to see the next billion or 2 billion customers in the PC segment around these converged devices come from those emerging markets. You're going to see us continue to focus on it. We've talked about it in many of our strategy sessions around low power and continuing to drive down with ambidextrous capability, and to attack and to win in the emerging market.

We saw 21% year-over-year microprocessor revenue growth in the emerging market. That's a good start. But we have to continue to build on that. If you look at the other regions, Europe is obviously a difficult environment in terms of its macroeconomic trend, something that we're watching very closely. I think we're performing reasonably well in that environment, but until some of the sovereign debt issues get solved, I think that's going to be a wild card in terms of its velocity and its business expansion. I think North America has performed pretty well over the past several quarters, and all of the data that I read from external sources point to a reasonable, consistent GDP growth that should be good for our performance in those mature segments, like North America. But, again, it's about the emerging markets and winning in that over time.

Dean Grumlose
Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's very helpful. Thank you very much.

Operator: Thank you, sir. And at this time, that does conclude our question-and-answer period. I'd like to turn the call back over to management for any closing remarks.

Rory Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Huey, and thank you, everyone, for your time on the call today. We delivered solid results in the quarter, largely due to improved execution and a richer product mix. We expect to build on this financial and operational momentum, making consistent improvements quarter in and quarter out. We remain focused on creating innovative solutions our customers need to win, while building a company around a strategy that produces strong cash flow and earnings growth. Thank you again for taking the time to join us on the call today.

Operator: Thank you, sir. Again, ladies and gentlemen, this does conclude today's program. Thank you for your participation, and have a wonderful day. Attendees, you may log off at this time.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2012 Earnings Call for 19-April-2012 5:00 PM ET

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2012 Earnings Call for 19-April-2012 5:00 PM ET.

Press Release URL: http://phx.corporate-ir.net/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1685255&highlight=
Live WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-eventDetails&EventId=4723953
Replay WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-eventDetails&EventId=4723953

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Advanced Micro Devices, Inc. *(AMD)*

Q4 2011 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, my name is Huey and I'll be your conference operator for today. At this time, I'd like to welcome everyone to AMD's Fourth Quarter 2011 Earnings Conference Call. All lines have been placed on listen-only mode at this time. After the speakers' remarks, you'll be invited to participate in the question and answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you and welcome to AMD's fourth quarter and year end earnings conference call. By now you should have had the opportunity to review a copy of our earnings release and the CFO commentary. If you've not reviewed those documents, they can be found on AMD's website at quarterlyearnings.AMD.com. Participants on today's conference call are Rory Read, our President and Chief Executive Officer; Thomas Seifert, our Senior Vice President and Chief Financial Officer; and Mark Papermaster, our Senior Vice President and Chief Technology Officer.

This is a live call and will be replayed via webcast on AMD.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1563304. The telephone replay will be available for the next 10 days starting later this evening.

I'd like to highlight a few dates for you. AMD's Financial Analyst Day will be held on February 2; Thomas Seifert will attend the Oppenheimer Semiconductor Summit on the 23rd of February in Vail, Colorado; and our first quarter quiet time will begin at the close of business on Friday, March 16 and will be followed by the announcement of our fourth quarter earnings, expected to be Thursday, April 19.

AMD's ownership of GLOBALFOUNDRIES on a fully diluted basis decreased to approximately 8.8% as of the conclusion of the fourth quarter. Reconciliation for all non-GAAP financial measures discussed today is included in the financial tables that accompany our earnings release available in the Investor Relations section of AMD.com.

Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions and expectations; speak only as of the current date; and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. We encourage you to review our filings with the SEC, where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in AMD's quarterly report on Form 10-Q for the quarter ended October 1, 2011.

Now with that, I'd like to hand the call over to Rory. Rory?

Rory P. Read

President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth. 2011 was an important year of change for AMD. We took steps to optimize our business for today and position the company to seize the opportunities for tomorrow. We made good progress but no question, we have more work to do.

First, we demonstrated that our innovation engine remains strong. The tremendous success of our low power Brazos platform drove a 25% increase in mobile processor shipments and significant notebook share gains for the year. Brazos is in fact the most successful platform in our AMD history. In Graphics, we exited the year the same we way entered it, with the world's fastest graphics chip. Our GPU IP provides us with superior video, multimedia and graphics capabilities that form the core of our competitive advantage. And our server business has regained momentum as adoption of the new Bulldozer-based CPUs continue to accelerate. As a result, we believe we gained overall microprocessor unit share for the year, and we are positioned well for growth as we continue to strengthen our differentiated product offerings.

Second, we continued to optimize our financial model, consistently delivering operating income, and creating the foundation for sustained success. 2011 revenue was $6.57 billion, flat from 2010. And non-GAAP net income improved to $374 million dollars or $0.50 per share. Additionally, we significantly improved free cash flow as well, helping to strengthen our balance sheet.

Third, we took important steps to get fit to fight, and write the next chapter for the AMD history, a chapter their will be built on our rich heritage of innovation and improved execution. We've strengthened our leadership team. The addition of industry veterans such as Mark Papermaster, Rajan Naik and Lisa Su will help ensure sustainable, dependable execution becomes the hallmark of the new AMD. We implemented a restructuring plan and operational improvements in the fourth quarter. These actions will allow us to fund strategic initiatives designed to accelerate our growth by refining our focus on staking leadership positions in low power, emerging market, and the cloud.

2011 progress was tempered by execution challenges that impacted our supply. We took several steps during the course of the year to better manage our foundry partnerships. Over the last two quarters, 32-nanometer yield and performance have steadily improved at GLOBALFOUNDRIES. As a result of the focus on improved execution, 32-nanometer unit shipments increased by more than 80% from third quarter to fourth quarter, and now represents a full third of our overall processor mix.

Now looking more closely at the fourth quarter, revenue was $1.69 billion, flat sequentially and up 2% from a year ago. Record APU shipment and increased demand for our server chips resulted in strong financial performance in what turned out to be an unusually weak quarter for the overall industry. Revenue was impacted by lower than expected GPU demand and a one-time issue that limited supply of the 45-nanometer desktop processors. Working closely with our strategic foundry partner, we believe the 45-nanometer issues have been corrected, and we will see supply rebound in the first quarter.

Despite these challenges, we continued to improve our ability to meet our customer commitments. We also successfully transitioned the company to a lower cost operating model while driving continued adoption of the latest innovative products. As a result, our non-GAAP net income improved to $138 million or $0.19 a share for the fourth quarter.

Now let's take a look at our client business. Our strategy to deliver the best experiences possible at mainstream price points continues to pay off, resulting in record APU unit shipments for the quarter. AMD APUs were in five of the top six best selling systems in North America retail in the fourth quarter, including two of the most popular systems. AMD dominated the busiest shopping week of the year, powering more than 70% of PCs sold in the retail segment on Black Friday.

We saw similar success in high growth markets. For example in China, we posted our third straight quarter of significant retail notebook share gain, and customer adoption of our APUs continues to increase. Design wins for our next generation APU platforms are tracking ahead of the record number of design wins we secured in 2011. We are seeing particularly strong customer interest in our expanded low power APUs for 2012.

The low power versions of our next generation Trinity APU delivers mainstream performance while using half the power of a traditional notebook processor. This processor fits into an ultra thin notebook design, as thin as 17 millimeters, providing industry leading visual performance and battery life at very attractive price points. Trinity remains on track to launch for mid year.

Now looking at our server business, we had our second consecutive quarter of double-digit growth, largely due to the ramp of our new Opteron 6200 and 4200 processors. These new Bulldozer-based processors accounted for more than one-third of our total server unit shipments in the quarter. Continued adoption in the high performance computing market was bolstered by the introduction of several HP and Dell servers powered by the Opteron 6200 processor. HP introduced five new ProLiant servers, including the world's and industry's fastest dual-socket database server ever produced. Dell also introduced four new PowerEdge systems, including the world's most efficient blade server. We believe we gained server share in the quarter, and demand for the 6200 series remains strong.

Now looking at Graphics, despite strong game console licensing revenue, lower demand for discrete notebook graphic chips, and a seasonally weak desktop Add-in Board market for the quarter, resulted in an overall revenue decline in our fourth quarter. We introduced the first member of our next generation AMD Radeon HD 7000 series graphics family at the end of the quarter. The Radeon HD 7970 launched to universal industry acclaim as the fastest GPU on the planet. We completely rearchitected this graphics engine in the 7970, improving performance per square millimeter by over 150%.

So in summary, our APU momentum continues to accelerate; our server business continues to strengthen, posting two straight quarters of double-digit growth; we continue to offer the fastest graphics technology on the planet; and we are seeing consistent improvement in 32-nanometer yields and execution performance. In the near term, continuing to improve our execution will provide the greatest opportunity to increase value. This will in turn accelerate our growth and ensure we are on the right position to embrace the changes sweeping the industry around consumerization, the cloud, and convergence. I believe AMD is uniquely positioned to take advantage of these key business trends.

AMD begins 2012 with a clear path forward. We know where our opportunities lie, and what we need to do to seize them. Every AMDer is focused on building an AMD that will deliver on its commitment with innovative products that anticipate the needs of our customers and the fast changing market. I look forward to providing more details of our strategy at our Analyst Day next week.

With that, I'll turn it over to Thomas who will cover the financials for 2011 and the fourth quarter.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

Thank you, Rory. 2011 was a year of solid financial execution, combined with significant operational and strategic actions designed to position AMD for success on the target markets. We executed well to our 2011 financial model, while strengthening our balance sheet. We implemented efficiencies across the company's operations and reduced our head count in the fourth quarter, which we expect will result in savings of over $200 million in operating expenses, most of which the company expects to reinvest. This reinvestment will fund initiatives designed to accelerate AMD's strategies for low power, emerging markets, and the cloud.

2011 highlights include a strengthened balance sheet with debt reduced $2 billion, down by 200 million in principal values from a year ago; achievement of the following 2011 financial goals: gross margin of 45%, positive non-GAAP operating income, and improved non-GAAP adjusted free cash flow to $528 million as compared to $355 million in 2010. In addition, AMD achieved several notable accomplishments. We shipped more than 30 million APUs to date, and more than 100 million DirectX 11 graphic cores. We achieved several records: an all-time record for client microprocessor annual revenue, and mobile microprocessor annual revenue, and all-time records for mobile GPU annual revenue and professional graphics annual revenue.

Let's turn to the fourth quarter results. Revenue was $1.69 billion in the fourth quarter, flat sequentially as revenue growth in the Computing Solutions segment of 2% was offset by a 5% revenue decline in the Graphics segment. Gross margin was 46%, up one percentage point quarter-over-quarter, primarily due to seasonal increase in game console revenue and improved GPU product mix.

Operating expenses were $601 million, less than guided primarily due to higher than expected operational savings associated with the restructuring plan announced on November 3 of last year. We saw an immediate benefit from these actions, reducing cost by $14 million and improving earnings per share by $0.02 in the quarter. R&D was $358 million, 21% of net revenue, and SG&A was $243 million, 14% of net revenue.

Non-GAAP net income was $138 million, and non-GAAP operating income was $172 million. Interest expense increased by $1 million compared to the prior quarter, and non-GAAP EPS was $0.02, calculated using 740 million fully diluted shares. Adjusted EBITDA was $260 million, up $21 million from the prior quarter due to higher non-GAAP operating income, driven by improved gross margin and lower operating expenses.

Now switching to the business segments, Computing Solutions segment revenue was $1.3 billion, up 2% sequentially, driven by double-digit growth in server and chipset revenue. Server revenue experienced growth for the second quarter in a row, driven by sequential increase in unit shipments, primarily due to the ramp of the Opteron 6200 series, which now account for more than one-third of AMD server processor shipments and revenue.

We achieved record quarter client revenue driven by an increase in supply of Llano APUs, and in Q4 of 2011, APUs accounted for nearly 100% of mobile microprocessors shipped and more than 60% of the total client microprocessors shipped. Microprocessor ASP increased sequentially due to an increase in mobile microprocessor ASP and an increase in server units shipped. Computing Solutions operating income was $165 million, up $16 million from the previous quarter, primarily due to lower operating expenses and an increase in server units shipped.

Graphics segment revenue was $382 million, down 5% compared to the prior quarter, mainly due to a decline in mobile GPU unit shipment, partially offset by a seasonal increase in game console revenue. Mobile and desktop GPU revenues declined due to seasonality, and GPU ASP increased due to product mix. Graphics segment operating income was $27 million, up $15 million from the prior quarter, primarily due to higher game console revenue and higher GPU ASP.

Now let's turn to the balance sheet. Our cash, cash equivalents and marketable securities balance, including long-term, at the end of the quarter was $1.9 billion, up $57 million compared to the end of the third quarter of 2011. Accounts receivable at the end of the quarter was $919 million, up $11 million compared to the end of the third quarter of 2011. Inventory was $476 million exiting the quarter, down $64 million from the prior quarter due to a decline in GPU inventory, driven by a transition to the newly launched 28-nanometer product late in the quarter.

Debt at the end of the quarter was $2 billion. In the fourth quarter we repurchased $50 million principal value of our 6% notes, bringing the annual total repurchase to $200 million. Non-GAAP free cash flow was $100 million.

Now turning to the outlook, AMD expects revenue to decrease 8% plus/minus 3% sequentially for the first quarter of 2012. Operating expenses are expected to be approximately $590 million, and gross margin is expected to be approximately 45% as we approach concluding our negotiations with GLOBALFOUNDRIES on a wafer supply agreement.

Our continued focus on financial performance and operational efficiency has paved the way to position AMD as a strong competitor in the computing space. We are excited about our achievements to date as well as our capabilities and our roadmaps, and we look forward to sharing our exciting plans with you at our Financial Analyst Day on February 2 at our Sunnyvale headquarter.

With that, I'll turn it back to Ruth.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Thomas, and, Huey, we'd now be open to you polling the audience please for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, ma'am. [Operator Instructions] Our first questioner in queue is John Pitzer with Credit Suisse. Your line is open. Please go ahead.

John W. Pitzer
Analyst, Credit Suisse (United States)

Q

Yeah, guys, congratulations on the good results. I'm just kind of curious, Rory and Tom, when you look at the guidance you're giving for the first quarter, can you help us put that into context? Is there an assumption that the hard disk drive issue in Thailand is negatively impacting Q1 and that's reflected? Are there further share gains? And I'd be curious on the positive trend in servers, whether or not you'll make it three for three as far as sequential growth? Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Hey, thanks, John. There's no doubt that the customer acceptance of our APU architecture is quite strong. We've now shipped over 30 million of these APUs to date, and we're seeing a strong uptake in terms of that architecture and what it means to the customer. They're looking for a better experience. And I think that's a key reason why we've seen the momentum in our business and the ability to deliver on that.

You know, our focus on execution around the APUs and around Llano is definitely paying off. And I think as we move forward, we should be able to continue to build on that momentum. Now at the end of 4Q, we did see a little bit of pressure in terms of hard disk, but we actually saw it in the area of the graphics chips. This we think is going to be reflected in a very resilient PC supply chain that we think will recover relatively quickly.

Our focus is to continue to focus on the right architectures, the right solutions that make a difference for those customers. We've seen the ability to meet those by improving our execution. I think that's got to remain our number one focus. And while we saw a little bit of chop there in terms of hard disk impacting the graphics, I think we'll see a little bit more here in the beginning of 1Q, but I think this market should continue to recover.

As it relates to server, that's two quarters in a row. We're starting to see a steady improvement in this business and we want to build on that. I think the acceptance of the Opteron 6200 with the new launches around our key partners like HP and Dell are paying dividends, and you're seeing that momentum translate into higher growth, two quarters in a row. We're going to work hard to make it three, and we're going to continue to work on delivering the kind of solution that makes a difference to the customer. Thomas, do you want to add anything?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

No, I think that's a fair balance. The product momentum we have seen, we expect to continue as Rory explained. And we will see some headwind out of the shortages in certain segments and channels. Overall it will lead to pretty much a seasonal expectation for us for the first quarter.

John W. Pitzer
Analyst, Credit Suisse (United States)

Q

Great. Guys, as a quick follow-up, Thomas, just relative to the gross margin guidance, you kind of referenced the ongoing negotiations with GLOBALFOUNDRIES. Is that influencing the gross margin coming down a bit, or is that mainly just the revenue and mix? And then I guess how do those negotiations impact kind of your longer-term view on the gross margin model? Thank you.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, a very good question. So first of all, let me help you build a bridge. We see some tailwind and headwinds in there. Let me start there in the first quarter, just because of product mix and revenue being seasonally down. You know that in the fourth quarter, our game console licensing revenue helped us to exceed expectations, so we'll see some headwinds from product mix in the first quarter. And we see some tailwinds because of improving yields on the 32-nanometer side. We think if you take the gives and takes, we're going to come out at 45% pretty much.

The negotiations with GLOBALFOUNDRIES are making very good progress, we're very pleased with the results we have been achieving, and we think we approach the conclusion of those negotiations. And of course the guidance we provided today for the current quarter also reflects or is an assessment of where we are in the – with the negotiation.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, and I'd add, John, that I feel particularly positive about those negotiations going in the right direction. I think the partnership that we're trying to build first around focusing around execution, we've been maniacally focused with our partners at GF, IBM, PDF and AMD all working together to address the execution challenges we had in third quarter, and we've seen progress. As we've moved forward off of those successes and that partnership, I think the negotiations have moved forward well.

And we're trying to work to put in place the kind of agreement that would allow us to have a strong base for the next two years, to be able to deliver on our expectations, and to move forward with a successful model that allows us to meet those customer demands and deliver on our financial commitments. So we're making very good progress there, John.

John W. Pitzer
Analyst, Credit Suisse (United States)

Q

Thanks, guys.

Operator: Thank you, sir. Our next questioner in queue is Glen Yeung with Citi. Your line is open. Your question, please?

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Thank you very much. Can you say whether or not your 32-nanometer yields are sufficiently good whereby you're now actually meeting the demand you have for that product? Or are you still a little bit short relative to demand?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

No, so, Glen, that's a very good question and focus. We've been intensely focused on addressing this execution challenge, and there's no doubt that this kind of focus is producing benefit. Week in and week out, we've seen steady improvement from where we started the quarter and where we ended 3Q. We've actually increased our Llano 32-nanometer product deliveries by 80% from the third quarter, and now Llano makes up almost 60% of the mobile microprocessing revenue. I think this is a good step in the right direction. This gives us the momentum, and we were able to deliver in a more effective way on the customer demands.

Is there a strong interest in the product? Absolutely. Do we need to continue to build on the execution progress that we've made? For sure. We're not out of the woods yet, but we're making steady progress. And with that, we've been delivering each and every week better and better and better. That 80% improvement quarter-to-quarter suggests a nice mix in terms of 32-nanometer, and positions us again for 1Q. You're going to see us keep that focus, and it's our commitment to continue to improve that to deliver on every customer commitment. Because building on that customer commitment, delivering on them, is the bedrock of developing long-term customer trust, which will fuel future growth. Thanks, Glen.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Thanks. Maybe as a follow-up, just again on the server side, Intel is about to ramp up the Romley platform for them. Do you think in the face of that, you can continue to grow the server business, or do you think we might see a temporary pause just as – again, as that new product from Intel ramps? Or is there something specific about the nature of where you're gaining on server that you think you can continue to move forward with that?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, Glen, we've built on two steady – two consistent quarters of improving growth. I think that shows the beginnings of a strong foundation. We've got to continue to build on that. And with the launches of the HP products, the Dell products, HP has now launched the world's fastest dual-socket database server, and Dell achieved the world record for power efficiency in the blade server space. Those are good data points that say there's the interest and the desire. And when I look at – on a weekly basis and I look at the pipeline of customer interest and demand, we're building on that week in and week out.

Of course with our relatively modest share position, our objective is to continue to build on this turnaround. We're just at the very beginning of this, and this is a long-term focus for us to build on quarter in and quarter out. Sure, there'll be new products introduced across the year and into next year, and we'll do the same. But it's about building those relationships with the enterprise customers, understanding their needs, making sure that we're delivering those products consistently with the execution. It's our focus to continue to build on that and move forward with these first two quarters of expanding growth. Thanks, Glen.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Great, thank you.

Operator: Thank you, sir. Our next questioner in queue is Vivek Arya with Bank of America. Your line is open. Your question, please?

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question, Rory and Thomas. I think you mentioned 32-nanometer yield improvement at GLOBALFOUNDRIES, but you took a substantial $200 million plus impairment charge in Q4. Can you help us understand why? And more importantly, how do you see the mix of CPU at GLOBALFOUNDRIES versus TSMC in the future and what would be the cost implications?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yes, I'll take the valuation question first. As you know, we began to account for our investment in GLOBALFOUNDRIES under the method of – cost method of accounting last – first quarter last year. And at that time, the investment was determined to have a value of around $460 million. We as a company review our investment for impairment indicators regularly.

At the end of last quarter, we did this with GLOBALFOUNDRIES and based on certain indicators, their future growth outlook, they have changed the timeline on the new fab in Abu Dhabi. Their business times have changed and we reevaluated our investment in the company. It has decreased now down to $277 million, and we impaired for that very reason the investment we have. So that is not so much a statement about 32-nanometer yields at this point in time, but about the bigger picture and long-term growth outlook of GLOBALFOUNDRIES, and how they have adjusted their plan.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right, and GLOBALFOUNDRIES versus TSMC?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We're going to continue to build on the strong relationships that we've been developing with GLOBALFOUNDRIES as we move forward. You're going see us continue to expand on the execution focus that we have and continue to build on the expansions in terms of the process node technology. What we're really focused on is making sure we have the execution capability and to be able to deliver that consistently. Those foundry choices are all consistent with the financial objectives that we've created and the modeling that Thomas shared earlier.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right, and one quick follow-up, Rory, if I may.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Of course.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

Very good progress in servers. But I've seen the prepared remarks that you mentioned that there was some price declines, single-digit server ASP declines. Is that just a function of mix or is there some other factor here?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, I think that's really driven, Vivek, by the mix and in terms of some of the early implementations to make sure we got that in place. As you're introducing a new product, we would expect to build off of that and to see the mix change as we move through the yield cycles and as we move through the launch.

Vivek Arya
Analyst, Bank of America Merrill Lynch

Q

All right, great, thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you, sir. Our next questioner in queue is Uche Orji with UBS. Your line is open. Please go ahead.

Steven Eliscu
Analyst, UBS Securities LLC

Q

Yes, this is Steve Eliscu for Uche. First question is on ultra books – or ultra thin notebooks, can you give us a sense of where you think exiting the year, the percentage of notebook processors that would be for the Ultrathin SKU?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

You know, the movement to thin and light is nothing new. Customers want mobility, and the ideas of ultra thins is something that we're very focused on. And if you think about it, with our APU strategy that I mentioned, with the next generation product, Trinity APU, we already are well ahead of the pace last year when we set a record setting year for design wins with the Trinity product in 2012. With that product, we can deliver ultra thins in the range of 17 millimeters.

And what's really important, and I think we have to all focus on, is ultra thin and mobility, the ability for computing to reach customers across the planet, whether it's in high growth markets, mature markets, we want to deliver that kind of mobility solution with a great experience, great graphics, low power, in a thin mobile solution, and we want to do it at a mainstream price. That opens the door for this computing to a much broader portfolio.

And our objective at AMD is to deliver that kind of technology, that kind of experience, into the sweet spot of the market. And you're going see us build on those design wins, record setting in 2011 with the original family set of APUs, and moving forward with Trinity already outpacing and creating the records.

Mark D. Papermaster
Chief Technology Officer & Senior Vice President, Advanced Micro Devices, Inc.
A

And, Rory, it's Mark, and I'll add that the improvements that we've made in Trinity in both our CPU and the GPU are really delivering outstanding results and performance per watt. So as well for the ultra thins being able to hit the 17-millimeter low profile, we're also getting a doubling of the performance per watt, so it's a exciting application of our APU technology.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I think you'll see mobility continue to expand. That's where we've seen strong growth in the market. IDC, Gartner, Mercury are all forecasting 2012 mobility to increase. It looks like they're forecasting a better year than 2011 in 2012, looking stronger in the second half than the first half. It doesn't matter. What's most important to us is to understand the market and the customer need, and deliver the technology at the price points that create this for everyone. We want to create this kind of ultra thin type solution that can reach the masses, everyone.

Steven Eliscu
Analyst, UBS Securities LLC
Q

Okay, that's helpful. It certainly would encourage to give us a goal as you get further along with Trinity. As a follow-up question...

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Before you going on the follow-up question, Steve, one of the things you might think about is coming to the Analyst Day next week, because we'll go into a little bit more detail around the strategy, what we're doing around convergence, around low power, and kind of give you the view of where the whole thing goes. We have to focus – well, you should go on to the next question.

Steven Eliscu
Analyst, UBS Securities LLC
Q

Great, we look forward to it.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

You're getting me going, Steve.

Steven Eliscu
Analyst, UBS Securities LLC
Q

Hey, that's great. On the server improvements that you've seen, historically you've done well in high performance computing and I think you've indicated data center is an area that will drive some of the new growth. Can you give us a sense as to the success you're having selling Opteron, the Interlagos into the data centers?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

You know, I think server is another one of these key areas that we're seeing a change in the marketplace. We're approaching an inflection point. There's no doubt in my mind that we're seeing a breakdown in some of the proprietary control points that have dominated the market for years.

And I think in the server space, based on what's happening in the cloud, what's happening around convergence, the types of workloads that are going to be driven through these mega data centers, these cloud data centers, the kinds of solutions that are going to be created going forward are going to be tailored to very unique, almost server appliances that allow us in dense kinds of solutions to introduce – I don't know, disruptive, really disruptive server plays that allows us to win.

You'll see us continue to focus in the high performance computing market because that's always a forerunner of where next technology is going. We've got a strong foothold there. Continue to build on the database work, that – I mean the traditional data center work that we're doing with the kinds of work around virtualization and around certain workload segments where our type of architecture really plays. And you'll see us get really aggressive around this disruptive play as we move forward. And it's another area I'm sure Mark wants to comment on.

Mark D. Papermaster
Chief Technology Officer & Senior Vice President, Advanced Micro Devices, Inc.
A

Well, Rory, the investments we're making in low power and performance per watt that we talked about earlier in Trinity are directly applicable to the server market. Our customers are telling us that our strategy, right, to double down in our roadmap as we're doing, and bringing these improvements across the applications that they're focused on, and as well as the agility that we're going to bring to our SoC in terms of bringing those solutions to market, are going hit exactly the improvements that our customers are saying where they need focus on their markets, focus on their workloads and servers.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And Mark's on a really important point about architecture. The work that we're doing around our strategy and around architecture to give us the agility, the time to market, the kinds of reuse around IP, to give us the ability to tailor these solutions at the SoC level, at the server and platform level, these are some of the strategies that we want to cover in our Analyst Day next week. This is important stuff. This is important trends and strategies that allows us to really tackle this.

And this is what's going to be differentiated as we see these inflection points accelerate, because these trends are emerging now but they're only going to accelerate. And that's what we have to do at AMD: understand the market, the customer. Not focus on the past or the incumbent or chasing someone, but understand where the market is going, the customer's needs, and as this inflection point occurs, what's the architecture to tackle it and go get it?

Ruth Cotter A
Head-Investor Relations, Advanced Micro Devices, Inc.

Great. Operator, can we have the next question, please?

Steven Eliscu Q
Analyst, UBS Securities LLC

Thank you.

Operator: Yes, ma'am. Our next questioner in queue is Romit Shah with Nomura. Please go ahead. Your line is open.

Sanjay Chaurasia Q
Analyst, Nomura Securities International, Inc.

Oh hi, this is Sanjay Chaurasia for Romit Shah. My first question is on Windows and ARM, which could potentially target price segment where Brazos is currently being shipped. How do you think it will play out for you, and if in any way you are planning to participate in Windows and ARM devices? And I have a follow-up then.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Yeah, Sanjay, can you just ask the first part of the question, I missed it. It was on Win 8, was that what it was?

Sanjay Chaurasia Q
Analyst, Nomura Securities International, Inc.

Yeah, it was – it's basically Windows and ARM, and my question is we feel that Windows and ARM devices could potentially target the price segment where Brazos is currently being shipped, and just want to understand your take on that.

Rory P. Read A
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Sure, Sanjay, so our perspective is Win 8 is a interesting and important launch of technology. We think that it's going drive interest and demand in the overall marketplace. And as I mentioned earlier, with our APU strategy, we are going to be ready to participate in that in the traditional spaces and the ultra thin spaces and move forward. I think you'll see architectures begin to dabble in that X86 space.

Remember, these are 32-bit architectures at the beginning of these implementations. Windows is performing really efficiently at the 64-bit level. And while these are first forays into that space, we'll see some of that around this trend of convergence. There's no doubt about it. But what we have to do is focus on creating the technical solutions with the APUs that are low power, that are at the right price point, that delivers the full graphics experience, the long battery life, the quick start-up, and the ability to have backward and forward compatibility. That's an advantage and that allows us to continue to build on that.

People talked about ultra low power in the past and other things like that. Those weren't as successful as we'd hoped because they were a little bit underpowered or undercapable. This trend will emerge. We're ready to participate in Win 8 and we're going to – we're excitingly looking forward to its launch.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.
Q

Okay, thanks. And the second question is on desktop segment. I remember from last call it went down significantly because of shortage of 45-nanometer parts. I was wondering where we are on that. You mentioned that there was – some issues were resolved. But going forward, is that still tied to 32-nanometer yields, or we can see unconstrained supply of desktop parts moving forward?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, what we believe now is that as we exit the quarter, we had a little bit of an excursion around the 45-nanometer supply in the late part of the quarter. Desktop is an important segment for us. I think we're seeing more consistency in the execution as you have heard me mention earlier. We've increased our delivery around 32-nanometer Llano by 80% from third quarter – up 80% from the third quarter.

That means that we're getting more efficient in terms of the yields. We're not consuming the same number of wafers. That allows us to address the desktop space. Without that conversion – excursion, I think we're in a strong position there. But I believe that in 1Q, that you'll see us continue to rebound around desktop, desktop supply.

Sanjay Chaurasia
Analyst, Nomura Securities International, Inc.
Q

Okay, thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thank you.

Operator: Thank you, sir. Next questioner in queue is Jim Covello with Goldman Sachs. Your line is open. Your question, please?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Hey, Jim, are you there?

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Yeah, I'm here. Can you hear me?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Fire away. I can hear you.

James V. Covello
Analyst, Goldman Sachs & Co.
Q

Yep, okay. The question is sort of the direction of the CPU market over the course of the year. Your competitor kind of saw similar guidance as you did in the first quarter, and then kind of normal seasonality in the second quarter, and maybe a big pickup around the back half of the year, maybe even kind of historically good pickup in the back half of the year around some of the Windows 8 and ultrabook launches and things of that nature. Is that pretty consistent with how you would see the market, or would you see it any differently?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, first is we look at it at the macro level, the macroeconomic environment on a global state is a little bit unpredictable. You can never really be 100% sure. When we take a look at what we're hearing our analysts around IDC, Gartner and Mercury, there's a general consensus that 2012 looks a bit stronger than 2011, that the second half looks a little bit stronger than the first half. Our focus is around improving our execution. That's the first step that we can create value in the firm, delivering our customer expectations.

We believe we're on the right track with the APU architecture and strategy, and you're going to see us continue to evolve that. And I think what we're focused in on is that customer, that execution, that architecture. And what's key for us is to continue to build on the growth and that share focus quarter in and quarter out. We'll be ready for what the market throws at us. We're going to go based on what the general consensus is from the analysts around growth for 2012. I think 2012 is a little bit better than 2011 and is a little bit stronger in the second half based on what we see their forecast to be.

James V. Covello
Analyst, Goldman Sachs & Co.

Q

Okay, and then if I could ask as my follow-up, and I understand and kind of applaud the focus on execution, I guess though you can't execute in a vacuum and you have to think about the environment going on with your competitors. And your competitor is just spending an unprecedented amount of CapEx and planning to bring on an unprecedented amount of leading edge capacity. How do you think about that as it relates to pricing, as it relates to competing on new nodes, again with your renewed focus on execution in mind?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

We're going to cover this in a lot more detail at next week's Analyst Day out in California, and I think that's important. But as you think of the industry trends around consumerization, cloud and convergence, there's no doubt as we've seen these kinds of inflection points in the industry, there's always a significant downward pressure in terms of the price points. So if you're dragging huge asset base along with you and there comes pressure into the market around those price points, that could put pressure into their – into a business model.

Our focus is to create the kinds of APU processors that give the excellent performance, the excellent experience around our graphics IP, our video IP, our low power solution, and a solution that we believe is very agile, one that we can apply across that, and we can hit price points that are very comfortable for us. We think the emerging market and the entry – and the high growth markets around entry and mainstream will be the hottest segment. And I think that's playing to our hand. We're going to emphasize this strategy. We want to embrace this inflection point that's emerging. We want to accelerate it because ship happens when there's these inflection points.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, let me make one further comment. Of course we see the investment of our competitor, but the fabulous ecosystem is not sitting still. And if you look at the investments that are done on TSMC and at GLOBALFOUNDRIES, and GLOBALFOUNDRIES and alliance's level, then the numbers are very comparable. GLOBALFOUNDRIES and the partnership models invest about $9 billion this year. TSMC sits around $6 billion, if I recall the number correctly. So this is in terms of scale and absolute numbers, they're very comparable to what Intel is putting on the table.

James V. Covello
Analyst, Goldman Sachs & Co. Q

Really helpful. Thanks so much, good luck.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Thanks, Jim.

Operator: Thank you, sir. Next questioner in queue is JoAnne Feeney with Longbow Research. Your line is open. Please go ahead.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Hi, JoAnne, are you there?

JoAnne Feeney
Analyst, Longbow Research LLC Q

Yes, can you hear me now?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

I can, JoAnne.

JoAnne Feeney
Analyst, Longbow Research LLC Q

Okay, sorry about that.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

No worries.

JoAnne Feeney
Analyst, Longbow Research LLC Q

Yeah, I was trying to get a little bit more detail on the server side. One thing I'm curious about is if there's any change in mix between where you typically sell, which is at the higher end, the 4P or larger servers, and perhaps the more volume-oriented 2P segment with the Bulldozer traction you're having thus far, or if you anticipate such a mix change? And if that might be also what's behind the ASP change that you talked about?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc. A

Well, I think what you're seeing in the beginning of the launch, obviously we build on that strong foundation that we've had in the high performance computing market, some of those long relationships that we've created there. Now with the introduction of the ProLiant solutions from AP – HP, not AP, HP, and now with the Dell blade servers, the PowerEdge blade servers that we're introducing, now we're introducing a wider swath of product set. They're across multiple types of node solutions.

We're further into the launch now so you're getting much a wider spread in terms of the yield across the mix. I don't think we saw anything unusual for the first initial quarter and a half of this launch in terms of mix. I think you'll see us build on that as we move forward here in 1Q and 2Q, but nothing unusual in terms of that mix.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay, that's very helpful, thanks. And then on the notebook side or more generally 32 versus 45-nanometer side, so it sounds like a very nice increase in yields on 32-nanometer. So what I'm curious about is since 32-nanometer increased – shipments increased so much in the fourth quarter but overall computing revenue increased by far less, is that a sign that there was a pretty steep drop in 45-nanometer production? And how does that then shape up for the transition from the fourth quarter to the first quarter?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Well, I think we're pretty pleased with the focus on execution as I mentioned earlier in a call, in terms of that momentum across the APU space. And then combine that with the server space, good progress there. The only part of the portfolio that was a little bit choppy was, as I mentioned earlier in my prepared remarks, were around the graphics space. That was a little bit different. And I thought that Add-in Board market was a little bit affected in December based on that hard disk kind of chop in the channel. We've – we are not dramatically affected by that because of – more of our focus is on the execution side.

So I feel pretty good about where we are in terms of the transition around 32. I think that we're on track to launch the next APU platform around Trinity as I mentioned earlier with the kind of design wins we're getting there. That positions us well. We've got still interesting demand around 45 in terms of some of the product sets in the channel, mainly around desktop. And we'll continue to work that technology through, especially in the high growth and emerging market.

So I'm not seeing anything, JoAnne, in that mix that's terribly unique. I think we're at a good point in terms of those crossover curves that we run in terms of transition. And with the improved execution – and I want to emphasize, we've made real progress but we're not finished with that. And we need to continue to work every day with those tiger teams we've put in place. We're tracking the test vehicles through the lines to make sure that we're getting that consistent improvement, because that will reduce our consumption of wafers and give us far more flexibility in our supply chain.

So while we've improved by 80% from the third quarter, we're not all the way there yet and we need to keep that maniacal focus on execution this quarter and the rest of 2012. That's the key to building initial value for our shareholders and partners.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

So that improvement then, Rory, are you suggesting there's more yield improvement possible on that 32-nanometer line?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Absolutely, and that's our objective and we're working at it week in and week out. And we believe there's more of that for weeks and weeks to come.

Mark D. Papermaster
Chief Technology Officer & Senior Vice President, Advanced Micro Devices, Inc.

A

And those same techniques and practices that the teams and – tiger teams have applied on 32-nanometer, that momentum continues into 28-nanometer, and so that poises us well going into the coming 2012.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks, JoAnne.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Okay, thank you, guys.

Operator: Thank you. Our next questioner in queue is David Wong with Wells Fargo. Please go ahead.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Thank you very much. Your Q1 guidance, your March quarter guidance, does it assume that desktop and Llano sales will be tracking demand, or does it actually incorporate some assumption of increasing supply driving shipments above demand?

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

I'm not sure that I completely understand your question.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, can you run it back again, David.

David M. Wong
Analyst, Wells Fargo Advisors LLC

Q

Yes, well, you have yield constraints in the December quarter, you talked about how the 45-nanometer desktop also was supply constrained. So therefore, your guidance for the March quarter, does that assume that the sequential growth or decline, the trend will be better than the normal demand trend, or are you actually tracking demand? Are you actually going to – is the pattern of your sales going to equal the normal demand trend?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Well, I think it's fair to say from the improvements we have seen at our foundry partners that we are not going to be supply constrained in the first quarter.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Great. My other question was do you anticipate when Trinity actually does start shipping, that Trinity will have better yields and better gross margins than Llano at the time that Trinity starts out?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

At the time that Llano started out, I assume. Well, we are not going to give granular product-based gross margin, as you know. But I think the progress we have seen on Trinity is impressive, and of course all the learnings that have been done on 32-nanometer with the Llano product will be transferred to Trinity. So the start-off base with Trinity is going to be significantly better from a yield perspective compared to where we were at Llano launch, so that makes us quite optimistic looking forward.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Great, thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, David.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.
A

Operator, we'll take two more callers, please.

Operator: Understood. Next questioner in queue is Patrick Wang with Evercore Partners. Your line is open.

Patrick Hsiang-Shih Wang
Analyst, Evercore Partners (Securities)
Q

Great, thanks for letting me ask a question. First one for Thomas, I want to go back to I guess John's early question about the wafer supply agreement. Can you talk about when the current agreement expires, how that's impacting your gross margins and when you think the new one needs to be in place?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

Well, there is not a – good question. There's not a real firm timeline in place. And there's also not a black and white date when it's going to end and when the new one is going to start, and it will have a black and white impact on our business model. We have been working together with our partners in a very productive manner. We have achieved significant progress. We are pleased with the approach and as we said in our – in my prepared remarks, we are really close to coming to a conclusion. And of course the guidance we've provided for the current quarter, as I said before, is an assessment of the progress we have been making in those negotiations.

Patrick Hsiang-Shih Wang
Analyst, Evercore Partners (Securities)
Q

Okay, got you. So I guess stay tuned for that. And then I guess, Rory, I wanted to follow up on servers a bit here. Clearly you're seeing some momentum, a couple quarters of growth. I guess a couple parts. First off, where are you seeing that initial design traction? Second, do you expect server ASPs to increase now that you're getting parts out there to your customers? And then lastly, there's been a lot of chatter out there and a lot of activity in non-traditional server design, lots of guys doing designs on ARM and things like that. Can you offer your thoughts on that as well? Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Not a problem. From a server perspective, as I commented earlier, the initial momentum is driven around our success in the high performance computing market. We see always a very early uptake in terms of our key partners in those segments. Then you go and focus with the launches around HP and Dell in terms of their server market, more of the traditional space around virtualization and around business workload, we're seeing good pipeline activity there around the launch and the trend looks solid.

ASPs, obviously we'll work always to try and improve our mix. That's in our best interest. The demand is out there and with a relatively modest share position, there's a lot of opportunity for us to attack. So I think we're off to a good start, but this is just the beginning of a long-term focus on server to build on. And then of course I think in the disruptive play, maybe Mark wants to add a comment on some of the thoughts that we have in that disruptive space.

Mark D. Papermaster
Chief Technology Officer & Senior Vice President, Advanced Micro Devices, Inc.

A

Sure, and building on my comment earlier, our focus on low power, our focus on leveraging our CPU and our GPU IP plays dead on in terms of what we see as disruptive opportunity in the server market space, targeting workloads, targeting problems our customers have where they need more efficiency, and our IP can directly attack it. So we are very focused on this area and in fact, next week at our Financial Analyst Day, we'll be providing additional color.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And remember, there is clearly a series of inflection points that are beginning to emerge that are going to drive this space for the next three, five, seven years, whether it's server or client. That cloud impact, that power, that convergence, consumerization, these trends are just beginning to start to accelerate, and they're over a long period of time. We want to embrace those changes, we want to embrace that transition, and we believe that the work that we can do in this disruptive space that we'll cover next week will be very interesting.

But clearly we've got good business now in high performance. We're making some good progress in terms of traditional data center workload, and then we want to go in and embrace and attack this disruptive opportunity, Patrick.

Patrick Hsiang-Shih Wang
Analyst, Evercore Partners (Securities)

Q

Got you. I guess one of the key things I'm looking forward to is just an update on that FSA aisle, so look forward to seeing you guys next week. Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Yeah, no worries. We'll see you there.

Operator: Thank you. And we have time for one final question. Kevin Cassidy with Stifel Nicolaus, please go ahead. Your line is open.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks for taking my question. On the GPU weakness that you saw in notebooks, do you think that any of that is related to APU? And do you think GPU – discrete GPU adoption is declining?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

You know, it's interesting. As I commented earlier, Kevin, we finished the year the way we started the year. We finished the year with the fastest GPU product on the planet. And I think it's kind of amazing, the 7970 Radeon HD board is industry leadership. It really is. I mean our focus around driving industry leadership at the discrete GPU level is not going to change, and our focus on using that IP and technology in our APUs is spot on. We want to continue to build on that momentum and drive forward. There's lots of forecasts out there. The trend on discrete over time with APUs and with the way we're going to embed that, the trend has to trend down over a period of time.

But this is a good market, a market we continue to protect and attack to win moving forward. I think the kind of chop that we saw at the end of the quarter was really a little bit around the channel space and the kinds of pressure that we saw in the channel around some of the hard disk issues. While we have a relatively balanced business across the space and we've been very able to focus on execution to drive that revenue consistently a quarter, we did see a little bit of that chop.

But no, no doubt, Kevin, we see this as a very attractive market. We see this as a market that we can use the IP across the space and again, finish the year the way we started. The world's fastest – the fastest graphics engine on the planet, on the planet. Thanks, Kevin.

Kevin E. Cassidy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, thank you.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Operator, that concludes our call. We'd like to thank everyone for participating today, and we look forward to you joining us on the 2nd of February for our Financial Analyst Day. Thank you.

Operator: Thank you. Again, ladies and gentlemen, this does conclude today's program. Thank you for your participation and have a wonderful day. Attendees, you may disconnect at this time.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2011 Earnings Call for 24-January-2012 5:00 PM ET
Wednesday, November 23, 2011 07:16:03 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2011 Earnings Call for 24-January-2012 5:00 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1652123&highlight=
Live WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-EventDetails&EventId=4239607
Replay WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-EventDetails&EventId=4239607

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Advanced Micro Devices, Inc. *(AMD)*

Q3 2011 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey [ph] and I'll be your conference operator for today. At this time I would like to welcome everyone to AMD's Third Quarter 2011 Earnings Conference Call. [Operator Instructions] After the speakers' remarks, you'll be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today. I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's Third Quarter Earnings Conference Call. By now you should have had the opportunity to review a copy of our earnings release and CFO commentary. If you have not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com. Participants on today's conference call are Rory Read, our President and Chief Executive Officer; and Thomas Seifert, our Senior Vice President and Chief Financial Officer.

This is live call and we'll be replayed via webcast on amd.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1554016. The telephone replay will be available for the next 10 days starting later this evening.

I'd like to take this opportunity to highlight a few dates for you. Thomas Seifert will present at the Barclay's Global Technology conference on the 7th of December in San Francisco. Rory Reid will present at the Raymond James annual IT Supply Chain Investor conference on the 13th of December in New York. Additionally, our 2011

Financial Analyst Day has been deferred to February 2, 2012. And lastly, our fourth quarter quiet time will begin at the close of business on Friday, December 16th, and we'll announce our fourth quarter earnings on Thursday, January 20, 2012.

AMD's ownership of GLOBALFOUNDRIES on a fully diluted basis decreased to approximately 9.6% as of the conclusion of the third quarter. The two-year time period after which we no longer have the right to designate a representative to the GLOBALFOUNDRIES Board of Directors was triggered in September of this year when our ownership interest in GLOBALFOUNDRIES decreased below 10% on a fully diluted basis.

Reconciliation for all non-GAAP financial measures discussed today is included in the financial tables that accompanied our earnings release available in the Investor Relations section of amd.com.

Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and involve risks and uncertainties that could cause actual results to differ materially from our expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast.

We encourage you to review our filings with the SEC where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in our most recent SEC filing, AMD's quarterly quarter on Form 10-Q, for the quarter ended July 2, 2011.

With that, I'd like to hand the call over to Rory. Rory?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

Thank you, Ruth, and thank you all for joining us on the call today. AMD's third quarter revenue was $1.69 billion, up 7% from the prior quarter and up 4% year-over-year. AMD's non-GAAP operating income grew by 28% quarter-to-quarter and was flat year-over-year.

In my first 60 days at AMD, I'm excited by the energy and resources I see here. And I am encouraged by what I hear from our customers and partners. AMD clearly continues to play an important leadership role in the industry. But there's more to do. There is a lot of interest in our products and customers are looking for us to improve our execution in order to help them grow even faster.

Third quarter demand for our new AMD platforms was strong, particularly in the mobile processor space, where we saw revenue grow 35% sequentially, and 20% year-over-year, clearly outpacing the market in a significant way. Additionally in the server space, we saw a solid 27% gain in revenues sequentially with solid customer demand for our next generation Opteron offerings.

However, we also had our challenges. We saw both 32 and 45-nanometer supply challenges in the third quarter. No doubt we must improve our execution and we are taking action to improve our ability to consistently deliver our products on time, day in and day out. We are working with our key partners to improve the processes, disciplines, to deliver on our commitments to our customers. We have more to do, but we are clearly making progress and we are on the right path.

Now let's take a deeper look at the mobile segment. In the third quarter, we saw record AMD processor shipments and revenue in the mobile space. Over 90% of our mobile units were Fusion APUs, which are uniquely suited to meet the advanced processing needs of today's mainstream and entry-level mobile PC buyers. For example, we believe AMD's worldwide share of the $200 to $600 retail price band is now over 28%. These bands make up 45% of the retail notebook volume across the planet, and we believe AMD gained consumer notebook share in the key emerging markets year-over-year, particularly in China, where our microprocessor revenue grew 23% quarter-on-quarter.

We also set another record for Brazos shipments in the quarter, up 36% quarter-to-quarter. And our mobile AMD processor unit sales in total are now up over 50% in the last two quarters alone. We clearly outgrew the market in the mobile segment, and we believe we took share in the quarter.

Now for our server business, the third quarter was the beginning of a move in the right direction, with server revenue up 27% sequentially. Initial production shipments of our new AMD Opteron products gained traction in the high performance computing space, where, with the help of our key partner, Cray, and some of our most notable customers, which included the National Supercomputer Centers in Stuttgart, Germany, in the U.K. and in Switzerland; as well as the United States Department of Energy's Titan Project at the Oak Ridge National Laboratories. This project in fact, is likely to be one of the world's fastest supercomputers. We are excited about our key partners, including HP and Dell, who are launching new products based on our new Opteron platform this fourth quarter, and we are confident they will do well against competition, particularly in key workload areas like the cloud and virtualization.

Now let's turn our attention to the graphics business. AMD's graphics segment continues to be a solid business for us. Segment revenue was up 10% quarter-over-quarter and up 4% year-over-year. This growth was driven largely by strong seasonal revenue increases in the AIB channel. Our AMD Radeon HD GPU was also recognized as the world's fastest mobile product in the most recent quarter. This continues to show outstanding graphics innovation from AMD. We also publicly demonstrated our next-generation 28-nanometer GPU product during the third quarter. And we look forward to building on our performance leadership position in the graphics area throughout 2012 and the year ahead.

Now let me take a moment to focus on execution. From an execution standpoint, you know and we know we faced significant manufacturing challenges in the quarter. Having said that, demand was strong and interest in our product is significant. We will continue an aggressive effort with our foundry partner to improve manufacturing performance at this important 32-nanometer technology, and we are already seeing steady improvement day after day, week after week, but we are not out of the woods yet.

In the last few quarters, you've also heard Thomas describe our initiatives to streamline our business processes. We will continue to explore ways to accelerate these efforts, both to unlock these efficiencies and productivity, to better compete in the current marketplace and also to enable our organization to better capture the trends for which our technologies are so well-suited, namely, the move to low-power platforms, the continued rise of the emerging markets and the emergence of cloud and mega data center computing.

So in summary, our exciting new AMD Fusion architecture is a unique and differentiated approach, and we are seeing strong interest from the marketplace. It is particularly well-targeted to lower-power form factors and high-volume price bands. And our new Opteron server technology is well-tuned to increasingly important workloads, like virtualization and cloud-based servers. We are seeing a nice uptick in our server business which in fact long overdue. Customer demand is strong, and momentum is clearly there. And while we face challenges in supply and execution, we are making steady improvements with a maniacal focus on execution across the entire company.

In short, I believe AMD is uniquely positioned to take advantage of today's largest and fastest growing market opportunities. Through better execution we will accelerate our growth. Through innovation we will lead in this changing technology landscape and capture the emerging inflection points already underway.

With that, I'll turn it over to Thomas who will cover the financials for our third quarter.

Thomas J. Seifert

Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

Thank you, Rory. Revenue in the third quarter was $1.69 billion, up 7% compared to the second quarter of 2011. Revenue growth in the third quarter of 2011 was adversely impacted by 32-nanometer and 45-nanometer product supply constraints. The sequential revenue increase was driven primarily by record mobile processor revenue and unit shipments, partially offset by lower desktop revenue due to lower 45-nanometer supply and seasonally higher graphic segment revenue.

In addition, since our preliminary third quarter results announcement in September we saw unanticipated sales strength in the channel through the end of the quarter. Gross margin was 45%, down one percentage point quarter-over-quarter, due to lower than expected supply of 45-nanometer product, lower than expected supply of higher ASP and higher margin 32-nanometer product and therefore, a higher percentage of revenue in our lower margin GPU business.

Operating expenses were $610 million, less than guided due to lower than expected revenue in the quarter and ongoing discipline and expense management. R&D was $361 million and SG&A was $249 million. Non-GAAP operating income was $146 million and non-GAAP net income was $110 million. Interest expenses declined by $5 million compared to the prior quarter.

Additionally, we repurchased $150 million of our 6% convertible notes in the quarter, which will result in over $2 million of quarterly interest savings moving forward.

Non-GAAP EPS was $0.15, calculated using 741 million fully diluted shares. Adjusted EBITDA was $239 million, up $34 million from the prior quarter, due to higher operating income, driven by higher revenue.

Now switching to the business segments, Computing Solutions segment revenue was $1.3 billion, up 6% sequentially, driven by record mobile processor revenue and unit shipments partially offset by lower desktop revenue and double digit growth in server processor revenue driven by significantly higher ASPs.

Computing Solutions operating income was $149 million, up $7 million from the previous quarter, primarily due to a higher mix of APUs and improved server microprocessor ASPs.

Graphics segment revenue was $403 million, up 10% compared to the prior quarter, mainly due to seasonal strength in the add-in port market, strong demand from mobile graphics at OEMs and improved product mix.

Graphics segment operating income was $12 million, up 19% from the prior quarter, primarily due to higher GPU shipments and ASP.

Now let's turn to the balance sheet. Our cash, cash equivalents and marketable security balance including long-term, at the end of the quarter was $1.86 billion, down $4 million compared to the end of the second quarter of 2011.

Accounts receivable at the end of the quarter was $908 million, up $149 million compared to the end of the second quarter due to higher revenue and the timing of sales.

Inventory was $540 million exiting the quarter, down $102 million from the prior quarter due to a decline in 45-nanometer inventories, driven by a transition to 32-nanometer products and efficiencies in the back-end manufacturing.

Long-term debt as of the end of the quarter was $2.1 billion and non-GAAP free cash flow was $131 million.

Now turning to the outlook, AMD expects revenue to increase 3% plus or minus 2% sequentially for the fourth quarter of 2011 and operating expenses are expected to be approximately $620 million. APU traction in the marketplace and demand for AMD's leading edge technology is strong, and while we exited the quarter recognizing we could have done better, we continued to deliver to our business model, improving profitability and free cash flow, and we fully expect our strategy to be successful and deliver improving shareholder value going forward.

With that, I'll turn it back to Ruth.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Thomas. Operator, we'd be happy for you to poll the audience please for the Q&A session.

MANAGEMENT DISCUSSION SECTION

Operator: [Operator Instructions] Our first questioner in queue comes from Glen Yeung with Citi. Your line is now open. Please go ahead.

Glen S. P. Yeung

Analyst, Citigroup Global Markets (United States)

Q

Thank you. My first question is about gross margins. Thomas, in your comments, you indicated ASPs were up; it sounds like quite noticeably in the quarter. And obviously, gross margin's impacted by yields, but how should we think about the recovery of gross margin as yields improve, particularly given the ASP trends you have? And then specifically, how should we think about gross margins for Q4?

Thomas J. Seifert

Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yes. Thank you, Glen, very good question. So as we said in the script, in the third quarter, we had to fight a couple of headwinds, mainly on 32-nanometer supply impacting really the product mix we had in terms of high ASP and highly margin-accretive 32-nanometer products. And we also had to make some tradeoff decisions on 45-nanometer capacity that hit us from a cost of goods sold perspective. And then we had to deal with a higher relative share of graphic product in the overall revenue picture.

So how is that going to change moving forward? So a couple of trends you have to keep in mind, headwinds and tailwinds. The tailwinds certainly are we will recover gross margin by shipping a higher share of Llano products and we will increase gross margin of course, by increasing our server revenue. And we will face some headwinds in the current quarter; 45-nanometer supply is still going to be not where we want it to be because we continue to trade off capacity towards 32-nanometer.

We also will see some ramp-up costs from a 28-nanometer technology perspective. And we will have a one-time effect in the fourth quarter, just cleaning up manufacturing startup costs around 32-nanometer to make sure that WIP is clear, and that alone, that one-time effect is going to hit us probably with just under 1%.

So if you add up all the headwinds and tailwinds, we think we're going be about flat moving into Q4, but continuing to execute to our model if you keep the one-time effects out of the picture.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

And think about it, Glen, from a standpoint, one of the key drivers that you can see, and we clearly have more work to do, is around execution. As I've started my first 60 days here at AMD, when I've met with customers, partners, across the planet, they've told me that they're really interested in the product sets that we're creating and the solutions that we're making here at AMD. And they also want to believe, and trust more, and make bigger investments to grow with us, but we have to focus not only just on the margin items that Thomas hit, but across execution.

Improving our execution and improving our supply position has to be one of our top priorities and we have more – much more still to do in that space. You heard it in Thomas's comment, that impacted our margins and our results, and we're not out of the woods yet, but we're making steady and clear progress day after day, week after week. And we're working with some really outstanding technical leaders from here at AMD, our partners like GLOBALFOUNDRIES, but also key partners, like IBM and PDS. And we're going machine by machine, step by step to improve that activity and our yields. That, I think, will help improve over a longer period of time, our margin performance and that's really a little bit more background on that item, Glen.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)
Q

Rory, thanks for that. And maybe just a follow-up question here. So just based on the comments again, it sounds like what fell short must have been desktop. And I wonder as I think about the execution issue, one, do you sense that there's a longer term impact from that. Did you just turn some customers off forever because you screwed up on the execution side? And the reason I bring up Desktop is I wonder if that's less impactful when in it's in desktop than it would have been if seem more in your notebook results because I think that's where your customers are probably depending on you more.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

That's kind of interesting. I've had the opportunity over the first two months here to really meet with just about every major partner across the planet and the feedback's been very consistent. They really believe in this AMD APU kind of strategy based on the Fusion architecture.

It's not a surprise that we saw our revenues increase 35% sequentially based on the strong APU demand in the mobile space. And think about it, to date we've already shipped 20 million Brazos in that area. And clearly from being a customer in my past job, it's about building trust, trust in execution, trust in technology. We have to continue to focus on that. That is job one from my perspective. If we execute better we'll enhance that trust. I don't think we've irreversibly damaged that trust at this point, but we eroded some of it and we need to make sure that we execute every day to our commitment.

You're right. In the desktop space there's a little less pressure. But we had to choose where we did our manufacturing capacity in order to support our notebook growth and to make sure that we tried to deliver on the commitments that we made to our customers. And they felt some of that pain in the third quarter because we weren't able to execute as cleanly as we would like.

In the notebook space, we're making progress. In the desktop space, I think we know how to manufacture in that space, we just need to be able to move more of the wafers in that direction. So net-net, I don't see it as an irreversible trend. I believe this is a trend we can build from. But it's all about execution. We need to, as a company, AMD, deliver on our commitments. It's whether it's a roadmap, our features, our supply.

That's the first list to creating shareholder value in this market. Then we can go tackle in parallel how to intercept the very interesting inflection points going on in the industry. Inflection points around low power, around the cloud, around emerging markets, these are real opportunities. Sorry, Glen, but I got fired up on that one.

Glen S. P. Yeung
Analyst, Citigroup Global Markets (United States)

Q

Good to hear from you, Rory. Thanks.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Thanks.

Operator: Thank you sir. Our next questioner in queue is Ross Seymore with Deutsche Bank. Please go ahead, your line is now open.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Continuing on that comment or the topic of the gross margin and more specifically the manufacturing problems, can you just give us an idea, the good die contract that you signed with GLOBALFOUNDRIES in the first half of this year, I just want a little clarity on how the yield issue impacts your gross margin considering that you did have that agreement going forward?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, very good question. Keep in mind the die buy agreement we have is an agreement we have on the 32-nanometer process, it's not an agreement on the 45-nanometer process. And I think I described it in the last – or the first quarter conference call pretty much as a downside protection and this is how you have to look at it. When yields falls below a certain level, the downside is protected and we built it from there.

On the 45-nanometer side, it's different picture. We pick up the costs for that capacity and pretty much in the old model and since we have allocated 45-nanometer capacity toward 32-nanometer capacity we had some margin impacts there.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

And I guess two somewhat housekeeping issues I guess. The first one is a little more general. On the flood side of things over in Thailand any commentary on what you think that would do to impact you? And then the housekeeping one on the interest expense, are you more or less saying that's a $2 million benefit per quarter is what you'll see in the fourth quarter so that we can just model that down $2 million?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

Yeah, start me with the second question first. That's the easier one. Yeah, that is exactly as you described it. It's a $2 million benefit on a quarterly basis moving forward and that's what you'll see then in the fourth quarter to 100%.

On the flood, I think the supply chains in the industry have become rather efficient for – and maybe the wrong reasons with all the disasters we had to deal with. So overall, the reaction time, finding out where the bottlenecks could be, worked out really well and the information flow across the supply chain seems to work rather well too. So from this point and perspective, we don't see an impact in the fourth quarter to be very honest, at least after discussions with our customers. We'll have to see how this is going to impact the supply chain moving forward and into 2012. It depends on a lot of things, how long the situation is going to continue and then how much damage needs to be repaired, but short-term, not much of an impact.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Yeah, and, Ross, I'll add a little bit of color on that. As I've been meeting with the key partners in the OEM space, their feedback is well, that's a challenge; Thomas is spot on. Those supply chains are quite resilient. They're working hard to work around that and make sure the mix is there. The feedbacks and signals that I've gotten from each of the major players is they're looking for us to improve our execution and deliver more product to them. They see opportunities to continue to deliver and execute. And the flood doesn't appear to be a major factor at this point. We're going to continue to monitor it, but all indications at this point, that this shouldn't be a major impact.

Ross C. Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thank you.

Operator: Thank you, sir. Next questioner in queue is JoAnne Feeney with Longbow Research. Your line is open. Please go ahead.

JoAnne Feeney
Analyst, Longbow Research LLC
Q

Great, thanks. I was hoping we could get into the Brazos and notebook side of things a little bit more. You remarked a little bit about the channel strength picking up towards the end of the quarter, and that's why you ended up a little bit higher. Now was that due to sort of the value end of the notebook market perhaps? Or was it due to something else entirely?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I – what we've seen in the notebooks segment, JoAnne, is we've seen strong uptake in the APU demand whether it's in the Brazos area, in low power and more in the entry band, or into the Llano segment where it's a little bit more into the mainstream. $200 to $600 retail price bands, we're – we believe the worldwide share now is up to 28%. And since two quarters ago, we're already up 50%. So there is clearly a couple of major factors that are going on in the marketplace: one around consumerization in the PC market and also around convergence and around the cloud.

The APU strategy that we've put in place with the Fusion architecture with the Brazos and Llano chipsets, really takes advantage the idea of the CPU and GPU together and the idea of delivering the graphical, the user experience from the cloud is very well-positioned. And customers are clearly reacting to that in the mobile segment in terms of those entry to mainstream price bands. I think that's a reflection that we've been listening to the marketplace and we've been reacting to it.

At this point in the third quarter, the APU mix of our total client business is up to 90% of that client mix, and I think that's pretty telling. We're going to continue to double down there, focus on building out that APU strategy, continue to drive for low power. These are the trends that the customers in those segments are saying, and we're seeing it across the planet.

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, and let me follow up on that, JoAnne. So the description you gave is pretty much correct. So it's retail strength in terms of sell-thorough. It was primarily emerging markets and it was primarily around Brazos APU platforms.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Great. Thanks, Thomas and Rory. Can I ask a follow-up please about the future of Brazos? Everyone expects that the success of this line will continue. It's been very appealing. We understand that the next generation coming will use more advanced manufacturing and there are some concerns about the readiness of one of your foundry partners to contribute to production of the next-generation Brazos, Krishna and Wichita. And I'm wondering if you have plans for dealing with those challenges your foundry partner may be facing? And whether you still think you'll be able to follow the same sort of time zone for releasing the new Brazos at the beginning of the year like you did last year? Do you think you need a new revision to capture the same interests in the market and what your strategy is there?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Let me get started here. So I don't want to give any specific statements on roadmap and launch date for 2012. But I think in general terms, of course we are pleased with the success of the low power version of our Fusion product and we are excited by the perspectives and the opportunities that creates for us in the marketplace. I think the first big follow up on that is actually the second generation of Llano products, Trinity, that is going to launch very early next year and where we pretty much cut power performance in half.

And of course we'll try for the Brazos and Bobcat based products further down and have a big focus on that. And I think we mentioned it also in our last call that moving forward, we think we've found a way to better balance our risk profile in terms of manufacturing foundry partners. This also I think will help us to better mitigate the ups and downs that are just part of this business model.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

And, JoAnne, as we look at that segment, clearly that Brazos family, we're going to continue to extend that. And as we are tracking execution each week, across AMD, we're looking at the design win activities with our key OEMs, we're looking at the momentum of sell-through. And the buy-in around the product continues to show strong interest, strong demand. They are counting us on to improve these execution items that allows us to move forward. And I think what we're seeing with the progress that we're making since late September, it's slow, it's steady, we clearly have much more to do, but there are those signs of clear improvement and the demand and interest in this architecture and solution is spot on. And Thomas mentioned the emerging markets, think about it. Both in China, India, we saw very significant growth. And this product set should play very strongly there and continue into 2012.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

So it seems like both you and your main competitor are launching products earlier in the year that has been traditionally the case. Do you see the seasonal pattern for sales really shifting earlier in the year?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think what we're going to see is, from our perspective in AMD, the key is understand the customer. We're spending just an intense amount of time across our business units to really understand the market data. Where are the customer pain points? What's the feedback we're getting from the key retailers? What is the feedback from the customer sets that are interested in the product? And what we're trying to do is take that and combine it with where we believe the puck is going. Right? We want to skate not where it is today but where it's headed to. If you think about that, in this set, I really think that we're building on that same set of success. What we're trying to do is to continue a nice drum beat of products, throughout the year, and to make sure that we're keeping a fresh set of improvements that allows us to improve the experience for that customer.

Customers telling us, low power, they're talking about faster boot times. They're talking about a better experience in terms of the graphical representation and the experience on the screen. That's what they get with AMD's Fusion architecture in the APU set. That's why we'll bring it to market as we have those solutions and make sure that we're hitting the customer. We're going to try and get there first. We have work to do but we're going to do that.

JoAnne Feeney
Analyst, Longbow Research LLC

Q

Great. Thanks so much, guys.

Operator: Thank you. Next questioner in queue is Uche Orji with UBS. Your line is open.

Uche Orji
Analyst, UBS Securities LLC

Q

Thank you very much. Rory, can I just probe a little bit into the strength you saw in the China post the pre-announcement? I'm still not sure I'm convinced as to what drove that. I mean, a cynic will ask whether it's a case of customers trying to get what they can, given the announced manufacturing problems. Or are you convinced it's really end demand and if so, what were the real catalysts that drove the sudden strength in demand soon after the pre-announcement?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

What I think, Uche, is it's very important. When we took a look at the data throughout the quarter it was clear that we were going to miss the original guidance, and there is no doubt that was the case. It was our prudent decision that we needed to represent that to our shareholders, to our investors and to the marketplace, and that's what we did. I think as you looked at it, we had the impact that we saw in terms of the margin, down one point quarter-over-quarter, and we saw us outside of the range of guidance on revenue.

We did see some activity that quite frankly, surprised us a little bit in the channel at the very end of the quarter in terms of some sell-through of some channel inventory that was a little bit higher, but there's no doubt that was the prudent decision given we were going to miss the guidance that we had shared. And think about it, take a look at our inventory position. Our inventory position hasn't been in a better position in a long time, and that's a reflection of a maniacal focus on improving productivity, but also we've got that bit of surge of channel sell-through at the very end that kind of pushed us a little bit higher on that. But in no way you look at it, that was the right call, the prudent decision.

Uche Orji
Analyst, UBS Securities LLC

Q

That's clear. Thanks for that. Can I have a follow up? In terms of really what happened with the cycle time and the yield issues, how better controlled is that now? And specifically, what lessons have you learned with this that you think can apply to Trinity? And from the early signals you've seen with Trinity, are you comfortable with where you think that yield could be within a few months of launch? And also the same question will apply to Bulldozer, just kind of get a sense of what you learned from this and how we should be able to feel comfortable when you give us guidance around Trinity in the future?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. Sure. From a standpoint, clearly we were disappointed with the execution around the yields in the 32-nanometer space. And that was – that occurred over a sustained period of time. And as I mentioned in my comments in earlier questions, we're not out of the woods yet. We're making progress and we're focused on it every single day, and we're seeing progress, but again, we are focused at a machine-by-machine level, step-by-step, and trying to improve both our sort yields, our total yields across the board.

This is something based on some strong results here from your perspective, you might get the wrong read on this. We have work to do in the execution space. And while we're making progress, we need to continue that progress. I think we're seeing that steady improvement. And step-by-step, machine-by-machine, we'll make that progress in 32. And clearly, we'll ship significantly more 32-nanometer product in fourth quarter than we did in third quarter.

And then what we're doing is to apply the learnings to 28-nanometer. The difference between 32- and 28-nanometer quite frankly, isn't gigantic, and the experiences that we're learning there in terms of the machine-level data, the flow-through the recipe, those we're applying in the 28-nanometer space. Again, we have much more work to, but we believe that we're making steady progress day after day. We have more work to do, but we're on it. And this is really job one from my perspective. We must execute better as a company.

My experience as a customer of AMD for five years, this is an area that we must improve on, whether it's on the roadmap, features or supply. Our customers have been telling me that the first 60 days, every single day and we cannot let them down. We need to improve. Not out of the woods yet. We're making progress. And 28-nanometer, very close to 32, we're taking the learnings and applying them.

Uche Orji
Analyst, UBS Securities LLC

Q

Great. Thank you very much. Good luck.

Operator: Thank you, sir. Our next questioner in queue is Cody Acree with Williams Financial. Your line is open. Please go ahead.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

Hey, guys. Thanks a lot for taking the questions. Maybe for both Rory and Tom, I guess given that this goes back to the July conference call, I'd like to get maybe a bit of quantification on where you started with the yield curve as you were coming into that July call that gave you confidence of 10% growth? What happened to that yield trajectory? To what degree of quantification can you give that? You talk about execution, but I think we need some degree of what exactly the progress has been and what kind of ramp are you on for the next few months?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, let me try to give you some color around that, and of course, you will understand that we will not disclose specific yield figures. But going into the quarter, we were, based on the information we had and the data we looked at, pretty confident that we could outperform the ramp of the Brazos product line. And if we look back today, then we did not really achieve that. We are pretty much on the same slope but we could not outperform our – that slope as we had previously expected.

And it's not so much only a matter of here's a product issue and we have product yield issue. It's really much more a matter of how do you get a significant and very steep capacity ramp handled at our foundry partner. A lot of new tools had to be brought on place, had to be ramped, had to be qualified. And how disciplined and how successful this steep ramp up process was handled gave us a lot of headache over the quarter and a lot of volatility. So not so much only in terms of did we lose good product on the wafer, but just not getting enough wafers out the door, so to speak.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

And Thomas, I guess if we look at where that real yield curve is today versus where you expected it to be, is it a matter of just I guess a push out of that same type of ramp or is it a reduction in that ramp so that you hit the endpoint further out rather than just maybe a gap of the correction being put in place?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

I would say it's a matter of both, to be very honest. But at least the volume we lost from is just pure volume and capacity bring in place perspective that will be recovered without any doubt and without any gap.

Once you have a little delay on your yield curve, on the product yield curve, that obviously leads to a time delay but we saw steady improvement. You heard Rory talking about that we will see significantly more output in the fourth quarter compared to the third quarter. So we see the trend being reversed but we also have some work that still needs to be done.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Cody, from a standpoint of yield, that curve, we're not where we want to be yet. That's the bottom line. We have more work to do on it. We had to shift volume away from 45-nanometer and away from desktop in order to get the yield and to try and fulfill as much of the customer demand as we possibly could.

While that's – we're seeing some improvements we're still not at the right levels and we need to make more progress. And I think what we're doing with, I think what we've done with our key partner there, I've spent a lot of time with their executive team. And they're bought in just as significantly at GLOBALFOUNDRIES as AMD to work with us and to find the right path here. And then bringing in the other key partners like IBM and PDS as I suggested earlier. These things are the things that will help to lift that on a sustainable basis. Again, we are not where we need to be yet and we have to make choices to get the best outcome to satisfy as many of our customers as possible. But we have more work to do, Cody.

Cody G. Acree
Analyst, WFG Investments, Inc.
Q

I guess if you – maybe just a comment on the health of the overall PC market. I guess not your share gains withstanding or the current manufacturing constraints. Can you kind of talk about what the backdrop is versus where you would expect it to be seasonally?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Well, as I look at it, I look at some of the same data you look at whether you go look at IDC or any of the other industry reports out there. I believe the PC market is going to continue to grow and it's going to grow for the foreseeable future. I think there's going to be hundreds of millions of new PC customers over the coming years. And I think there are going to be a lot of them in the emerging market. And that's why I'm so pleased with the progress that we're beginning to see in our emerging market focus. We're going to double down in that space.

We need to continue to build momentum in the emerging market. We know that a lot of that growth, a huge portion, is going to come in those entry and mainstream price points. This is right smack where we can reach with the Brazos and Llano technologies that APU is a value proposition that works. And you look at that combination, emerging market, right technologies, even as it moves into more cloud delivery of content, you're going to see the importance of the APU and the GPU built into that APU become even more critical.

So I believe that the market, the PC market as represented by IDC is a fair representation. There will be growth and it will continue to grow and it will continue to grow consistently over the next several years. Now, if there is some huge macroeconomic event, I can't predict that. But clearly the market, I believe, is solid. It's growing and it has opportunities for us, particularly with the products and technology sets we have.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

And, Rory, lastly, I know it's early but I'd like to get your thoughts on AMD's eventual participation in the tablet market and maybe eventually into even the smartphone market. I guess what are your initial thoughts on pulling your architecture down into those lower power envelopes or is it something that you would consider moving to bring in an ARM-core for that usage?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

I think it's a fair question but remember I'm here 60 days. We'll have an Analyst Day in February, but I think you're on the right trend here in the idea that low power is a trend that's here to stay. Thin and light, convergence, consumerization, those are core trends. They're not going to change.

We're listening to the customer. We want to focus on what that customer needs, how we can create leadership and then drive that through. You're going to see us, as I mentioned, double down in those key areas around low power. That is a trend. Thomas mentioned next year the kind of power envelope reductions that we're driving in the Brazos and Llano family. You think about that the work that we'll do across the APU and how to continue to extend that architecture and the Fusion architecture. So that customer experience is even better.

Low power is definitely the right trend. I also think the trends in the emerging market where I think low power, thin, light, bit longer battery life. Those are trends that are going to play. Customers like them. They're going to want them and they want them in a value proposition that works. I can promise you that we're going to look at the market data, make sure that we're understanding it and fill the areas that give us the return and the benefit that leverage the capability across AMD.

And you think about it, across 60 days I've been very impressed with the technical capabilities of AMD. We just announced Mark Papermaster joining our team as the Senior Vice President of Technology and Engineering, our CTO. He comes from a background of some of the most innovative companies in the industry. I think a teammate like that coming onboard and who's focused in this segment, there are a lot of very important inflection points.

You talk about tablet, I'm not sure that tablet just in the form factor itself is the real game at hand. I think the impact in terms of proprietary control points and shifts in the marketplace that's going to occur both in client server over the coming months and years are going to be exciting opportunities. And for us in AMD, with the capability we have, first focus on execution, execution, execution. Deliver on our commitments, then focus on innovation. Where's the puck going? And those areas, get the right technical team. We have thousands of engineers that we've created the capability to tackle this. How many companies have that capability? And the status quo is going to change. That's an opportunity for us. We're at a market share position where the upside is in front of us. We have to embrace those changes and move forward.

We'll get into a little more detail around the specifics in our February session, but clearly our capabilities, the kind of talent that we have here, that we're developing that we already have and the talent that we're beginning to attract into the team are the kinds of solutions to react to the marketplace. And you're right. Low power is right, emerging market is right and that trend is going to continue.

Cody G. Acree
Analyst, WFG Investments, Inc.

Q

Appreciate it. Thank you.

Operator: Thank you, sir. Our next questioner in queue is David Wong with Wells Fargo. Your line is open. Please go ahead.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Thank you very much. Your guidance for growth in December, just a clarification, did you say that that will be driven by an increase in output of Llano so there will actually be a fair increase in revenue from Llano rather than a shift back to more output on 45-nanometers?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

So we guided revenue up quarter-over-quarter. It was a midpoint of 3% and we also said that this will include a significant increase of our shipments on 32-nanometer and Llano. Yes, that is true.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Okay, great. When might we hope to see the first product on the Piledriver core?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

One of the first products we launch will be Trinity. And we have not released an official launch date yet but it will happen early in the year.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Okay, great. And could you give us a rough idea of how many Llano chips did ship in the September quarter and what you expect in terms of unit shipments in December for Llano?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

No, but I said you can deduct that from what I said before. We – our original intent was to really outperform the Brazos brand in terms of steepness of the slope. And we were – for the reasons we've discussed now at length, not able to achieve that, but we are on a similar trajectory than we – what we had on our Brazos ramp on a quarterly comparable level.

David M. Wong
Analyst, Wells Fargo Advisors LLC
Q

Great, thank you very much.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.
A

Operator, we will take two more questions, please.

Operator: Yes, ma'am. Next questioner in queue is John Pitzer with Credit Suisse. Your line is open.

John W. Pitzer
Analyst, Credit Suisse (United States)

Q

Yeah, guys. Thanks for squeezing me in. Tom, just a clarification on the negotiations with GLOBALFOUNDRIES around good die versus cost plus? How long is that agreement in place? And if it's going to sort of grandfather here, do you have the leverage to go back and continue down a good die kind of contract with your foundry partner, GLOBALFOUNDRIES?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.

A

Yeah, fair question. So the agreement that we have in place, is around 32-nanometer and it's pretty much limited until the end of the current calendar year. And then we would default back to the original agreement. I think I also said already on the last call that we have started negotiations with our partners, and they are progressing well, and as soon as we have an update and something to announce, we'll talk about it, but we are in the process, and as I said, this is a very firm, it's a very committed partnership and it's moving along.

John W. Pitzer
Analyst, Credit Suisse (United States)

Q

And then, Rory, as a follow up, you mentioned Mark's name earlier. When you look at his resume, he's very strong in PowerPC, very rich ARM history, not necessarily a rich x86 history. So I'm just kind of curious if this is a subtle signaling that perhaps you're moving to a multi-architectural strategy? And if it's not, I guess what core skill sets does Mark bring to the table that you think are a good fit with the challenges at AMD today?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.

A

Sure. No problem, John. From the standpoint of what I've seen here over the first 60 days, I really have been impressed with the technical capability. And when you look at the technology industry in this silicon space, there's very few players can match the capability that AMD has in terms of its engineering capacity, the talent that we have on board. We have some great leaders and we have a large contingent of just super-talented engineers that are fighting every day to find out what the customer needs and how to tackle it. And there was an opportunity to go out and work with Mark, and he saw the same kind of excitement around AMD that I did and that Thomas has shared over the past several quarters.

I think the marketplace, it definitely has some very interesting inflection points. Whether it's architectural, whether it's form factor based, there's things that are occurring in the marketplace that'll change the status quo. And I said in an earlier question, I believe that it's key for us to embrace, be the innovative disrupter, to make sure that we continue to build on that. We have a long track record in x86 and we're going to continue to build on that. It just makes sense.

And from a standpoint of Mark, what he brings to the table: innovation, leadership. He knows the market. He's been a customer. He knows about architectures and you combine him with the talent we have in place, with Chekib and the leaders across the engineering teams, this is an opportunity for us not only to leverage our existing businesses, but to see where the puck's getting next. Where's the next evolution of APUs? How do we take that further? We're on the right track there and the right kind of execution. How far can we go on power? How can we leverage these kinds of solutions into servers? We're a design organization, a design company, and we need to take those actions to move this ball forward.

John W. Pitzer
Analyst, Credit Suisse (United States)
Q

Great. Thank you.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, John.

Operator: Thank you, sir. And we have time for one final question. Our final question for today's event comes from Hans Mosesmann with Raymond James. Your line is open.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Great. Thank you. A couple of questions. In terms of Q4, what would your sales outlook be if you had unconstrained supply issues – if you were unconstrained?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

We have no comment on that. That's not a normal idea. Obviously, it would be higher, but that's about the only thing I'd say about it.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Well, perhaps in terms of seasonality, would it be seasonal like you commented on your graphics business in Q3?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I think we've given the clear guidance of where we think it's going to settle in. You can see the IDC kinds of information. I think we've represented that data and we've shared it clearly.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Okay. And then as a follow up, you – it looks like your yields are improving, but you really haven't figured out the root cause. It looks like it's an iterative process. Do you have a plan B in place or on the table? Perhaps using your other foundry to kind of fix the problem because it seems they have no issues whatsoever with Brazos and Llano would be a continuation of that kind of architecture?

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

I think it's unfair to suggest that we don't have an understanding of the root cause. The analysis that we're doing is machine by machine, step by step. We're making those changes as we speak. And we've begun to see over the past several weeks with this kind of intense maniacal focus on execution that starts improvements across that set. So I don't want to leave anyone with the feeling that we aren't working that understanding the issue and have our hands on the rudder and driving this boat.

We have work to do, I'll for sure share that. It and I know it, we have to improve our execution. But we have the experience, the expertise that's getting underneath that, that we believe will drive further improvements as we go through the quarter. Thomas, do you want to add anything?

Thomas J. Seifert
Chief Financial Officer, CAO & Senior VP, Advanced Micro Devices, Inc.
A

I think it's a very important correction to make. It's not like this is an iterative process where we don't know where we go. It's a complex situation. It takes a maniacal focus as Rory said. We've puts lots of teams on this problem, from our partner, from our company, from outside, from the ecosystem and we work hard in that direction. We see the improvement. It's a steep road. But we know the direction. We know the path.

Hans C. Mosesmann
Analyst, Raymond James & Associates
Q

Thank you very much for the clarification.

Rory P. Read
President, Chief Executive Officer & Director, Advanced Micro Devices, Inc.
A

Thanks, Hans.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, operator. If you would like to conclude the call, please.

Operator: Yes, ma'am. Ladies and gentlemen, thank you for your participation. This does conclude today's conference. Thank you for your participation, and have a wonderful day.

Corrected Transcript

21-Jul-2011

Advanced Micro Devices, Inc. *(AMD)*

Q2 2011 Earnings Call

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Hans C. Mosesmann
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your conference operator today. At this time, I'd like to welcome everyone to AMD's Second Quarter 2011 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter

Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, and welcome to AMD's Second Quarter Earnings Conference Call. By now, you should have had the opportunity to review a copy of our earnings release and the CFO commentary. If you've not reviewed the documents, they can be found on AMD's website at quarterlyearnings.amd.com.

Participants on today's conference call are Thomas Seifert, our Chief Financial Officer and Interim CEO; Rick Bergman, Senior Vice President and General Manager of AMD's Product Group; and Harry Wolin, Senior Vice President, General Counsel, and Corporate Secretary. This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1536688, and the telephone replay will be available for the next 10 days, starting later this evening.

I'd like to take this opportunity to highlight a few third quarter dates for you. Rick Bergman will present at the Pacific Crest Global Technology Leadership Forum on the 8th of August in Colorado. Chuck Moore will present at the Citi Technology Conference on the 7th of September in New York, and Thomas Seifert will present at the Deutsche Bank Technology Conference on the 13th of September in Las Vegas.

AMD's third quarter quiet time will begin at the close of business on Friday, September 16, and we will announce our third quarter earnings on Thursday, October 27. AMD's ownership of GLOBALFOUNDRIES on a fully diluted basis decreased to approximately 11% as of the conclusion of the second quarter. Reconciliation for all non-GAAP financial measures discussed today is included in the financial tables that accompany our earnings release, available in the Investor Relations section of amd.com.

I'd like to remind you that AMD's second quarter had 13 weeks of business, compared to 14 weeks for the first quarter. Please note that a more detailed review of our financial performance is outlined in the CFO commentary, as I mentioned, which is filed with our earnings release and posted on our website.

Before today's call, I'd like to caution everybody that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC, where we discuss these risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in our most recent SEC filings, AMD's quarterly report on Form 10-Q for the quarter ended April 2, 2011.

Now with that, I'd like to hand the call over to Harry.

Harry A. Wolin

Co-Secretary, Senior VP & General Counsel, Advanced Micro Devices, Inc.

Thank you, Ruth. I would like to provide you with a brief update on our CEO search. The search for a new CEO remains a top priority. The board is pleased with the quality of the candidates interviewed and is confident in its robust and active process. They continue making progress to ensure a person is selected with the right vision, experience, and track record to lead AMD into the future and to create increased shareholder value. The board is pleased that the senior management team has executed well throughout this timeframe. I would like to take this opportunity to emphasize that meeting a timeline is not the driving force in the search; finding the right candidate is.

And with that, I'd like to turn the call over to Thomas to provide management's perspective on second quarter results.

Thomas J. Seifert

Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

Thank you, Harry. In 2011, AMD kicked off the Fusion era of computing, bringing to market the industry's biggest architectural change since the invention of the microprocessor. Brazos, our first APU for the thin and light notebook and netbook market, is an unqualified hit and is one of our fastest-ramping processors in our history. In June, we expanded our Fusion offerings with the launch of the A-Series APU for mainstream notebook and desktops, code-named Llano. We shipped more than 1 million A-Series APUs in the second quarter. Based on strong demand signals and SKU assortment for the second half of the year, we expect the Llano ramp will outpace the Brazos ramp.

Customer adoption of Brazos and Llano-based platforms is strong, and sell-through is excellent. We have more than 300 APU design wins, and 11 of the world's top 12 notebook OEMs are shipping APU-based products. APU momentum is driving increased sales with our newest notebook customers, helping to increase our footprint across emerging markets and in the commercial segment. For example, in the second quarter, the Lenovo ThinkPad X120e was one of the top-selling commercial notebooks among SMB distributors, exceeding demand forecasts.

As a result, in the second quarter we achieved record mobile processor unit shipments and record overall microprocessor unit shipments. We improved notebook processor ASP sequentially, and we drove a richer mix of notebook processors, which have increased gross margin sequentially.

The success of our APUs demonstrates we have the right strategy to deliver the differentiated products that the market wants over the long term, paving the way for AMD to take a more equitable share of the 360-million-unit-per-year-and-growing computing market. We remain committed to delivering the world's best APU every year, continuing to improve performance across multiple dimensions while lowering power consumption.

In June, we publicly demonstrated Trinity, our mainstream notebook APU for 2012, which we believe will further extend our graphics and media processing leadership. We plan to introduce a version of Trinity that will consume less than half the power of today's lowest-power 35-watt Llano APU, bringing performance computing to the ultra-thin notebooks. Further power improvements will drive our tablet APU roadmap. While tablet usage models and form factors differ from the PC, the IP required for success is ideally suited for our Fusion APUs. We have accelerated our tablet roadmaps to ensure we take advantage of this opportunity.

Also in June, we launched our first tablet APU and announced the addition of a new tablet APU for 2012 that provides a great hardware complement to the advances Microsoft is making on the tablet operating system front with its next generation of Windows.

Turning to the server business, we expect to begin shipping our first server platform featuring the Bulldozer x86 core this quarter. The Interlagos platform is our first server offering optimized for today's cloud data centers, and the architecture excels at compute-intensive and HPC workloads, where it will deliver up to 35% performance improvement compared to our current offerings. Customer excitement for Interlagos is high. All of our major customers are expected to introduce servers based on the new platform this year. We are committed to the server market and are focused on returning the business to a growth trajectory.

Turning to the graphic business, the importance of graphics has never been clearer, and the growth opportunities resulting from our graphics IP have never been more persuasive. Our graphics technology is fueling the success of our APUs and opening up significant growth opportunities in adjacent markets. We strengthened the competitiveness of our discrete graphics offerings in the quarter, delivering the industry's highest-performing desktop and mobile GPUs. The continued ramp of APUs resulted in a record 20-plus-million DirectX 11 discrete level graphic engines shipping in the quarter.

We also passed several critical milestones in the second quarter, as we prepare our next-generation 28-nanometer graphics family. We have working silicon in-house and remain on track to deliver the first members of what we expect will be another industry-leading GPU family to market later this year. We expect to be at the forefront of the GPU industry's transition to 28-nanometer.

In the quarter, Nintendo also announced that its next-generation game console, the Wii U, will be powered by an AMD HD graphics engine. The successor to the widely popular Wii is expected to launch next year. As a reminder, AMD graphics technology power two of the three current generation gaming consoles. Approximately 120 million game consoles are expected to ship over the next three years.

Our graphics IP and Fusion APUs are a great match for the next generation of media-rich consoles. We have an opportunity to increase the amount of AMD silicon shipped in this market by delivering customized Fusion silicon, significantly expanding the TAM for our APUs and serving as a strategic beachhead to drive APUs into adjacent market segments.

Operationally, we continue to demonstrate the earnings power of AMD's business model, generating nearly $300 million of free cash flow in the first half of the year. Key to this performance is our ability to work with both GLOBALFOUNDRIES and TSMC to meet our manufacturing needs. At the 28-nanometer node, all of our products will be based on bioprocess technology, providing increased flexibility to work across these two committed and valued partners.

Last quarter, I described a set of initiatives to streamline business and decision-making processes across our operations, R&D, and go-to-market functions. We are in full executional deployment across each of the key work streams. These efforts are aimed at accelerating our transformation to a world-class design company, growing revenue, lowering costs, and reducing time to market. We expect to see material benefits from this project in 2012.

Turning now to the second quarter financial summary, second quarter revenue was $1.57 billion, a 2% sequential decline. Non-GAAP gross margin was 46%, up one percentage point quarter-over-quarter due to a stronger mix in margin-accretive APU platforms. Operating expenses were $606 million, less than guided due to the timing of expense recognition related to new products. R&D was $367 million, and SG&A was $239 million. Non-GAAP operating income was $114 million, and non-GAAP net income was $70 million, or $0.09 per share. Both exclude the amortization of acquired intangible assets of $9 million. Adjusted EBITDA was $205 million, up $7 million from the prior quarter due to lower operating expenses.

Now switching to the business segments, Computing Solutions segment revenue was $1.2 million, flat compared to the prior quarter, as higher mobile revenue was offset by lower server and desktop microprocessor revenue. Record mobile processor unit shipments were driven by the strength of APUs, which now account for more than 70% of total mobile platform unit shipments and revenue in the quarter. Computing Solutions operating income was $142 million, up $42 million from the previous quarter, primarily due to improved gross margin from a richer mix of APU sales compared to the prior quarter.

Graphics segment revenue was $367 million, down 11% compared to the prior quarter, mainly due to lower discrete mobile unit shipments and seasonality in the desktop discrete graphics and inboard market. Graphics segment operating loss was $7 million, down $26 million from the prior quarter, primarily due to lower revenue and increased important investments in our next-generation 28-nanometer leadership graphic offerings.

Turning to the balance sheet, our cash, cash equivalents, and marketable security balance at the end of the quarter was $1.86 billion, up $160 million compared to the end of the first quarter. The increase is primarily due to cash generated by operations. Accounts receivable at the end of the quarter was $759 million, down $38 million compared to the end of the first quarter of 2011 due to the decline in revenue. Inventory was $642 million exiting the quarter, slightly down from the prior quarter. Long-term debt at the end of the quarter was $2.2 billion. Non-GAAP adjusted free cash flow was $143 million, down $11 million from the prior quarter. We'll continue to be strategic in our debt reduction efforts based on generating non-GAAP free cash flow, and we expect to be opportunistically looking to reduce our debt based on market opportunities.

Turning to the outlook, the following statements concerning AMD are forward-looking, and actual results could differ materially from current expectations. For the third quarter of 2011, we expect third quarter revenue to increase 10%, plus-or-minus 2%, sequentially. Operating expenses are expected to be approximately $625 million. The increase from the second quarter operating expenses of $606 million is mainly due to the timing of expense recognition associated with certain product tape-out. Had this expense been recognized as planned in the second quarter, operating expense guidance for the third quarter would have been flat quarter-over-quarter.

In conclusion, whether for PCs, tablets, game consoles, or new form factors, the APU is the superior processing platform. The graphics performance of AMD APUs is stunning and drives differentiation. But an APU is much more than the integration of CPU and GPU onto a single piece of silicon. It's an optimized combination of multiple types of computing cores capable of efficiently delivering unmatched levels of computing performance, often called heterogeneous computing. Tapping into this potential turns the APU into a unified turbo-charged SOC perfectly suited for numerous market segments inside and outside the PC sector. As an example, in 2013, we'll plan to introduce an optimized tablet APU capable of redefining what users will expect from a tablet.

Industry support to enable the full potential of the APU is critical and, we believe, best delivered through open standards capable of creating a critical mass of hardware and software support. Last quarter, we provided additional details on our Fusion system architecture, an open, standards-based approach to enable heterogeneous computing that we believe the industry will rally around.

We are bringing FSA to market in the same way we drove the adoption of other industry standards. We believe the approach will work with FSA just as it did with AMD 64 architecture and hyper transport. Software developers and other processor companies are attracted to FSA because it allows the use of programming models that have been in place for decades. FSA also has the potential to work across the multiple types of CPU and GPU cores found in different devices, whether they are powered by x86 or ARM or both.

We are seeing great response from other industry leaders, like Microsoft and ARM, who recognize the benefits of a standards-based approach to heterogeneous computing. FSA can enable alliances that reach beyond traditional hardware barriers, allowing AMD to grow within an expanding ecosystem inside and outside of x86 computing. This is the future of the industry, and AMD is leading the way.

And with that, I will turn back to Ruth for the Q&A.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

Thank you, Thomas. Huey, we'd now like to start the question-and-answer session, please, so if you could poll the audience, we can get going.

QUESTION AND ANSWER SECTION

Operator: Yes, ma'am. [Operator Instructions] Our first questioner in queue is Vivek Arya with Bank of America Merrill Lynch. Your line is now open.

Vivek Arya
Research Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question. Thomas, the 10% growth you're guiding to for the third quarter, how much of that is from graphics, how much from computing, how much from an ASP lift? And more importantly, how should we align that with Intel's slight change and somewhat caution about the PC market versus prior expectations? And then I have a follow-up.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Yeah, very good question. So, as you know, we entered the market rather conservatively, talking about the PC growth expectations in the very low teens. In the last two quarters, we have been talking about an expectation in the 10s – Mercury now is at 8.9% – and we still think we don't have any indication why we should materially differ from that opinion today. However, I think we see now in the second quarter that the momentum we have started with the process launch, as I said before, on our first APU family, with that accelerated ramp we have now seen over two quarters, the demand it hits in the market is going to be on this level and better for our Llano products that we launched this quarter. We promised we would ship about the same volume of Llanos as we shipped in the first quarter of Brazos, and from the demand signals we see today, we expect the ramp to be even higher and better accelerated, and this is really driving our guidance for the third quarter.

Vivek Arya
Research Analyst, Bank of America Merrill Lynch

Q

I see. And are you satisfied with the yield and the support you're getting from GLOBALFOUNDRIES? And as I sort of look out to next year, you have Intel, who is going to be on a 22-nanometer product roadmap. How aggressive do you think GLOBALFOUNDRIES or competitive do you think they are compared to that kind of roadmap?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

So we cannot complain for sure about a lack of support. I think we receive all the support we need, and to be honest, also that we deserve by bringing advanced technology to our foundry partners. We have been putting guidance in place for Q2 that we hit, and we fully expect to deliver our guidance that we put in front of you today, and I think that's a statement in itself. When we move to 28 nanometers, we made good progress on the graphics side especially. As you heard, we have working silicon in hand, and we have great confidence that we will deliver and lead the transition in the graphic GPU business to 28-nanometer. And I think the important statement is also that, with 28-nanometer, all of our products will be based on biotechnology, and with that our flexibility to manage risk across the foundry partner ecosystem that we have has significantly increased.

Vivek Arya
Research Analyst, Bank of America Merrill Lynch
Q

Got it. And just one last one, if I may. Traditionally, Thomas – you've been in the industry for a long time – so from the time you launch a new server product, how quickly should one start to see real tangible shipments and market share gains? Thank you.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

Very good question. So the enterprise business is not a business that turns overnight, but we think we will see material impacts at the end of the year in the fourth quarter.

Vivek Arya
Research Analyst, Bank of America Merrill Lynch
Q

Great. Thanks, and good luck.

Operator: Thank you, sir. Our next questioner in queue is Romit Shah with Nomura Securities. Your line is now open.

Romit J. Shah
Research Analyst, Nomura Securities International, Inc.
Q

Yeah, hey, Thomas, just on your notebook processor business, my understanding is Llano is coming in at a higher ASP, but if you look at the mix of the notebooks, legacy products still account for the majority of your notebook processor revenues. Is that the right way to think about it, and how do you see, I guess, the mix unfolding over the next couple of quarters?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.
A

This is Rick. We're making a rapid transition to Fusion APUs in the notebook market share, where next quarter – excuse me, the current quarter we'll be well over half will be either Llano or Brazos APUs, so the legacy notebook products will quickly fade away through the course of this year.

Romit J. Shah
Research Analyst, Nomura Securities International, Inc.

Q

So am I right in saying that ASPs are a tailwind for revenues over the next one to two quarters?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

I think with the aggressive ramp of the Llano ASP in the second half, we'll see improvement in our ASP performance.

Romit J. Shah
Research Analyst, Nomura Securities International, Inc.

Q

Okay. And then I just had a question for Harry. Harry, the stock is down about 25% over the last three months, and I personally believe that the concerns over finding a credible candidate has been a big reason why. And it's a little unfortunate because it's offset some of the good results and good guidance today. If the company is not able to land a credible CEO this quarter, what's the board prepared to do?

Harry A. Wolin
Co-Secretary, Senior VP & General Counsel, Advanced Micro Devices, Inc.

A

Well, I think I will tell you that the board is actually very pleased with the candidates they're seeing and believes that the search is moving in a fine direction. So I think they're confident that we will find the right candidate, the candidate with the proper vision and track record to move us into the future, and hopefully quickly restore the shareholder value that we've lost, as well as gaining some that we feel we deserve beyond that.

Romit J. Shah
Research Analyst, Nomura Securities International, Inc.

Q

Does that mean that you're going to make an announcement this quarter?

Harry A. Wolin
Co-Secretary, Senior VP & General Counsel, Advanced Micro Devices, Inc.

A

I'm not setting a timeline for any announcement.

Romit J. Shah
Research Analyst, Nomura Securities International, Inc.

Q

All right. Thank you.

Operator: Thank you, sir. Our next questioner in queue is Uche Orji with UBS. Please go ahead. Mr. Orji, your line is open. Please check your mute button. Okay. We'll proceed to our next questioner, JoAnne Feeney with Longbow. Please go ahead.

JoAnne Feeney
Vice President & Senior Equity Analyst, Longbow Research LLC

Q

Yes, thanks. Congrats on a nice quarter, folks. I had a question about margins and ASPs. I think – we understand that the APUs bring a greater margin, certainly the lower-end ones, but perhaps some lower ASPs, as the previous questioner was getting to. I guess one question I have is where do you think gross margin can go in the second half and in 2012, and how do you see mix evolving to bring that about? Perhaps specifically you could provide some sense of the relative contribution of the Brazos versus Llano versus Bulldozer to get to those gross margins over the next few quarters.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

A very good question. So we said that all three products are going to be margin-accretive – however, for different reasons. In the Brazos case, it was primarily a matter of cost position, really being accretive from a very favorable cost position, and I think that played out nicely over the last quarters. We will see margin accretiveness on the Llano side because of better price performance and playing in SKUs that we have not been able to play before. And the server business traditionally I think is a higher-gross margin business than our corporate average. So I'm not going to update any guidance for 2012. I think we – at our investor day, we outlined where we think we can take the company in terms of gross margin, that we have line of sight of a world beyond 50%. But that is something for next year and the years after that we'll talk about on our Analyst Day, without any doubt. However, we expect that our gross margin is going to go up in the second half.

JoAnne Feeney
Vice President & Senior Equity Analyst, Longbow Research LLC

Q

Okay. If I could, a follow-up related to your wafer pricing agreement with GLOBALFOUNDRIES. There are some that are a little concerned that the absence of a CEO over there may create some additional risk for the supply at 32 and at 28. And so I'm wondering if you could provide an update on your wafer pricing agreement with GLOBALFOUNDRIES and the incentive program that you have in place, and whether that kicked in and whether there are additional charges from that, and whether you think, given the perhaps additional uncertainty at GLOBALFOUNDRIES, whether you could possibly extend the per-die or per-good-die structure that's in place this year into next year. And if not, how would the reversion to the older policy affect your gross margin potential?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Yeah, a very good set of questions. So first of all let me make a statement up-front. Despite the management change at GLOBALFOUNDRIES, we cannot complain at all of a lack of support or attention from GLOBALFOUNDRIES to us. So actually the relationship has developed very good and rather strengthened in this transition period. The wafer supply agreement for this year that we have announced is in full effect. It had been completely negotiated and signed, and we are operating under the umbrella of the new WSA agreement. That's why we are confident in the statements we make. And it was always the intent that the companies would sit down and look at the past and the present and the future both companies have in front of them, and readjust the wafer supply agreement on a long-term basis, and this is a process that has already started.

JoAnne Feeney
Vice President & Senior Equity Analyst, Longbow Research LLC

Q

And you feel you're able to conclude that process even in the absence of a permanent CEO over there?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

That's a hypothetical question. We have two interim CEOs on both sides, and we run the company. I told you I'm not sitting here warming a chair. I think we have done great things over the last two quarters. We have become very ambitious with our outlook for the rest of the year and also moving the company in 2012, so that is the least of our concerns.

JoAnne Feeney
Vice President & Senior Equity Analyst, Longbow Research LLC

Q

Okay. Thanks very much.

Operator: Thank you. Our next questioner in queue is Cody Acree with Williams Financial. Your line is open.

Cody G. Acree
Director of Research, WFG Investments, Inc.

Q

Thanks, guys. Thomas, with your outlook on the market as a whole and then the design-win strength you've seen at Brazos and Llano, what are your expectations for market share as you end the year, both to notebooks and desktops?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

So we are not going to get into specific market share guidance, but I think we have been very open up-front that we expect to gain market share based on the products that we have launched, and we feel confident that this is going to happen in the second half of this year.

Cody G. Acree
Director of Research, WFG Investments, Inc.

Q

Would you expect that share to accelerate through the second half, or is that something that pushes more into 2012 before you see, I guess, a material share shift?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

I think we will already see some share shift in the second half of this year, but the big topic is getting profitability up and not revenue up, and the profitability focus is something we will be very keen on.

Cody G. Acree
Director of Research, WFG Investments, Inc.

Q

On Bulldozer, you've given us some initial indications of the customers' acceptance. Can you talk a little bit more about that, especially compared to what you saw as far as customer early adoption for Brazos and then Llano, and how is Bulldozer comparing to that?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Well, Bulldozer is the x86 core, so it's actually utilized in several different products. There's Interlagos, which is our server-based product, which we'll begin shipping initial production next month. Likewise, there's a desktop version called Zambezi, which is geared more towards the desktop enthusiast market. That will also begin initial production and shipments next month. And then longer term, Thomas mentioned Trinity, where it's used in more of a notebook, a Fusion type of product, which will ship next year. On the first two products, we're seeing a very good acceptance, both in the server and in the desktop, and we expect numerous platforms to launch later this year.

Cody G. Acree
Director of Research, WFG Investments, Inc.

Q

And then lastly, can you talk a little bit about what you see as far as tablet cannibalization? We heard some of this from Intel yesterday, but I'd like to get your view on that as well.

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Certainly it's a topic of great debate here in the industry, and our view is we haven't seen a tremendous cannibalization. Obviously, it's another computing device, and so, again, we see it as an opportunity. And expectations on that computing device continue to rise as we go through time, that it can offer the same rich media experiences. So as we start to formulate our roadmap to address that particular market segment, as Thomas outlined, we feel it's coming right into the sweet spot of the key IP and technologies that we here have at AMD to address that market, with one critical inflection point coming up with Windows 8.

Cody G. Acree
Director of Research, WFG Investments, Inc.

Q

Thanks, guys.

Operator: Thank you, sir. Our next questioner in queue is Stacy Rasgon with Sanford Bernstein. Your question, please.

Stacy A. Rasgon
Senior Analyst, Sanford C. Bernstein & Co., Inc.

Q

Hi, guys. Thanks for taking my question. So we have a ramp of Llano coming up next quarter similar to Brazos. Your second quarter of Brazos, I think you shipped just in excess of 3 million, so we'd expect I guess 3 million or more Llano shipments next quarter. Now, we had 6 million Brazos this quarter. I'm just curious if you can give me some feeling for at least your expectations for next quarter, relative contributions of Llano versus Brazos, given you expect 100% of your mobile shipments essentially to be made up of these two things. And what is the effect on margins? I know you said during your last quarter's call you expected gross margins by the end of the year to be at the high end of your annual guidance, which would put it around 48%. Given the accelerated ramp that you seem to be having in Fusion and even Bulldozer, do you have any update to that sort of, I guess, Q4 or year-end guidance in terms of where you think the gross margin trajectory can get to by the end of the year?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Well, I think the statements we made are holding true. We expect to march in that direction, and we still expect and probably are more confident now that we end up at the high end of our gross margin guidance at the end of the year. And if you add all the factors up that we have been talking about today, then it's reasonable to assume that we make – at the end of the third quarter, we make a good step in that direction.

Stacy A. Rasgon
Senior Analyst, Sanford C. Bernstein & Co., Inc.

Q

Got it. And in terms of the contribution of Llanos versus Brazos, I assume this means you'd expect Brazos shipments to be down from the 6 million this quarter but Llano to be up considerably? Or what are your relative expectations for Llanos versus Brazos in your mobile space next quarter?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

Well, the factors you gave are pretty accurate. As you said, we shipped about 3 million units of Brazos in the first quarter. We expect a steeper ramp-up of Llano in the current quarter. And we do not expect that Brazos would decline significantly.

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.
A

Just one thing I would add is they're geared for different segments, so it's not like Llano cannibalizes Brazos. They're very complementary. So actually Llano is displacing some of the mainstream products that we've had in prior quarters, as well as obviously the opportunity to displace competition.

Stacy A. Rasgon
Senior Analyst, Sanford C. Bernstein & Co., Inc.
Q

Got it. No, that's very helpful. And one more, if I could squeeze it in. So you mentioned in your CFO commentary, and even on the call here, your prospect to opportunistically de-lever going forward. So I think – I don't know where your net debt position is sitting this quarter. It's probably somewhere around $300 million. Do you think you can be reasonably close to cash/debt neutrality by the end of the year? And what would you it take for you to potentially – I suppose to have enough – do you think you could basically have enough cash on the balance sheet maybe by the end of next year to conceivably completely de-lever, essentially to pay off all of your debt and still have enough cash to run the business? I think you've publicly talked before about needing about $1 billion on the balance sheet to be comfortable running the business. Do you think that's actually a realistic possibility potentially?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

Good questions, but I'm not going to get into 2012 guidance. I think what is fair to say is that our commitment to de-lever is as strong as it was, and with the opportunity we have now generating significant free cash flow, we will take advantage of this opportunity. Your statements with this – for the second half, how close can we get to a net cash position, are reasonable assumptions.

Stacy A. Rasgon
Senior Analyst, Sanford C. Bernstein & Co., Inc.
Q

Got it. That's very helpful. Thank you, guys.

Operator: Thank you. Our next questioner in queue is Glen Yeung with Citi. Your line is open.

Glen S. P. Yeung
Managing Director, Citigroup Global Markets (United States)
Q

So, Thomas, can you be more specific in exactly what you think gross margins will do in the third quarter?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

Well, I think we'll be up 1%.

Glen S. P. Yeung
Managing Director, Citigroup Global Markets (United States) Q

Okay. And then I wonder, if you look at the 10% revenue growth that you envisioned for Q3, how much of that do you think is from unit, and how much of that is actually from ASP increase?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc. A

Fair question. Half and half.

Glen S. P. Yeung
Managing Director, Citigroup Global Markets (United States) Q

Okay. And then now sort of a bigger picture – a little bit bigger picture question. At the beginning of the year, you guys talked about sending some people into the – FAEs into the field, and so you talk to the buyers of servers and get a sense – sort of prime the pump as you get Interlagos into the market. Can you give us a sense as to how those discussions have gone, so really not talking to the OEMs, but actually talking to the ultimate end customers of servers, and what's their level of interest in Interlagos and what specifically are they saying they like or dislike?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc. A

Well, the key changes in the market is the continued focus around power and the ability to deliver performance in a given power envelope. That's one of the critical things that our Interlagos server product brings to those customers as they expand data centers or, in some cases, the mega data centers or the cloud providers – big, big criteria. And so that plays into the sweet spot for our Bulldozer core, that I talked about earlier, really providing a higher level of performance at a given power level. So the reception has been good. In fact, it out-leverages existing platforms out there already, our many-core platforms you can just drop in, in the Interlagos family, gives a great opportunity for them to test it out, and then use those same platforms into new installations over the next multiple quarters.

Glen S. P. Yeung
Managing Director, Citigroup Global Markets (United States) Q

Do you see any sort of trends in terms of who may be the early adopters of Bulldozer-based server solutions, i.e., the financial services? Is it – any patterns like that? And if there are, how does that compare to when you ramped up Opteron at the – when Opteron was ramping well?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc. A

Well, AMD historically has done well in the high-performance computing space, the HPC space, and we have some statistics there, and they are the ones that are most eager to get that higher level of performance, so clearly they will be the front-runners on the initial Interlagos shipments.

Glen S. P. Yeung
Managing Director, Citigroup Global Markets (United States) Q

Yeah. Okay. Great. Thanks.

Operator: Thank you, sir. Our next questioner in queue is Jim Covello with Goldman Sachs. Your line is open.

James Covello
Research Analyst, Goldman Sachs & Co.
Q

Great. Thank you so much for taking the question. I guess a couple questions. First, historically, when AMD has had a very competitive product portfolio that was picking up some share, there's been some price aggression from Intel. Do you think that that could happen this time, and if so, is that worked into any of the revenue expectations or margin expectations going forward? And a second question would just be competition that you expect from ARM as we move into 2012 on Windows 8. Thank you so much.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

Yeah, good question. There is no doubt this is a competitive environment, and it always was and it always will be. And of course competitive dynamics are part of the factors that we consider when we talk about guidance and this competitiveness is not going to disappear. However, we talked at length at what we think the strength of our product offering is, and we see that now come to fruition, so we look forward quite confident, I would say. The second part of your question was on...

James Covello
Research Analyst, Goldman Sachs & Co.
Q

On ARM, Windows on ARM as we head into 2012, and any competitive dynamics you expect there.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

We'll have to see. I think we made adjustments to our product roadmap. We will put a very convincing tablet roadmap in front of us. It's still a very fragmented market. It's still a very small market outside of the iPad. So in terms of 2012, we don't expect too much of an impact.

James Covello
Research Analyst, Goldman Sachs & Co.
Q

Thank you very much.

Operator: Thank you. Our next questioner in queue is Srini Pajjuri with CLSA Securities. Please go ahead.

Srini Pajjuri
Research Analyst, Credit Agricole Securities (USA), Inc.
Q

Thank you. Thomas, one question on graphics. First, as far as Q3 guidance is concerned, what is your expectation for graphics business? And then just wondering, given the double-digit decline in Q2, if that has anything to do with the fact that you are shipping more APUs and Intel shipping more Sandy Bridge, just wondering what your thoughts about the potential cannibalization are. Thank you.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.
A

Why don't you start with the attach rates first, and then...

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.
A

So latter part of your question was really around the attach rate, and to a certain degree, it's playing out exactly as we expected in 2011. Certainly our Llano type of processor is – now that it's publicly out there, it shows that we truly have discrete-level graphics with a modern discrete-level architecture. So certainly from an AMD platform perspective, the need for a low-end graphics GPU is not there unless you want to use it in a CrossFire type of configuration. Conversely, though, the competitive platforms don't have that modern GPU architecture, so that's actually driving the need for mainstream or performance notebooks to use discrete graphics. So what's the net out of that from an attach rate? It's kind of what we're seeing, it's basically flat at this juncture.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

So to your first part, we do not provide guidance on a segment level. But to answer your question with respect to Q2, most of the revenue adjustments we have seen were very much seasonality-driven. The second quarter traditionally is the weakest quarter for the discrete GPU business, and I think that was the main contributor to the decline, the quarter-over-quarter revenue decline.

Srini Pajjuri
Research Analyst, Credit Agricole Securities (USA), Inc.

Q

So I guess, given all the puts and takes that you're seeing, how should we think about the growth of this business on an annual basis? Do you think it will continue to grow from here, or is it going to flatten out, or is it going to decline going forward?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

No, if you take the net that Rick just mentioned, we don't see any big impact on attach rates for the remainder of this year. But we also said that, in the long run, parts of this business will be cannibalized, and low-end discrete GPUs will be replaced with Fusion-type products, and this is all good news for us because it replaces low-gross-margin revenue with high-gross-margin revenue.

Srini Pajjuri
Research Analyst, Credit Agricole Securities (USA), Inc.

Q

Okay. Fair enough. Just one clarification, Thomas, on the expense side, you said you have some push-outs from Q2 into Q3. Just wondering how we should think about Q4. Do you expect that part of the expense to come down in Q4?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Well, we said if it hadn't it been for the timing issue, we would have been flat Q2 to Q3. We will – I'm not going to give guidance on Q4 now here, but I will make a statement that our focus on expense management and being really disciplined when it comes to operating expenses will not be any different in the fourth quarter.

Srini Pajjuri
Research Analyst, Credit Agricole Securities (USA), Inc.

Q

Thank you.

Operator: Thank you, sir. Our next questioner in queue is Patrick Wang with Evercore. Please go ahead.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Great. Thanks for the question, and congrats on the quarter. So clearly you're starting to see some success in mainstream notebooks today. I'm just curious on Windows 8 and wanted to follow up on this one, but what are some of the things that you can leverage in what you're seeing in notebook today to maybe help you succeed on that? And then on that same note, I guess based on the current x86 software ecosystem out there and your experience with hardware drivers and such, do you feel like you've got an advantage versus the ARM guys? Does it even matter? Can you talk about some of the puts and takes there?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Sure. So let's talk first about the mainstream notebook. We were pretty happy with the review that we had on our Llano processor. Obviously, we expected the graphics and the video and media capabilities to shine through, which it did, but also the message about how AMD is focused on battery life, and really turn that into an advantage at this juncture with our Fusion architecture, gives us something to leverage into the future. And we're just going to double down in that area. You'll continue to see us bring low-power solutions into the marketplace so we can grow our presence in notebooks and our market share. On the ARM and the x86 type of questions, certainly there's a large body of software out there that leverages the x86 architecture, but our focus is really delivering the entire experience. And again, we have all the right processors, the right GPUs, and yes, compatibility will certainly matter as we look forward to 2012/2013 and so on. When somebody walks into the store, they want the confidence that they're going to get that same PC experience, and we feel AMD is the best capable company to deliver it into the market.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Gotcha. Okay, and – that's helpful. And then just for my second question here, just wanted to ask about the competitive environment that you're seeing in graphics today. I know you talked about detach rates being fairly stable here, but how is the competition faring up there? How are the inventories that you're seeing out there in the channel? And then also, just lastly, I was hoping you could comment on that 17- or 18-watt Trinity part that you talked about. It sounds interesting.

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Okay. Again, I'll touch on the graphics business first. So obviously we have a full line of products that we fully launched now, Northern Islands, both in the desktop and notebook area. Just a couple weeks ago, we introduced the industry's highest-performing notebook GPU, coupled with the industry's highest-performance desktop card that we have available on the marketplace. We feel our position for the next couple of quarters is very good. And then, as Thomas mentioned, there's an inflection point coming with the 28-nanometer process technology again. We've invested a lot in that area, and we expect to maintain our leadership position that we've enjoyed the last several years in the GPU marketplace. And the Trinity part, that's a product geared for 2012. We put out a pretty interesting power specification. I don't know if we really want to go into more detail about that product at this time, other than the fact that we're going to continue to invest in leading in the mobile space.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Okay. And that part is different than the 28-nanometer part that you guys have got on the roadmap, as well, in Q1?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Well, the – I'm not sure which 28-nanometer product you're talking about in Q1. We've talked about Trinity in the past, and that's a 32-nanometer product.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

It was – well, actually the replacement for Brazos.

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

No, Trinity is more the mainstream product.

Patrick Wang
Analyst, Evercore Partners (Securities)

Q

Gotcha. Okay. All right. Thanks so much, guys.

Operator: Thank you, sir. Our next questioner in queue is John Pitzer with Credit Suisse. Please go ahead.

John W. Pitzer
Research Analyst, Credit Suisse (United States)

Q

Yeah, guys. Good quarter. Thanks for letting me ask the question. Thomas, you talked about gross margin maybe being up a percentage point in the September quarter. If that holds, you'll have an incremental gross margin of about 60%. Is that the right way we should think about incremental gross margin from here as you march towards that 50% goal, or is September a particularly strong mix shift quarter, that that 60% contribution margin probably comes down after that?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Yeah, as I said, I'm not going to give – go into long-term guidance, but moving forward, you will see different dynamics of costs playing in. There will be a 28-nanometer transition. There will be ramp-up costs associated with going to 28-nanometer, so you will have some headwinds and gives and takes moving forward. We also said that getting our server market share back to where it needs to be is going to be a big part of that story, getting line of sight beyond 50%.

John W. Pitzer
Research Analyst, Credit Suisse (United States)

Q

And then, Thomas, would you expect the graphics business to return to an operating profit in the September quarter, or is the incremental spend on new products still focused in on graphics for Q3?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

We saw a spike in terms of R&D expenses. I'm not going to give segment profitability guidance, but every time we lose money, we are not happy about that situation. And we said that being profitable in this business over the long run is one of our key intents, and that's how we are going to manage this business moving forward.

John W. Pitzer
Research Analyst, Credit Suisse (United States)

Q

I think my last question, maybe for Rick, if you go back to the graphics business kind of peaked on a revenue basis a year ago at about $440 million. I'm just kind of curious. Do you think that that's an attainable level going forward, or do you think the dynamics around APU means that getting back to a $440 million level probably not the right way to think about that business?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

No, we still have lots of opportunities in the graphics business. We haven't talked on this call much about our workstation graphics, but we just hit record revenue and record unit shipments last quarter, and we can continue to grow that particular part of the business. In addition, with the 28-nanometer product coming, that's a great opportunity to grab share again. Just like we led the industry with DX11 – and you saw what that did to our revenue – there's another opportunity coming up again here shortly.

John W. Pitzer
Research Analyst, Credit Suisse (United States)

Q

Great. Thanks, guys. Appreciate it.

Operator: Thank you, sir. Our next questioner in queue is Mike McConnell with Pacific Crest. Please go ahead.

Michael McConnell
Vice President & Senior Research Analyst, Pacific Crest Securities LLC

Q

Thank you. Rick, wanted to ask, the 9 million units for Brazos, very impressive in the first half of the year. How do we reconcile that type of sell-in in that category, like you said with the segmentation between Brazos and Llano, relative to what we've been hearing about netbooks, what Intel alluded to yesterday with their view, reduced outlook for netbooks, and just generally weakness in the lower end of the market? How do we reconcile those two? Is it just purely share gain, or how do we get comfort that there will be sell-through at your customers?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Well, Brazos isn't just a netbook part. In fact, that's just a small percentage of the Brazos sales. We see it used in mainstream notebooks, desktops, all-in-ones, all different platforms out there. So we have tremendous sell-through on Brazos, so it's been going guns blazing since we introduced it in December. So there's no lack of interest in Brazos.

Michael McConnell
Vice President & Senior Research Analyst, Pacific Crest Securities LLC

Q

And then back on the graphics side, do you think your 11% decline in Q2 is representative of the entire market, meaning did you take share – or did you hold share, lose share, or do you think you took share in Q2?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.
A

It's normal seasonality, and at this point we don't know whether we really lost or gained share. I don't think there was a big shift in either direction in Q2.

Michael McConnell
Vice President & Senior Research Analyst, Pacific Crest Securities LLC
Q

Okay. Great. Thank you.

Operator: Thank you. Our next questioner in queue is Ross Seymore with Deutsche Bank. Please go ahead.

Ross C. Seymore
Research Analyst, Deutsche Bank Securities, Inc.
Q

Hi, guys. Just a question on attach rates in your own business with discrete GPUs, especially on the notebook side of things, just trying to judge, as the APU side ramps, is that complementary to your business, or is there some cannibalization that you worry about?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.
A

To a certain degree, we're waiting to see how that plays out. On the Brazos type of platform, we aren't seeing a lot of attach rate. But again, it's geared for more the mainstream and netbooks, where you don't historically see a lot of discrete GPUs anyway. As we move up to Llano, our value proposition's pretty good there for adding a discrete GPU, and there's some markets – China, Western Europe – that greatly value the graphics and media capability in what we call a CrossFire mode. How that works out worldwide, to a certain degree, we're just seeing what the sellout is and which platforms. A large number of the Llano platforms do have the discrete GPU option.

Ross C. Seymore
Research Analyst, Deutsche Bank Securities, Inc.
Q

And since you mentioned the geographic side of things, if you think about APUs in general, what has generally been the geographic uptake thus far, and how do you think that changes, if at all, with Llano?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.
A

Well, I wouldn't say we would see any significant patterns that differentiate our APUs from our historical CPU shipments. We're seeing great reception around the world on Brazos. In fact, if anything, it's opening a few markets that we haven't previously participated in. Some of the emerging markets just are really excited about the Brazos capabilities and what it brings and the price points we can hit, with just a new level of computing and graphics that they haven't been able to enjoy in the past.

Ross C. Seymore
Research Analyst, Deutsche Bank Securities, Inc.
Q

And then two last kind of housekeeping ones. One on inventory – you've done a great job managing that. In times past, when you were getting ready for a big ramp in revenues, we would see the inventory start to build up in anticipation. What's the reason we're not seeing that now? Is it just as simple as you're now a fab-less company, or is there something more than that?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Well, it's this and more. I think we have been talking a couple of times on these calls that we have been putting good management practice in place on how we look and manage our working capital across the value stream. We have put initiatives in place, and I think we have become rather efficient in how we handle that, so big kudos to the team. They have been executing well. So it's a combination of both hard work, re-engineering processes, and a reflection of our fab-less business model.

Ross C. Seymore
Research Analyst, Deutsche Bank Securities, Inc.

Q

And then the one really quick housekeeping one. In the second quarter in your computing group, how did the chipsets perform versus microprocessors versus the flat overall revenues?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc.

A

Well, in some ways, as we move into the APUs, breaking out the chipsets separately doesn't really make a whole lot of sense because they go in essentially pairs. They work in concert together. So we're not prepared to break out the granularity, other than to say it's consistent with the overall CSG business.

Ross C. Seymore
Research Analyst, Deutsche Bank Securities, Inc.

Q

All right. Thank you.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

A

Huey, we'd be happy to take two more participants, please.

Operator: Sure thing.

Ruth Cotter
Head-Investor Relations, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Our next questioner in queue is Doug Freedman with Gleacher & Co. Your line is now open.

Doug Freedman
Research Analyst, Gleacher & Co. Securities, Inc.

Q

Great. Thanks for taking my question. If you could talk a little bit about the SG&A line and the marketing expense, I know that there was the change in the accruals on the marketing line. Has that been completely – are we all to a single system now, and what should we think about for that line going forward?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Good question. I think the changes we made to how we accrue are completed. We have managed ourselves through the transition. That is – in terms of expenses, we're driving for efficiency in the fixed costs of that function, but the overall expenses should just react in alignment with where revenue goes.

Doug Freedman
Research Analyst, Gleacher & Co. Securities, Inc. Q

Okay. Very good. If I was to – moving on to another segment, a little smaller pocket of your business has been in the graphics market in the game systems, I believe you guys have had some pretty good success in that market lately. Can you talk about what you're expecting there and how we should think of that business going forward?

Richard A. Bergman
Senior Vice President & GM-Products Group, Advanced Micro Devices, Inc. A

Well, it was exciting at E3 last month because Nintendo unveiled that they're using our graphics technology in their next-generation platform. But as you probably know, we don't talk about our customers' platforms until they're ready to talk about what their plans are, whether it's the timing or who they're using and so on, so just as we mentioned, we've got some great capabilities, so just stay tuned to this space.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc. A

Let me underline that. I think what we've seen now is that taking this Fusion architecture, combined with the capability the organization has to deliver a customized silicon, is opening up adjacent market segments that we will pursue aggressively, so we're excited by those opportunities, And it's largely driven by a skill set the organization and IP set the organization has acquired through being rather successful in the game console segment.

Doug Freedman
Research Analyst, Gleacher & Co. Securities, Inc. Q

Great. Thank you.

Operator: Thank you. And we have time for one final questioner, Hans Mosesmann with Raymond James. Please go ahead.

Hans C. Mosesmann
Research Analyst, Raymond James & Associates Q

Great. Thanks. Congratulations. Most of my questions have been answered. But, Thomas, can you comment about global inventories in the channel? I think Intel said that they were kind of benign, or actually lean. What's AMD's position on that?

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc. A

Very much the same. There are no signs or no markers that would get us alarmed. I think inventory overall in the industry has moved itself – is managed rather efficiently at this point in time across the whole supply chain and value chain.

Doug Freedman
Research Analyst, Gleacher & Co. Securities, Inc. Q

Okay. Thank you. Congratulations. Thanks.

Thomas J. Seifert
Interim Chief Executive Officer, CFO, CAO & SVP, Advanced Micro Devices, Inc.

A

Thank you.

Operator: Thank you. And that appears to conclude our Q&A session time and as well as today's event. Thank you, ladies and gentlemen, for your participation, and have a wonderful day. Attendees, you may disconnect at this time.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2011 Earnings Call for 27-October-2011 5:00 PM ET
Friday, July 22, 2011 12:34:01 AM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2011 Earnings Call for 27-October-2011 5:00 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1622941&highlight=
Live WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-EventDetails&EventId=4161892
Replay WebCast URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-EventDetails&EventId=4161892

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Event Type: Earnings/Results
Industries: Semiconductors
Primary Identifiers: AMD-US
Regions: US
Related Identifiers: AMD-US

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2011 Earnings Call for 21-July-2011 5:00 PM ET

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2011 Earnings Call for 21-July-2011 5:00 PM ET.

Press Release URL: http://ir.amd.com/phoenix.zhtml?c=74093&p=irol-newsArticle&ID=1587901&highlight=
Live WebCast URL: http://phx.corporate-ir.net/phoenix.zhtml?p=irol-eventDetails&c=74093&eventID=3983409
Replay WebCast URL: http://phx.corporate-ir.net/phoenix.zhtml?p=irol-eventDetails&c=74093&eventID=3983409

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Thomas J. Seifert – Interim Chief Executive Officer, CFO, CAO & SVP
Richard A. Bergman – Senior Vice President & GM-Products Group

Other Participants

JoAnne Feeney PhD – Vice President & Senior Equity Analyst, Longbow Research LLC
Glen S. P. Yeung – Managing Director, Citigroup Global Markets (United States)
John W. Pitzer – Research Analyst, Credit Suisse (United States)
Tim Luke – Managing Director-Technology, Barclays Capital, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your conference operator for today. At this time, I would like to welcome everyone to AMD's first quarter 2011 earnings conference call. All lines have been placed in a listen-only mode. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this call is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Head-Investor Relations

Thank you, Huey, and welcome to AMD's first quarter earnings conference call. Participants on today's conference call are Thomas Seifert, our Chief Financial Officer and Interim CEO; and Rick Bergman, Senior Vice President and General Manager of AMD's Product Group.

This is a live call and will be replayed via webcast on AMD.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1522169. The telephone replay will be available for the next 10 days, starting later this evening.

This is the first quarter AMD is accounting for GLOBALFOUNDRIES under the cost method. And AMD's ownership of GLOBALFOUNDRIES on a fully diluted basis decreased to approximately 12% as of the end of the first quarter.

Reconciliation for all non-GAAP financial measures discussed today is included in the financial tables accompanying our earnings release, available in the Investor Relations section of AMD.com.

Written executive commentary, which contains additional information regarding AMD's results, is posted on AMD's website at quarterlyearnings.AMD.com.

I would also like to highlight a few dates of interest for you. Thomas will present at the JPMorgan Global Technology Media and Telecom Conference on the 17th of May in Boston. Our second quarter quiet time will begin at the close of business on Friday, June 17th. And we will announce our second quarter earnings on Thursday, July 21st.

Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and involve risk and uncertainty that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC, where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in our most recent SEC filing, AMD's annual report on form 10-K for the quarter ended December 25, 2010.

With that, I'd like to hand the call over to Thomas.

Thomas J. Seifert, Interim Chief Executive Officer, CFO, CAO & SVP

Thank you, Ruth. AMD's performance in the first quarter of 2011 was solid. We launched the first of our revolutionary AMD Fusion APU platforms based on our low-power Brazos processors. And we are pleased to report excellent OEM adoption and sell-through to end users. In the first full quarter of availability, roughly half of our notebook shipments were based on Brazos, a product rapidly gaining credit for redefining the user experience in both the netbook and thin and light notebook segment.

We also began shipping Llano for revenue in the first quarter. And it is very simply the most impressive processor in history, featuring a modern graphics architecture. Llano gives mainstream PC users something they have never had before, a brilliant visual experience coupled with all-day battery life. It delivers a better end user experience than anything else on the market, and our customers have told us that. You should expect to see Llano based systems widely available in this quarter.

Beyond its unique performance characteristics, Fusion is also a key part of our overall profitability strategy. We delivered on our top line guidance. We were right on target with our non-GAAP gross margin guidance at 45%, and we managed operating expenses carefully. As a result, we delivered solid free cash flow in the period.

In the commercial market, improving performance in our embedded and professional graphics segment was masked by continued softness in our overall server business. While disappointed with our top line trajectory in the server business, we've taken a number of steps that we believe should lead to improved results in the second half of the year. First, we have on-boarded a larger team of experienced customer account engineers, who are now engaged with customers. In addition, we are working more closely with our OEMs and ODMs to drive the new AMD based systems into the hands of key cloud and virtualization customers. Finally, we continue on track to ship Bulldozer based server platforms towards the end of the summer. Our new Bulldozer core delivers substantial improvements in floating point performance and a platform featuring superior memory utilization and I/O throughput.

In graphics, we continue to advance our leadership in a number of important ways. First, we launched the HD 6990, truly the world's fastest graphics card. Second, we set an all-time record for mobile discrete revenue. And third, we are now the exclusive provider of discrete graphics solutions for Apple's iMac and MacBook Pro platforms. In short, we believe that we continued to gain market share in the mobile GPUs in the quarter. Our continued leadership in discrete graphics and our exciting new Fusion APUs prove the world's best PCs have AMD Radeon graphics on board.

Turning to our first quarter financial summary, first quarter revenue was $1.61 billion, a 2% sequential decline and within the guided range for the quarter. Non-GAAP net income was $56 million or $0.08 per share, calculated using 740 million fully diluted shares. Among other adjustments, it excludes a non-cash gain of $492 million related to the dilution of our equity interest in GLOBALFOUNDRIES. Non-GAAP operating income was $92 million.

Non-GAAP gross margin was 45% and flat quarter over quarter. Lower than anticipated 32-nanometer manufacturing costs and the ramp of margin accretive APUs offset the negative impact of seasonally lower game console revenues, lower ASPs, and a weaker product mix in legacy microprocessor products.

Operating expenses for the quarter came in below the guided range of approximately $650 million due to tight expense management. R&D was $360 million, and SG&A was $261 million. Adjusted EBITDA was $198 million, down $43 million from the prior quarter.

Now switching to the business segments, Computing Solutions segment revenue was $1.2 billion, down 2% compared to the fourth quarter of 2010. We're excited about our APU platforms, which are gaining traction in the market. We tripled unit shipments over the prior quarter. In addition, we started shipping Llano, our high end APU, late in the first quarter.

Computing Solutions operating income was $100 million, up $9 million from the previous quarter, primarily due to improved gross margins from a higher mix of APU sales compared to the prior quarter.

Graphics segment revenue was $430 million, down 3% compared to the fourth quarter of 2010, primarily due to a seasonally driven decline in game console revenue. Graphics segment operating income was $19 million, down $49 million from the fourth quarter of 2010, primarily due to seasonally lower game console revenue.

Turning to the balance sheet, our cash, cash equivalents, and marketable securities balance at the end of the quarter was $1.75 billion. Accounts receivable at the end of the quarter was $797 million, down $171 million, primarily due to the timing of sales during the quarter. Inventory was $648 million exiting the quarter. And long-term debt as of the end of the quarter was $2.2 billion.

Non-GAAP adjusted free cash flow was $154 million, up $143 million from the fourth quarter of 2010, due to higher non-GAAP net cash provided by operating activities.

Turning to the outlook, the following statements concerning AMD are forward looking, and actual results could differ materially from current expectations.

For the second quarter of 2011, AMD expects second quarter revenue to be flat to slightly down sequentially. Operating expenses are expected to be $620 million.

As mentioned in the last call, our priorities remain clear. I said we would stay the course of execution, and we continue to do so, bolstering our discrete graphics leadership, tripling unit shipments of our first APU, Brazos, and shipping Llano for revenue in the quarter. I said we would increase our pace. And in addition to meeting or exceeding all of our major engineering commitments, we've launched a number of key cross-functional initiatives designed to improve productivity and scalability, optimize our go-to-market activities, improve R&D productivity, and generate greater supply chain efficiencies.

To close, we know we have the best IP portfolio in the processor business. And with our new Fusion APUs and Bulldozer on the way, we have our strongest product portfolio in the company's history. And we have a business model tuned for agility and profitability.

I would like to thank our employees for their continued dedication, creativity, and commitment to delivering on our commitments.

Before we turn it back to Ruth for the Q&A, I would like to make a brief comment on the state of the CEO search at AMD. The Board is very happy with the interest we have received and is actively interviewing candidates, and we are pleased with our progress to date.

Ruth?

Ruth Cotter, Head-Investor Relations

Huey, we'd be very happy for you to poll the audience for questions now, please.

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Cotter. [Operator Instructions] Our first questioner in queue is JoAnne Feeney with Longbow Research. Please go ahead.

<Q – JoAnne Feeney – Longbow Research LLC>: Hi. Thanks and congrats on a nice solid quarter. I have a question about your interpretation of the aggregate situation in light of the results of your competitor. Did it cause you to change your assessment of the global PC environment? Did their results match your views? Is this purely a timing issue between you and Intel? Or perhaps you can give us a sense of your visibility to the second half given what we're hearing regarding the global PC situation.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, very good questions. I think I said in the last couple of calls that our expectation is around 11% for PC growth for this year. And to be very honest, at this point in time, we don't see a reason to deviate very much from that opinion. And actually, data is moving more towards the view we had on the market for some time now. You can discuss whether it's now 10.5% or 10.7% or 11%, but we don't see any reason to deviate from that expectation for this year.

<Q – JoAnne Feeney – Longbow Research LLC>: Then perhaps as a follow-up on Llano, where we understand the volume is coming in the third quarter, one question that comes up a lot is how compelling to the consumer will your advantage in graphics be? And I'm just wondering if you could fill us in on your efforts with the OEMs and other resellers to help them understand the difference in graphics and whether they're able to translate that to customers, in your view.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, Rick, do you want to take that question?

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Sure. So just to be clear, the volume is actually coming in Q2. So certainly, we expect a ramp to production as platforms launch on Llano.

I think the best answer to your question is the success we've seen with our Brazos platform. It was just fantastic success in Q1. And our OEMs are now really on board with bringing even a better, more compelling, higher performance solution with Llano. And to a certain degree, we hear the reception around that great visual, graphics, video experience even from our competitor and how important that is in the marketplace. So we think we're right on target with our value proposition.

<Q – JoAnne Feeney – Longbow Research LLC>: Great, thanks, and maybe you could elaborate on Brazos. Where are you seeing the greatest success? Is it Tier 1 players? Is it white box? Is it mostly notebook? Are there some desktop activities?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: To be very honest, what excites us the most is that we see the success across the board. We have seen very strong OEM adoption across the whole customer portfolio. We have seen great traction in the embedded segment, and also in emerging markets in the white box arena.

<Q – JoAnne Feeney – Longbow Research LLC>: Okay, great. Thanks, that's it for me.

Operator: Thank you. Our next questioner in queue is Glen Yeung with Citi. Please go ahead.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thank you. Thomas, I think I heard you say that half of your notebook shipments in the quarter were Brazos. So I guess the first point, is that accurate? But if it is, then when we think about second quarter, what proportion of your notebook sales do you think will be a combination of Brazos and Llano? And what are the implications of that for gross margin and ASP?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Very good question; so you heard right, 50% was the share we had in the first quarter, I think. And the implications for gross margin in the second quarter are that gross margin is going to be up quarter over quarter. We will see a balanced impact on ASP performance because, as you know, while highly margin accretive, Brazos should set a lower price point, and we have to see how the mix is going to balance itself out. Flat is today a very good assumption but with gross margins moving upwards.

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Interesting, that's great. And then I wanted to ask another question, which is you talked about some progress you're making – or some growth you saw, sorry, in emerging markets. I wonder if you could address what you're seeing in the corporate market just from an industry perspective; and then perhaps more importantly, how you feel AMD is doing in the corporate market and whether or not these new products you think will help your chances.

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Certainly, Hans (sic) [Glen]. This is Rick again.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Hey, Rick.

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Obviously, we have much greater success in the consumer market; and that's, to a certain degree, our focus. However, the value proposition on Llano is strong, as an example, in the corporate market as well. Certainly video playback, video conferencing, all those factors are becoming more and more important in the corporate environment.

In addition, of course, as we're seeing, consumer devices in notebooks and desktops and so on are increasingly being also used in the commercial marketplace, certainly in SMB. But even in enterprise now, they are adopting those consumer platforms.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Actually, one last quick one if I might. Just with respect to Bulldozer, I know you guys have deployed some field application engineers into the market. And I'm wondering if you could give me a sense of what the initial response has been as you prep the market for Bulldozer.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: So the first feedback is very positive and welcoming. People appreciate, of course, that we have a significantly higher visibility in the marketplace now in terms of feet on the street but also in terms of trying to get mind share. The product is exciting on a platform level, as I said before. The value proposition is exciting especially for cloud and virtualization applications, and that allows us to be optimistic for the second half.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks.

Operator: Thank you. Our next questioner in queue is John Pitzer with Credit Suisse. Please go ahead.

<Q – John Pitzer – Credit Suisse (United States)>: Yes, guys. Thank you for taking my question. Thomas, can you talk about what the ASP trends were in the quarter in the core client business? And I guess given that the server continues to be an area of weakness, I wonder if you could help me understand the relative size of servers in the revenue line, in the profit line, and what you think the trend will look like going into the second quarter. And I guess more importantly, at what point will Bulldozer start to be a positive impact? Is it really a this-year event, or do we have to start thinking about 2012? Thanks.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, so I'm not going to get more granular in terms of the revenue line. But I think it's fair to say that we pretty much – I think we've stabilized market share in the first quarter on the service segment. And we will see Bulldozer impact in terms of revenue in the second half as early – I said we would start to ship product in the summer, and that means that we see revenue in the third and, of course, in the fourth quarter.

<Q – John Pitzer – Credit Suisse (United States)>: And then I guess, Thomas, as my follow-up on the graphics side, you guys have done a great job on the market share side over the last several quarters. How do you see that trending going forward? And I guess with the APU coming out, is there any change in your view of discrete attach rates on the client side? Thank you.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, very good. So of course, we are really proud that we are able to keep this technology lead. Moving forward, we have climbed to a high level on the market share side. The focus is now to make sure that profitability moves in the right corner too. I think that is going to be the focus moving forward.

For this year, we expect attach rates not to change. There are early research indications that in the first quarter, it might have even gone up, which is also partly reflected in our strong mobile GPU shipments. Moving forward, we'll see that at least at the low end of the graphics stack, there will be some replacement because, especially on our side, the APU performance is really compelling. But for this year, attach rates seem to be holding up or maybe even ticking up slightly.

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Just to elaborate a little more on that, obviously, our Llano processors have truly discrete level graphics performance. So in some cases, the market just won't need to add an additional GPU. But on other platforms out there, certainly if you're buying a $600 – $700 notebook, you want the latest and greatest GPU architecture, which today is defined by DX11 solutions. And so in that case, you're going to have to add discrete graphics. So that's actually pulling up the attach rate on the other platforms. So for the sum of 2011, we see it as basically staying the same.

<Q – John Pitzer – Credit Suisse (United States)>: Great. Thanks, guys.

Operator: Thank you, sir. Our next questioner in queue is Tim Luke with Barclays. Please go ahead.

<Q – Tim Luke – Barclays Capital, Inc.>: Thanks so much. Just to clarify, Thomas, when you suggest flat to down slightly, is that one or two percentage points? Is that how we should think about it? And when you articulate that you believe the gross margin will be improved in the calendar second quarter, is that 100 basis points? Is that how we should think about that, and just how do you tackle it too?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, a good question. So the box we would draw around a flat to slightly down is zero to minus 5%-ish probably. It's the right range. I think you're very much on target with your gross margin expectation. We think it's going to be up around 100 basis points.

<Q – Tim Luke – Barclays Capital, Inc.>: Thank you. And then just on the ramp of Llano, can you give us a feel for the availability of product and really what metrics we might be able to frame in terms of thinking about how that ramp is likely to progress now?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: So we made great progress, which allowed us to ship for revenue. We think we have ample product available in the second quarter. On the other side, we saw on Brazos that once the product was out and available on the shelf, demand really went up significantly, and we'll try to prepare for such a situation.

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Again, our key for Llano is to hit the critical cycle in the industry, which is the 2C or back-to-school cycle. So we have broad based OEM platform adoption for that timeframe, and we're well positioned to take advantage of that cycle.

<A – Ruth Cotter]: Go ahead, operator.

Operator: No problem, our next questioner in queue is Srini Pajjuri with CLSA Securities. Please go ahead.

<Q – Srini Pajjuri]>: Thank you; Thomas, just one more clarification to a previous question. On the OpEx, you said it's going to be about $620 million. I'm just wondering if that's going to be a temporary decline, or if that's the range that you expect going forward.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: So we obviously worked hard to keep our OpEx under tight control. In the second quarter, we see some a couple of 28-nanometer tape-outs hitting R&D cost. But the $620 million at this point in time seems to be a good indication on the cost level moving forward.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Okay, great, and then a couple of questions on the ASP front. Obviously, Brazos looks like it impacted ASP. Should we expect ASPs to increase in the next few quarters as Llano ramps? Or is that a function of the server business coming back at this point?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Fair question; so I think for the second quarter, it's fair to expect that – or at least we expect that both ramps equal each other out, so to speak. In the third and fourth quarter then, ASP performance should go up, a higher share of Llano shipments and then the additional impact of the server shipments.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Okay. And then on the server business in general, Thomas, at this market share, I think you have about 5% or 6% market share.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Are you profitable? That's my first question. And then if not, what's the market share you need to justify the investments longer term? Thank you.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: It's a fair question. So we are sitting today at 6.6% market share. Profitability at such a point is borderline. But we feel comfortable that the market share lift we need in order to reach profitability in the segment is actually very small.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: And is it double digits, single digits, or would you like to give us a bit more color on that?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: It's very close.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Okay, great. Thank you.

Operator: Thank you, sir. Our next questioner in queue is David Wong with Wells Fargo. Your line is open.

<Q – David Wong – Wells Fargo Advisors LLC>: Thank you very much. Could you tell us what proportion of Brazos sales in the March quarter were Ontario versus Zacate? And does it look like Ontario is being used primarily in netbooks while Zacate goes into value notebooks?

<A – Richard Bergman – Senior Vice President & GM-Products Group>: I don't know if we have an exact split on the two parts, good adoption on both. We are seeing Ontario in some very exciting thin and light form factors, but adoption in a whole variety of different platforms from netbooks up into desktops.

<Q – David Wong – Wells Fargo Advisors LLC>: Okay, great. And when you expect to bring Bulldozer platforms out at the end of the summer, do desktop and server platforms come out at about the same time? Or does server come out later than desktop?

<A – Richard Bergman – Senior Vice President & GM-Products Group>: So in the last call, we indicated early summer for desktops and late summer for servers, and that's still where we're at.

<Q – David Wong – Wells Fargo Advisors LLC>: Great, thanks very much.

Operator: Thank you. Our next questioner in queue is Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello – Goldman Sachs & Co.>: Thanks so much for taking the question. Could you guys just go by segment: desktop, notebook, server, and talk about what your share expectations are for the year?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: As you know, we don't give market share guidance for the year, and I'm certainly not going to start here now. I think we always said at our Analyst Day we expect our desktop market share to stay about flat, a slight gain. Long term, there's no reason why our notebook market share should be materially different from our desktop share. And from where we are today on the server side and with the optimism we have on the Bulldozer platform, I think it's fair to say that we expect market share gains in the second half.

<Q – James Covello – Goldman Sachs & Co.>: And so the issue is from where you are today because if we look at the full year, it will be tough just because of Intel's shipments growth and ASP growth in the first quarter versus yours. But from here is where you would expect to gain the share, kind of mark-to-market for the end of Q1. Is that the idea?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: I think that's fair.

<Q – James Covello – Goldman Sachs & Co.>: Okay. And then could I just, on the foundry side, obviously there has been a lot of discussion. Obviously, you're aligned well with several foundry partners. Could you give us a little bit of an update on who you think you're going to use for what going forward and what the different parameters are there? Thank you very much.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, so I think we were quite open on our last call. Our foundry strategy has not changed. We are pleased with the progress we see. As I said, we expect several 28-nanometer tape-outs during the current quarter. And we balance our loading according to risk, performance, and price. But we also said that there is, of course, a natural incentive for us at this point to work closely with GLOBALFOUNDRIES. And that is, of course, something we continue to do.

<Q – James Covello – Goldman Sachs & Co.>: Thanks very much.

Operator: Thank you. Our next questioner in queue is Ross Seymore with Deutsche Bank. Your line is open.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, Thomas. Could you talk a little bit about, in your Computing Solutions group, the difference between what [ph] F and an NP (28:15) use in chipsets? You've done a great job of gaining share in chipsets. I just wonder if that has continued in the first quarter.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Our chipset business in the first quarter was – we are pleased with the performance we had, let's put it this way.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: How did it compare versus the Computing Solutions group as a whole, better, worse?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Better.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Okay. And then the gross margin, when you talked about that going up roughly 100 basis points sequentially, is there anything driving that other than the positive mix of more APUs?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: At this point in time, it's very much mix driven. The cost impact is there but slightly only in the current quarter.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Got you. Then my last question, you had an extra week in the first quarter. Any impact either in what happened in the first quarter or your guidance into the second quarter that we should think about; and more so, how your guidance would be different if you weren't losing that week?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: No. To be very honest, the additional week was part of the guidance for the first quarter, and we took that into account. And the guidance for the current quarter takes into account that it's one week less.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Absent that you would actually have grown nicely in your guidance in the second quarter?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, I think that's fair to say.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Okay, great. Thank you.

Operator: Thank you. Our next questioner is Vivek Arya with Bank of America. Please go ahead.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks for taking my question. Thomas, I just wanted to revisit this PC unit growth expectation for the year. I think you mentioned 11% unit growth reasonable for the year. Could you perhaps give us some more color on where you are seeing the positive sell-through? Is it consumer? Is it corporate? Is it developed market? Is it emerging markets? Thank you.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, I think our opinion here doesn't and the visibility we have does not differ materially from what you hear from others. North America and Western Europe was weak, and we don't expect that to change materially. We saw strong demand in the emerging countries all over that spectrum: China, India, especially Latin America for us. We have been putting resources into those regions. I think we mentioned that on several calls in the past that we ramp up our infrastructure in emerging markets. Of course, our exposure to this consumer segment is significantly higher than to the commercial sector. We have been seeing that the products and the price points we hit, especially with Brazos, are right on the spot of what those market segments demand. And yes, that's pretty much it, very strong channel business.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Got it. And as a follow-up, Intel recently raised their CapEx, and they're planning to be very aggressive at next generation 22-nanometer and 14-nanometer nodes. How do you look at that, Thomas, from a competitive point of view? What are the implications on AMD? What do you need to do to respond to that, if anything?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: The good thing is we don't have to invest. So from my CFO perspective, I think that is very positive, no joke aside. You saw that our partners, GLOBALFOUNDRIES and TSMC, spent an aggregate amount of money that I think even outperforms the Intel investment. I think it's $8 million (sic) [billion] on both sides, or $8 billion or $7 billion. Don't quote me here, but a significant amount of money. And of course, we work with our partners in terms of the technology we need to be competitive.

But I think we have also reached the point where competitiveness in this market segment is defined by more than just the technology roadmap. We just have seen that on Brazos. I think moving forward, we see a lot more levers that help us differentiate ourselves and bring highly competitive products into the market. Just take into account the business model we have and the skill set we have, the IP we have, and especially the agility that this business model offers us.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Got it, and just one last question, if I may. I think in the past, you've given long-term targets of getting to 50% gross margin, perhaps better than that. What about the APU gives you better margins? What are really the main drivers from here on to get to that target? Thank you.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, so we said that this pretty much comes from different levers. For the low end of our APU strategy, the Brazos product that we are shipping currently that are so hugely successful, for those products, it's much more a cost optimization. They are highly gross margin accretive because of good design and chip size efficiencies. On the APUs, or the spectrum that is covered by the Llano product, that is much more a margin accretive gain through price performance and price points at which we can play now.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks and good luck

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Thank you.

Operator: Thank you. Our next questioner in queue is Christopher Danely with JPMorgan. Please go ahead.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys. So we asked your main competitor this. I might as well ask you. It seems as though the commentary [ph] slash (33:50) on the business from you guys and Intel differs somewhat with some other companies in the PC food chain as far as some of the OEMs and the drive companies go. How would you guys explain that discrepancy?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: I don't think in that case, our arguments are so much different from our competitor. As I said before, we are seeing strong demand patterns out of the emerging markets. We're seeing good demand out of the channel business. And I think we saw some uncertainty in some market research that came out early. I think those numbers will be corrected as we move forward. We saw early numbers from

Mercury Research that are going to be published soon that also would support that trend that we have been seeing and move more the numbers in the directions that we have been talking about now for a quarter.

<Q – Chris Danely – JPMorgan Securities LLC>: Great, thanks. And then on gross margin, you talked about your expectations for Q2. Could you maybe give us your thoughts on gross margins in the second half of the year and what would be the drivers either way there?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, so I'm not going to give more granular guidance on gross margins than what we gave for the overall year. But of course, we are looking forward to see a higher mix of Llano based products in the second half. And of course, we are looking forward to seeing stronger shipments into the service segment and getting all Bulldozer based products into the market. And this would have substantial impact on gross margin development in the second half.

<Q – Chris Danely – JPMorgan Securities LLC>: Sure. And can you guys give us your take on the tablet market or any kind of tablet strategy that AMD has? Or will you wait until the new CEO comes?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: No, we cannot stop work because of that and I hope you saw that we work hard delivering on our promises. That's an exciting form factor for us. I think we have a lot of IP that is going to play nicely in this field. We are working with multiple OEMs on platforms. And once we are at a good spot to talk about it, we will become more specific on the products and the wins we have.

<Q – Chris Danely – JPMorgan Securities LLC>: Sure, and the last question. You gave us an update on the CEO search; any rough estimate on the timing of that?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: It's in the hands of the Board. So the management, that's not a management topic. But I think Bruce, our Chairman, was explicit that finding the right candidate is more important than hitting a specific time window. They are happy with the progress they have been making, and they are actively interviewing.

<Q – Chris Danely – JPMorgan Securities LLC>: Great, thanks.

Operator: Thank you. Our next questioner in queue is Chris Caso with Susquehanna Group. Please go ahead.

<Q – Chris Caso – Susquehanna Financial Group LLP>: Hi, thank you. I wonder if I could ask a bit about the graphics business going forward, and specifically your market share assumptions there. Your competitor in that space has made some claims that they're attempting to gain some share specifically in the notebook space this year. I wonder if I you could talk about your assumptions.

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Certainly. As we mentioned in the first quarter, based on our shipments, it appears actually that we gained some share. We'll see here at the end of the month when Mercury Research numbers come out.

You also heard that we've picked up the Apple business as well, which we're thrilled about. Of course, in light of their success in the marketplace, that's a big boost for our business, as well. And we'll see how it plays out. We feel like we can win in the notebook sector in a very interesting way, both with our APUs, which is going to bring an entirely different kind of value into those platforms, as well as our GPUs. And in some platforms they actually play together, where we can use dual graphics. So we feel real good about our position in the overall graphics market.

<Q – Chris Caso – Susquehanna Financial Group LLP>: Okay. And if I follow on with a question on servers, and understanding that you're talking about late summer for Bulldozer, but obviously, customers move more slowly in that segment. What's the timeframe when we could expect to see, I guess, some more meaningful share moves or volume moving in that segment, given the amount of time customers need to qualify the product and update their own platforms?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Of course, we don't start working with the customers in the summer. We've been engaged with the customers now over a significant period of time, even on the new product. I said before that we expect significant shipments in the second half, third and especially fourth quarter. And while your statement in general is right, there are specific applications where the design-in time and lead time is shorter; for example, in the cloud segment.

<Q – Chris Caso – Susquehanna Financial Group LLP>: Okay, thank you.

Operator: Thank you. Our next questioner in queue is Ambrish Srivastava with BMO. Please go ahead.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Hi. Thanks, just a couple of quick ones. Thomas, what if the – and I didn't catch it. If you did give it, I do apologize, the expectation for graphics units and ASPs in the second quarter?

And then the second question on the quick side is, what should we expect for the APU percent mix as we head into the back half of the year?

And lastly on the server side, is it a matter of just your share is so low that it's going to go up? Or architecturally, can you help us understand what your offering will have an advantage over Intel's?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Do you want to start with server?

<A – Richard Bergman – Senior Vice President & GM-Products Group>: Sure, we'll start with the back half here on the server question. So one important point to keep in mind is we have a two-year cadence on our platform, where the processor can be used in the same platforms as the prior year. So as we move into the Bulldozer based solutions, they're going to leverage that platform capability. So that allows a shorter time to market as well as broader platform availability right out of the gate. And then some of the key advantages that we have with Bulldozer certainly are floating point, our memory bandwidth. And then, obviously, our performance per watt, performance per dollar is very compelling with these products. We've been sampling for multiple months now with Orochi, the Bulldozer-based product, and the reception is fantastic.

On the former part about graphics, do you want me to take that? Okay, on the graphics portion, we're not going to give guidance on the units. But on the ASPs, roughly flat, no big change in our product line going forward there.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: I'm sorry, the graphics business is expected to be flat in second quarter?

<A – Richard Bergman – Senior Vice President & GM-Products Group>: In terms of – so with ASP, yes.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Okay. And then what about the third question I had on the APU as a percent of total mix by the end of the year?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: I'm not sure I want to give guidance to that granularity.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Okay, fair enough. Thanks, guys.

Operator: Thank you, sir. Our next questioner in queue is Stacy Rasgon with Sanford Bernstein. Please go ahead.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: Hi, guys. Thanks for taking my question. I just want to revisit the PC unit growth outlook just briefly again. So I know you said there may have been some issues potentially with the market data. But if you just take it as is, I'm just trying to figure out what's wrong with the data. Is the data just like massively negative versus reality? Or are you anticipating a hugely above seasonal Q2? It would take that sort of a profile through the year to get anywhere near double-digit PC shipments for the year. I'm just trying to get a better feeling for where you think the discrepancies in the data are. And what do you think Q2 seasonality for PC shipments actually would be in order to get to the kind of unit guidance that you're talking about?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, the guidance we gave for the second quarter still is consistent with where we think the market is going to go for the year. And our own model has been rather stable around this value now for a significant period of time. I think that a significant discussion came about what really was expected for PC shipments to happen in the first quarter. And a part of that negative sentiment came from an expectation that year over year, the first quarter would be negative. And I think the numbers that we start to see now are not reflecting a negative growth year over year in the first quarter.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: So sequentially, though, in the first quarter that data showed it down 10% to 13%, so you're saying it was actually maybe down 5% sequentially, or was it flat? Literally, the way it is, you would need to have PC growth up 10% in Q2 from the numbers in Q1 to get anywhere near or even close to double-digit growth. I'm just trying to get a better feeling for where the discrepancies are because it seems like a big mess.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: ...the numbers I have in my head now are year over year, so let's just see how we align that. I think the negative expectation was that it would be down by minus 3%, minus 4% year over year on the first quarter. We've seen now research that will, I think, come out more recent – in the next days that now will change that into a probably up 7% range. Our own expectations I think are somewhere in the middle, between plus 3% to 4% of shipments in the first quarter. And I think if you put that on a line and keep our guidance for Q2 in mind, that is a consistent statement.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: So you're saying that you think the market data shows a 10 percentage point discrepancy in year-over-year PC unit growth versus the data that was published, up 7% versus down 3%?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: That is what the indication is currently, yes.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: Wow, okay. For my follow-up, a quick question for you. In terms of the wafer purchase agreement range for this year, $1.1 billion to $1.5 billion, can you give me some feeling what drives the variance in that? Is that just strictly a demand driven thing? Is that a cost driven variance? What is actually driving that $400 million range for this year?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: It's a demand driven statement primarily, and maybe some incentive driven adjustments to that.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: Can you elaborate on that, incentive driven? I thought the incentive driven didn't come until 2012.

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, we said on the call, when we went through our WSA agreement that we have some arrangements in place that incentivize GLOBALFOUNDRIES to outperform current plans and targets. And of course, we would benefit in more volume or better yield.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: I thought that came out in 2012. I thought that was the $400 million between the $1.5 billion and $1.1 billion [ph] that comes out (45:10).

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Some light parts and some flexibility in the first year, but primarily it's a demand statement.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: Got it. And I guess one last question for you. In terms of that wafer supply agreement, my understanding is you give them a fixed wafer forecast, and you're on a die by this or you go to a cost-plus in 2012. What that means if the yields are bad in 2012, you get fewer good dies but you don't make the fixed payment. If yields are really good, same wafers, you get more good dies, so your die cost goes down but you make the fixed payment. So it's a buffer too. You don't benefit from yield upside in 2012 versus the way you would in 2011.

I'm just trying to figure out on top of – that sort of implies if yields are very good, you get a lot more good dies. You have to be able to sell all the good dies that you actually receive. Are you baking any kind – what, I guess, cautions or anything else in your wafer forecast are you giving them to make sure that no matter what the yield situation at GLOBALFOUNDRIES is in 2012, you'll be able to actually sell everything that you get?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: I think this sounds more complicated now than it really is. I think in 2012, we move more towards a normal foundry relationship. We also have to forecast wafer and product demand with TSMC, so that is not significantly different. And also in normal foundry relationships, you have situations, especially when you ramp up new technologies and new products, that you start with a die based purchasing agreement and convert to a wafer based agreement once the yield is up or the product is mature.

So there's nothing that dramatic different from what we do with GLOBALFOUNDRIES. We've extended the period of the die buy for this year to protect – when we originally started, as I said, to protect our downside with the progress they have been making. It's really more of a downside protection at this point in time.

We are not worried at this point in time by over-forecasting demand. I think we have a degree of sophistication with which we handle such processes and have learned to handle such processes that is well established within the company.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: Got it, that's helpful. Thank you, guys. I appreciate it.

<A – Ruth Cotter]: Operator, we'll be happy to take two more questions, please.

Operator: Sure thing. Our next questioner in queue is Doug Freedman with Gleacher and Company. Go ahead.

<Q – Doug Freedman]>: Great. Thanks, guys, for taking my question. Thomas, if I could ask you to have a little bit of a conversation with yourself since you're wearing two hats of the CEO and CFO. How do we think about you setting the goals for the company financially here? We're running into – this is the first quarter year on year where we didn't get earnings growth, and it's largely because of growth in OpEx. Can you discuss with us what actions you would take on the OpEx side to return to a year-on-year earnings growth type of scenario? Or how many quarters – how long do we need to search for that revenue growth, and how we should think about you trying to make some of those challenging decisions?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Yes, they are quite straightforward, to be very honest, and you saw some of the effects already in the first quarter. We provided guidance of $650 million, and we have been really tough on ourselves on how we managed operating expenses. This allowed us to come in significantly under the guidance we originally gave. I mentioned that we have a significant amount of cross-functional activities started in the company across our core processes to redesign them for scalability, but especially also for productivity across R&D, across sales and marketing, and also supply chain. And we expect significant productivity levers out of those initiatives.

And I think you also see it already partly reflected in the guidance we gave for Q2. I said it's going to be around $620 million for operating expenses in total. But it includes, as I said, the first couple of 28-nanometer tape-outs already. So we will be tough on operating expenses, and I think the discipline that we try to instill in the company is something we will keep a grip on.

<Q – Doug Freedman – Gleacher & Co. Securities, Inc.>: So I guess another way for me to think about this, is it possible for you to have revenue growth in excess of your operating spending growth this year? Or is this a year that we need to think about you investing a little faster than the revenue growth point?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: I would very much expect that our revenue outgrows our operating expenses.

<Q – Doug Freedman – Gleacher & Co. Securities, Inc.>: Great, thank you.

Operator: Thank you. And our final questioner for today will be Cody Acree with Williams Financial. Please go ahead.

<Q – Cody Acree – WFG Investments, Inc.>: Hi, guys. Thanks for fitting me in here. Going back to an earlier question about your comparison of order rates versus what Intel had seen, Intel definitely got some atypical seasonality heading into their product launch, a big burn in the channel, and then a big restocking. What are you seeing as far as typical seasonality of order patterns ahead of Brazos and Llano?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: Even if it disappoints you, I cannot give you much different arguments, to be very honest. We saw very strong channel demand, partly driven by the products that we started to ramp, also in part restocking of their Q4 burn-down. The visibility we have into their inventories does not indicate any alarming things. Inventories seem to be lean and in line with what you expect for the business at this time in the cycle. And we had a couple of emerging markets where our products or our platform based products were sold out on the shelves, so not much more to add to that.

<Q – Cody Acree – WFG Investments, Inc.>: I guess did you see a material burn that had a benefit of a replacement in the first quarter for Brazos? And do you expect in the June quarter, maybe June and into September, a similar restocking benefit with Llano?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: We are optimistic about our Llano launch.

<Q – Cody Acree – WFG Investments, Inc.>: Great, thanks. Then one last thing here, gross margin trends into the second half as you get the mix of Llano coming in and then Brazos – or excuse me, Bulldozer uptake there, what kind of trends could we expect to see from a mix shift?

<A – Thomas Seifert – Interim Chief Executive Officer, CFO, CAO & SVP>: I'm not going to get more granular. We gave guidance for the complete year. And with those trends, I think we move to the high end of the gross margin guidance we gave in the second half.

<Q – Cody Acree – WFG Investments, Inc.>: All right, thanks, guys.

Operator: Thank you. That concludes our time for questions and answers, and this also concludes today's program. Attendees, thank you for your participation and have a wonderful day. You may now all disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your conference operator for today. At this time, I would like to welcome everyone to AMD's Fourth Quarter 2010 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question and answer session. As a reminder, this call is being recorded today.

I would now like to turn the conference over to Miss Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations

Thank you, and welcome to AMD's fourth quarter and year-end earnings conference call. Starting this quarter, we are providing written CFO commentary, which will contain additional information regarding AMD's results and outlook and can be found in the IR section of on AMD's website at quarterlyearnings.AMD.com.

Participants on today's conference call are Thomas Seifert, our Chief Financial Officer and interim CEO, and Rick Bergman, Senior Vice President and General Manager, AMD's product group.

This is a live call and will be replayed via webcast on AMD.com. There will also be a telephone replay. The number for the replay is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1502479. The telephone replay will be available for the next 10 days, starting later this evening.

I would like to highlight a few dates for you this afternoon. Thomas will present at the Goldman Sachs Technology and Internet Conference on the 16th of February in San Francisco, and our first-quarter quiet time will begin at the close of business on Friday, March 18th. On December 27th, AMD announced that starting with the first fiscal quarter of 2011, the company will begin accounting for its investment in GLOBALFOUNDRIES under the cost method of accounting and will no longer recognize any share of GLOBALFOUNDRIES' net income or loss in its statements of operation. The transition to cost-based accounting was triggered by the contribution of Chartered Semiconductor to GLOBALFOUNDRIES and amendments to certain agreements. As a result of the contribution, AMD's ownership of the newly combined entity on a fully diluted basis is approximately 14%.

Reconciliation for all non-GAAP financial measures discussed on today's call is included in our financial tables that accompany our earnings release, available in the Investor Relations section of AMD.com.

Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC, where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in our most recent SEC filing, AMD's quarterly report on Form 10-Q for the quarter ended September 25, 2010.

Now with that, I'd like to hand the call over to Thomas.

Thomas Seifert, Interim Chief Executive Officer, Senior Vice President, and Chief Financial Officer

Thank you, Ruth.

Before we begin, I would like to take a moment to thank Dirk Meyer for his leadership as AMD's CEO over the past two and a half years. Indeed, he leaves behind a much stronger company than the one he inherited, a much nimbler AMD with the people, the IP, and the spirit to fully realize the breadth of opportunities in front of us.

As you know, AMD announced last week that our board has formed a CEO search committee led by Bruce Claflin, Executive Chairman of AMD's Board of Directors. The board has retained an executive search firm to assist with this process. The search is obviously a priority, and the committee is moving the process forward to ensure that we select a person with the right vision, experience, and track record to lead AMD into the future and to create increased shareholder value over time. While we don't plan on communicating further until the search process is concluded, we will update you should events warrant.

That being said, we are here to focus on our fourth quarter and full-year earnings results. 2010 was an important year for AMD. It was a year in which we achieved many of our major milestones, resulting in a company with solid momentum and well positioned for the opportunities immediately ahead.

First, we demonstrated that our fabulous business model works: restructuring our balance sheet and reducing our overall debt by $400 million excluding GLOBALFOUNDRIES, improving our 2010 non-GAAP gross margin by 9 percentage points over the prior year, and generating $553 million in non-GAAP operating income and $355 million in adjusted free cash flow in 2010.

Second, we showed that our execution engine is on track. Delivering Bulldozer, our impressive new x86 core, designed to bring a new level of performance and performance-per-watt capability across the full spectrum of clients and service; taking a clear leadership position in discrete graphics, having shipped over 35 million DX11-enabled GPUs to date; and introducing the first of our AMD Fusion Family, which for the first time combines our expertise in x86 computing and graphics into a single new architecture, arguably the most significant advancement in processor architecture in decades.

And third, we proved that we have indeed changed the game. We made graphics matter, irreversibly shifting the focus of the industry to a more balanced combination of CPUs and increasingly robust graphics capability. And we introduced a new category, the accelerated processing unit, or APU, changing the trajectory of processor design and development from here forward.

Focusing more specifically on the fourth quarter, industry momentum for Fusion is strong and growing. OEM adoption of Brazos is excellent. We shipped more than 1 million Brazos platforms in its debut quarter, to world-class OEMs, including Acer, Asus, Dell, HP, Lenovo, MSI, Samsung, Sony, and Toshiba. Brazos's technical performance is superb, offering a unique combination of full 1080p HDD video and all-day battery life. At CES, Brazos-based notebooks received several significant innovation awards, including LAPTOP Magazine's Editor Choice Award. Our AMD Fusion software ecosystem is maturing rapidly, with key partners, such as Adobe, ArcSoft, Corel, CyberLink, DivX, and Microsoft announcing applications optimized for AMD Fusion APUs. And finally, customers are discovering that Brazos is ideal for more than notebook platforms, earning design wins in everything from tablets to Internet-ready set-top boxes, thin clients, and point-of-sale kiosks.

On the technology side, we have entered a new phase with our 32-nanometer ramp and are now sampling thousands of Llano products to a wide variety of OEMs and ODMs as they prepare for production in Q2. We have begun sampling our 32-nanometer Bulldozer-based Orochi parts in volume with customers worldwide. We expect Orochi for desktops to ship in production in early summer and Orochi for service – servers in late summer.

Turning to the fourth quarter financial summary. Fourth quarter revenue was $1.65 billion, up 2% compared to the third quarter of 2010. We reported non-GAAP net income of $106 million and a non-GAAP diluted EPS of $0.14. Fourth quarter non-GAAP operating income was $141 million. Fourth quarter gross margin was 45%, down 1 percentage point from the prior quarter, at the high end, however, of our target model for the year of 40% to 45%. Operating expenses continue to hit within our target model. R&D was $352 million, and SG&A was $250 million for the quarter. Total operating expenses came in at $602 million, slightly less than the guided $610 million. Fourth quarter adjusted EBITDA was $241 million, down $4 million sequentially. And non-GAAP adjusted free cash flow was $11 million, down $80 million from the prior quarter.

Now switching to the business segments.

In our Computing Solutions segment, fourth quarter revenue was $1.22 billion, flat sequentially, and operating income was $91 million.

In the Graphics segment, revenue for the quarter was $424 million. The sequential growth of 9% was mainly due to, first, double-digit growth in unit sales to the AIB channel due to the success of our second-generation DX11-enabled GPUs, the AMD Radeon HD 6800 and 6900 series, as well as seasonally higher game console revenue. Operating income for the Graphics segment was $68 million.

Turning our attention to the outlook. The following statements concerning AMD are forward-looking, and actual results could differ materially from current expectations. For the first quarter of 2011, AMD expects revenue to be flat to slightly down sequentially. We expect operating expenses to be approximately $650 million due to an extra week in the first quarter and a separation payment of about $12 million to Dirk Meyer. Tax is expected to be approximately $4 million.

In my first days in my new role, I have never been more confident in this company and our capacity to succeed. We have world-class people with a propensity for solving the world's most difficult technical challenges and the passion to see the next cycle of innovation come to fruition. I really want to thank them for their commitment and achievements over the past year.

We have unparalleled assets, starting with the strongest combination of x86 and graphics technology in the world; a business model now much more attuned to embrace industry shifts; and a loyal and expanding group of customers and partners, all looking for AMD to succeed. And we have solid gross margin expansion opportunities. We are just beginning to launch some of the most exciting products into the sweet spots of our portfolio. Our products are aimed to some of the largest, most established margin pools in the industry; and we have lots of headroom in which to grow.

My priorities, and those of the company, are clear. We must stay the course of execution and delivering what we promised. We will, however, increase the pace of converting our significant potential into shareholder value, and we will embrace the changes in the market where our prospects for success look good. In summary, we will continue to both execute our leadership strategy and generate increasing momentum for our customers, our shareholders and ourselves.

And at this point, I would like to turn it back to Ruth.

Ruth Cotter, Investor Relations

Huey, we're very happy to poll the participants for the question and answer now, please.

QUESTION AND ANSWER SECTION

Operator: Yes, ma'am. [Operator Instructions] Our first questioner in queue is Romit Shah with Nomura Securities. Please go ahead.

<Q – Romit Shah>: Yeah, hi. I wanted to follow up on the guidance. You're guiding revenues flat to down for Q1, but you've got an extra week. How much do you think that benefits you this quarter? And then I have a follow-up.

<A – Thomas Seifert>: Yeah, good question. We guided flat to slightly down, so certainly better than seasonal. And if I had to paint a box around it, it's probably around 0% to minus 4%. So it's certainly a sub-seasonal quarter that we expect in terms of demand.

<Q – Romit Shah>: I'm sorry. I'm not following. So you're guiding flat to down 4%. Are you getting any sort of benefit from the extra week in revenue?

<A – Thomas Seifert>: Well, it's a mixture, of course, of an extra week of revenue, but we are also seeing better than seasonal demand.

<Q – Romit Shah>: Okay. I got it. And then could you just give us an update on the timing of Llano? I didn't see that mentioned in your CFO commentary.

<A – Thomas Seifert>: The shipment dates for Llano have not changed. We are sampling, as I said, in high volume now and getting our customers ready to ship products in the second quarter.

<Q – Romit Shah>: All right, terrific. Thank you.

Operator: Thank you, sir. Our next questioner in queue is Tim Luke with Barclays Capital. Please go ahead.

<Q – Tim Luke>: Thanks so much. Thomas, as you look forward, given the change in the leadership, what do you think some of the new points of emphasis are likely to be as you move forward, to the extent that you may be able to just recap what you think some of the difference is in terms of emphasis maybe going forward?

<A – Thomas Seifert>: Well, for the near term, I think you shouldn't expect too much of a difference. I think we entered this year with tremendous momentum coming out of CES and seeing the excitement for the first Fusion products, bringing really computing graphics performance to a form factor that had not seen that before. And our customer's excited by that, and they're excited by the battery life that goes along with it.

We have a terrific roadmap this year ahead of us. I mentioned it. We're looking forward to ship Llano products and Orochi products in the second half. And this really focuses the organization pretty much. There will be opportunities that are incremental to that that we will have to look at, but for the near term, it's really making sure that the focus stays on execution, that we accelerate the pace with which we look at some of the opportunities, especially when it comes to margin expansion, and then also consider that the changes that we have been talking about over the last year that we have enabled in this new AMD business model really work to our strengths. We are now an IP-generating company. We'll focus the company where the strength always was: designing and innovating great products and bringing them to the market in an efficient manner. That will be the near-term priority. And then we will be able to, based on that, think incrementally on where other opportunities are that make us successful.

<Q – Tim Luke>: If I may, Thomas, you – in guiding to the 650 of OpEx, even with the payment to Dirk and the extra week, it looks like a fairly significant increase. Can you frame for us how we should think about the OpEx going forward for the year in terms of the shape of the OpEx? Is it going to be – how will it trend sequentially, is what I'm trying to get a feel for? And separately, given that you are guiding for a fairly flattish revenue outlook, should we assume a fairly flattish gross margin, or are there other puts and takes for the first quarter? Thanks.

<A – Thomas Seifert>: Very good question. So you really should look at operating expense guidance for the first quarter really in a flattish way. If you take out the additional week and correct for the separation payment, and keep in mind that our guidance for the fourth quarter last year was around $610 million, OpEx development in the first quarter is rather flattish. I think we have shown in the past that we manage the company in a very disciplined way when it comes to operating expenses, and we have no intent to change that.

Of course, margin question is a good question. We see in the current quarter some ups and downs, of course. We will see gross margin opportunity just because of product mix and Fusion launches. However, we also will see some headwinds because of the significant ramp of 32-nanometer capacity. The ups and the downs probably equal each other out. So I would assume a rather flattish gross margin development in the first quarter.

<Q – Tim Luke>: Thanks so much, guys.

Operator: Thank you. Our next questioner in queue is Ambrish Srivastava with Bank of Montreal. Please go ahead.

<Q – Ambrish Srivastava>: Hi, thank you. Just two questions. Number one, what is the assumption for PC growth for 2011? Your small rival from across town is expecting low to mid-teens, if I remember correctly. And the second question is on the GPU side. Last quarter, you guys had talked about meaningful share losses to NVIDIA. This time around, is it just market growth, or it shouldn't appear that share losses should abate in one quarter? So just some more perspective on that, please. Thanks.

<A – Thomas Seifert>: Yeah, so good questions. So I think with respect to PC growth, an expectation that the market is growing between 10% and 11% is probably the right range. We were excited by the response of our new product launch in the graphics segment. We launched two high-end products that certainly caused excitement and revenue growth and that were driving the performance of the company. Probably, Rick, you could go into more detail here.

<A – Rick Bergman>: Yeah, I don't recall us talking about share losses in the GPU market. As we said, we're the leaders in the DX11 category, and we just launched an entirely new second generation, both on the desktop and notebook side. As we have, obviously, or had, 62% share in the third quarter, that gets tough in that particular market to maintain that level, but certainly, we've had robust design wins on all the new platforms in 2011. So we expect our GPU to continue to be successful going forward.

<Q – Ambrish Srivastava>: Okay, thank you.

Operator: Thank you. Our next questioner in queue is Jim Covello with Goldman Sachs. Please go ahead.

<Q – Jim Covello>: Great. Thank you so much for taking my question. I appreciate it. I guess maybe a couple of big-picture questions. First, recognizing that AMD doesn't have its own manufacturing facilities anymore, what do you think the real impact of Intel's very significant CapEx budget is going to be on the industry and the competitive dynamic?

<A – Thomas Seifert>: Very good question. So I think they announced slightly above $8 billion for this year. If you look at the ecosystem that supports us, GLOBALFOUNDRIES just announced a investment of more than $5 billion this year. And our second large provider of manufacturing capacity, TSMC, gave guidance of around $6 billion. So in terms of manufacturing infrastructure and scale, we are supported by a really substantial ecosystem ourselves, and that makes us pretty confident moving forward. And then I think we discussed those issues at length. We're moving into an environment where people do not buy processor frequency anymore, but look at what capability the products deliver. And I think we have demonstrated now with our launch of the Bravos platform at CES what kind of experience we can deliver in this form factor, and we are really looking forward to the Llano launch in summer to put things into perspective.

<Q – Jim Covello>: That's very helpful. And if I could ask as my follow-up, maybe relative to your guidance for the first quarter or just more generally, what kind of tablet cannibalization assumptions, if any, are you incorporating into that guidance as we have a little more visibility on the number of tablets that are shipping in any given quarter? Do you think that's meaningfully impacting the PC space at this point, or is most of that tablet growth incremental in your view? Thank you.

<A – Rick Bergman>: Obviously, there's a lot of opinions around that topic, especially in light of some of the announcements made this week. As we talk with our OEM partners, we don't see a deterioration in the market in a major way in a notebook area. And any cannibalization is built into our estimates that Thomas just provided.

<Q – Jim Covello>: Thank you very much.

Operator: Thank you. Our next questioner in queue is Chris Danely with J.P. Morgan. Please go ahead.

<Q – Chris Danely>: Hey, thanks, guys. My first question – so we're seeing a lot of the APU-enabled notebooks coming up. Can you just maybe give us a sense of the price point? Is this more of a netbook type of product, a mainstream notebook, high-end notebook? Just a little more color there.

<A – Rick Bergman>: Absolutely. So, yes, if you've looked at the various announcements, it's all the above and then some. All the desktops and all-in-one form factors as well as – today we had an embedded Brazos announcement as well. So everybody gets the value of what Fusion brings to virtually every single computing platform out there in the industry. And certainly, as we bring Llano into play later this year, you'll see us move into even richer and higher-priced performance notebook and desktop platforms as well.

<Q – Chris Danely>: Great. And as my follow-up, you guys sound pretty fired up. It sounds like business is pretty good. Turning a tidy profit. I guess, so why is Dirk not there? Is it you guys thought he should capitalize on tablets more? Do you feel like your gross margins should be at 50% and growing a lot faster? Can you just maybe shed a little light on why he's no longer there? What he was missing?

<A – Thomas Seifert>: I'm not going to go into too much detail here. We discussed this last week. But this was not a looking-backward-based decision. I think the shape we are in today, the momentum we have generated, we feel good about. It was very much a forward-looking statement from the board. And I'm not going to provide any more color on that than what we said last week.

<Q – Chris Danely>: Okay.

Operator: Thank you. Our next questioner in queue is Shawn Webster with Macquarie. Please go ahead.

<Q – Shawn Webster>: Yeah. Thank you. So you mentioned a couple of different things in your commentary, as well as your press release. I was wondering if you could share with us what your processor units did sequentially, as well as your graphics shipped units?

<A – Thomas Seifert>: On the graphics side, they were up sequentially. On the CPU side, they were flattish.

<Q – Shawn Webster>: Okay. Thank you. And for the pricing environment, do you have expectations as we go into the next quarter or two based on assumptions on mix or what's happening within the notebook and desktop and server segments?

<A – Thomas Seifert>: Yeah. So we always said that we expect the pricing environment to be rather flattish. We will see some opportunities based on product mix and demand, yes.

<Q – Shawn Webster>: Okay. And then are you experiencing – given the success and some of the design wins recently, how is the supply situation? Are you experiencing any tightness? How are lead times right now?

<A – Thomas Seifert>: From a supply side, we are really in good shape. So all the shortages we had during the first half of 2010 has disappeared. We don't see any shortages at this point in time.

<Q – Shawn Webster>: Okay, and then maybe a couple of quick accounting-related ones. So with GLOBALFOUNDRIES coming off the whole equity impact line item goes away, and then something arises on the balance sheet? Is that how the mechanics will work as we go into Q1?

<A – Thomas Seifert>: Yes. So as part of the accounting change, we are just in the process of an evaluation analysis that will be completed during the course of this quarter. This will have an amp impact on our equity stake – the value of our equity stake in GLOBALFOUNDRIES, and this will be it. Of course, we will look at this equity from a fair-value perspective on a yearly basis and do testing, but beyond that, you will not see any further impact from future GLOBALFOUNDRIES losses or profits neither on our balance sheet nor on our P&L.

<Q – Shawn Webster>: And how does the change in share ownership affect your diluted share count?

<A – Thomas Seifert>: It's at 14%. The value of the 14% might change, but the 14% for the quarter has a 14%.

<Q – Shawn Webster>: Okay. And then what was the legal settlement good news you saw? And that'll be my last question.

<A – Thomas Seifert>: We settled with Samsung.

<Q – Shawn Webster>: Okay. Thank you very much.

<A – Rick Bergman>: I would like to interject just a slight correction on a statement offered earlier. Our GPU shipments went down slightly in Q4.

Operator: Thank you, sir. Next questioner in queue is Glen Yeung with Citi. Please go ahead.

<Q – Glen Yeung>: Thank you very much. I looked at that LAPTOP Magazine review that you referenced earlier, Thomas. Sounds pretty good. I guess the question is, are the initial million shipments of Fusion predominantly aimed at netbook, one? And then, two, it seems you had no market share there before. Do you feel like you are already gaining share with Fusion at this point?

<A – Thomas Seifert>: Yeah. Very good question. So the shipments – we're not only in the netbook segment but also beyond, in notebook all-in-one form factors. And of course, we are excited by bringing such a kind of performance into a segment of the market where we had no revenue before. So any shipment in there is going to be market share accretive.

<Q – Glen Yeung>: Yeah.

<A – Thomas Seifert>: With the response we have seen, we are quite bullish with our expectations for this year and the traction we have seen so far.

<A – Rick Bergman>: Just also, in clarification, the netbook and small notebook category continues to get more and more blurred. And really, that's what – we were targeting the ultrathin and light type of form factors with our Ontario solution, and in fact HP dm1 you referenced technically is a small form factor notebook, because it's about 6 inches.

<Q – Glen Yeung>: That's interesting. Okay. And then maybe thinking about the same question in a different way. As you sort of think about the shape of the year, is there a time when the share gains become more evident? Because it's not necessarily so in Q1, right? Your guidance and Intel's is largely the same. So as we think about beyond that, is there a quarter in which you think – or a timeframe in which you think the share gains really start to show up in the numbers?

<A – Thomas Seifert>: We will have, just based on the shipments and the launch dates, obviously, a bias towards the second half of the year.

<Q – Glen Yeung>: Okay. And can I just ask one other question quick question, which is, you're going to change at the end of this quarter your wafer pricing agreement with GLOBALFOUNDRIES. Can you talk about how we should think about the impact of that on gross margins, as an independent event, when that happens after this quarter?

<A – Thomas Seifert>: Yeah. Good question. So we always said that moving forward, our relationship becomes more foundry-like. The impacts that this will have are, of course, were part of the guidance we gave at our Analyst Day in November of last year. So we – moving forward, we will have some positive support on margin development, out of a mix of leverages, including higher productivity, of course, of the 32-nanometer node, unless a degree of idle capacity in GLOBALFOUNDRIES increase and so on.

<Q – Glen Yeung>: Thomas, just to remind us what that guidance was you gave us, November, gross margin guidance?

<A – Thomas Seifert>: We guided a range of 44% to 48% for the year, up from 40% to 45% for 2010.

<Q – Glen Yeung>: Okay. Thank you.

<A – Rick Bergman>: Yeah.

Operator: Thank you. Our next questioner in queue is John Pitzer with Credit Suisse. Please go ahead.

<Q – John Pitzer>: Yeah, guys, congratulations. Thanks for letting me ask the question. I guess, Thomas, my first question, on flat computing revenue, operating income in that division was down about $73 million sequentially. Hoping you can help me understand why the big drop in operating income. Is this a one-quarter phenomenon? It is more the desktop/notebook, market or is this a server phenomenon? Just help me get a sense of what's going on there.

<A – Thomas Seifert>: Yeah, good question. So it was a mix of things. We saw some price deterioration in the quarter because it was a very consumer-driven quarter in terms of demand. We also managed – I hope you saw that – our inventory in a very good way. But that also meant that we had some higher degree of underutilization in the factory increase and we have still an obligation to pick that up. So those two effects pretty much explain the impact on operating income.

<Q – John Pitzer>: And then I guess, conversely, when you look at the Graphics business, there was a really nice jump in operating profits. If I'm correct, fourth quarter is usually seasonally strong on the gaming side. How do we think about operating profits in that business as you move into the first half of 2011?

<A – Thomas Seifert>: Well, we have ambitious targets when it comes to profitability, and they are also true for the Graphics segment. We have put some heightened emphasis on profitability. So we are hopeful to keep the performance at that level.

<Q – John Pitzer>: And then, Thomas, one quick last one. Did you give gross margin guidance for the first quarter? And if not, is there a range that we should be thinking about?

<A – Thomas Seifert>: Yeah. I touched on one question earlier. I talked about flattish gross margin development for the company in Q1.

<Q – John Pitzer>: Perfect. Thank you. Appreciate it.

Operator: Thank you. Our next questioner in queue is Uche Orji with UBS. Please go ahead.

<Q – Uche Orji>: Thank you very much. Thomas, let me just start off asking you about servers. I mean, one of the areas where we've seen AMD – especially in the results just reported – you had weak server ASPs, and what I've found that, as I look at Intel's numbers, servers is probably one of its strongest – that they had. So question here is what are you doing to kind of regain traction, especially as you now start to launch new processor architectures? The other thing is [inaudible] standpoint to make sure that you're able to get more traction within this market? That's the first question. And also, if you can talk about what you see as underlying growth expectations for server through 2011, that would be helpful.

<A – Thomas Seifert>: Yeah, I'm not going to make a secret out of it that we were disappointed with our performance in the segment in the fourth quarter. This is one of the areas where we see significant room for improvement, and that is one of the areas I would like to – being referred to when we talk about picking up the pace. We think we have a good product portfolio in place, but we have to work on our go-to-market strategies, and this will be one of the emphases moving forward.

<Q – Uche Orji>: Okay. A different question. On the GPU side, I mean, the strength we've seen in GPU – I apologize if you guys said this earlier – but on the strength we've seen in GPU, what is your sense of attach rates in the Sandy Bridge platform? Because one of the big questions, obviously, how attach rates for graphics will fare as we see more APU-type products through 2011. So we've seen some strong numbers this quarter, which probably suggest [inaudible] took a market share gain or good attach rate. Any commentary as to how you see the rest of the year playing out would be helpful.

<A – Thomas Seifert>: Rick, do you want to answer that?

<A – Rick Bergman>: Certainly. So we're thrilled about the increased attention towards the GPU and video capabilities of PCs. Because at the end of the day, AMD wins, when it's our Fusion processor or a discrete GPU. Now, saying that, what we've seen on attach rates is they're basically the same as they've been in 2010. So no fundamental difference on the new processor platforms that have been announced or will be announced in 2011.

<Q – Uche Orji>: Okay. And then lastly, for you, Thomas, following on from Glen's questions on the change with the pricing model. As you ramp to 32 nanometers, what is the focus? Is it market share gain or gross margin optimization? Can you do both? And does this new pricing model allow you to do both?

<A – Thomas Seifert>: Profitability first; I made no secret about this over the last five to six quarters. Of course, margin expansion potential is the big lever for us. However, in that case, in that instance, both things come together, because a strong expansion of our Llano ramp will allow us to grow into market segment and product SKUs that allow to us command a higher price performance. So I think this is one of the two levers where both things come together, where we can combine market share gain and gross margin expansion at the same time.

<Q – Uche Orji>: Okay. Thank you very much.

Operator: Thank you. Our next questioner in queue is Srini Pajjuri, CLSA Securities. Please go ahead.

<Q – Srini Pajjuri>: Thank you. Thomas, just want to get some clarity on the ASP declines last quarter in processors, and just wondering what caused the decline? And wondering if you thought there was some excess capacity in the channel?

<A – Thomas Seifert>: No. That's not how I would portray it. It was really more a product mix topic than a demand pressure or oversupply or under-demand picture.

<Q – Srini Pajjuri>: And going forward, I mean, you said you expect the PC market to grow 10% plus or minus. Wondering what your expectation for pricing for 2011 is?

<A – Thomas Seifert>: No doubt it's going to be a competitive environment, but we always said that we think that we can compensate price erosion with a improvement in price performance on our side, by just growing and diversifying into product SKUs that we have not served yet.

<Q – Srini Pajjuri>: Okay, and then one longer-term question. There was some media speculation about why Dirk left, and some newspapers were talking about the tablet strategy as the main issue. I'm just wondering, hypothetically, if you were to enter the tablet market, do you think you can sustain the long-term model that you gave us, or do you think these investments will have to go up? Thank you.

<A – Thomas Seifert>: Well, I'm not going to comment on any speculations that are out there. I think what we can say, however, is just looking at the product roadmap and what we have been delivering with Brazos shows us that if we continue to develop products with ever-lower power consumption while at the same time delivering really superior graphics and processing performance, that we can address applications that are outside of market segments that we currently serve, and we will entertain that.

<A – Rick Bergman>: So to me, tablets present a wonderful opportunity for AMD. I've been in the PC industry 20-plus years. We really struggled to get into the living room, and it's clear that tablets are finding their way into the living room, a real consumer experience. And as consumers start to utilize these tablets, they start to demand a better end-user experience, which invariably means processing power, incredible graphics, incredible video. And they'll move up in size, higher resolutions, and so on. Already, we're seeing a number of design win opportunities for us with Brazos today. And certainly, as we develop new products in that category, we'll account for those new trends and the new market opportunities.

<Q – Srini Pajjuri>: Thank you.

Operator: Thank you. Our next questioner in queue is Doug Freedman, Gleacher. Please go ahead.

<Q – Doug Freedman>: Great. Thanks for taking my question, guys. Thomas, if I could start off, the marketing accounting – I believe about two quarters ago, you changed the way in which you're accounting for the marketing spend. Can you highlight us on how we should think about that impacting the forward accounting on the SG&A line?

<A – Thomas Seifert>: Yeah. Very good question. So we said we had an hike. The reduction is not going to be a black-and-white event, so we will see some reduction in the first quarter and then we have – and then more relief moving forward.

<Q – Doug Freedman>: So on a like-for-like basis, we should think that we could get back to a September 10 number, or is it that we can get – ?

<A – Thomas Seifert>: In terms of expense to revenue, that is certainly the target.

<Q – Doug Freedman>: Okay. And then, Rick, for you, if we can look at the GPU market a little bit closer detail, where do you think we are? You definitely saw a nice uptick in ASPs with the new launch of the high-end products. How far along in that? Where do you think ASPs go over the next couple of quarters? And then could you offer us some commentary on what you're seeing for ASP trends in the notebook side of the business?

<A – Rick Bergman>: So to address kind of both of those questions, we obviously introduced our high-end products toward the end of 2010. Specifically the 6900 series. And we have a couple more introductions planned shortly in that category. That tends to push our ASPs northward. As our new notebook products are introduced and our shipments grow, obviously that's the other direction. But no different trends between 2011 and 2010 on a annual basis there.

And the second half of the question was – remind me again.

<Q – Doug Freedman>: Notebook GPU trends. If you're seeing any sort of price pressure in that market, as your other competitor out there has been trying to take back some share and been pretty vocal about their design win success?

<A – Rick Bergman>: This has been – I've been in the GPU business for a long time, and there is always a tough competitive market. And we'll make sure that we're successful there, as Thomas pointed out, and we'll continue to profitably grow that business. I don't think anybody's better positioned than we are in the GPU market. We obviously have our Fusion processors, and your – other discrete GPUs actually complement our Fusion processors nicely, whether it's on our own platform, or those customers that buy the other guys' platforms for whatever reason and want that same graphics performance, they invariably will look towards AMD GPU solutions.

<Q – Doug Freedman>: Great. And if I could sneak one more in for you, Thomas. If I look at the list of customers that you commented are – have adopted and launched Brazos platform products, is there a possibility that that customer list continues to expand? What are your thoughts on customer acquisition plans?

<A – Thomas Seifert>: Very aggressive, and of course, the momentum that we have generated with the launch is something that we continue to move forward. It's exciting performance with outstanding battery life, that form factor, and we will use this momentum to grow customer base and market share.

<Q – Doug Freedman>: Terrific. Thank you.

Operator: Thank you, sir. Our next questioner in queue is Patrick Wang with Wedbush Securities. Please go ahead.

<Q – Patrick Wang>: Great. Thanks for squeezing me in. Hey, so, hey guys, can you guys maybe characterize how you see your Fusion ramp? I guess if I look at this, you guys shipped 1.3 million platforms in just the last two months of last quarter. How should we think about that ramp through the next couple months?

And then I guess separately, maybe for Rick, can you talk about your expectations of how Llano's going to competitively stack up against Intel's mainstream Sandy Bridge product lineup, I guess maybe what drives those anticipated share gains?

<A – Thomas Seifert>: Let me take the first part, and then let Rick answer the second part. We're not going to provide any market share projections at this point in time. However, I think you can read and hear the excitement we feel for that product and the momentum we have generated. So we feel confident to gain significant market share in this segment with this platform, and this ultimately will be reflected in the shipment numbers and in the ramp numbers.

<A – Rick Bergman>: With regards to the competitive platform, we were pleasantly surprised at CES. Prior to CES, there were claims of discrete level graphics performance and that type of capability. Obviously, as the details were unrolled and real benchmarks were run on real applications, it fell well short of what we would offer in discrete graphics capabilities. As we look forward with Llano, we're really excited, because our value proposition will really shine through. We'll show the world what GPU performance and capabilities mean with Llano, and it will be a much higher performance than what you're seeing out there from our competition in that area.

<Q – Patrick Wang>: Okay. So it's still more of a – it's more of highlighting your graphics advantage there in terms of performance?

<A – Rick Bergman>: Well, that's what we've said all along and Thomas, as you heard earlier in the conference call, the market is telling us. And even our competitor was stating how important graphics and video is now for consumers. That's really where – all the consumers care about is that video or graphics display. So we're not wavering from that message, that that is – when you buy a new notebook or desktop – that should be top priority on your list, your experience.

<Q – Patrick Wang>: Got you. Okay, and then just a longer-term strategic question. I'm curious that there's been a change to the company stance on ARM. There's been a lot of momentum out there for some of your competitors out there, and I know you guys have had an ARM business in the past and sold it. Just curious how you guys are thinking about that today.

<A – Thomas Seifert>: First of all, we have – you have to realize that the expertise and the IP that we have in the company on x86 and GPU processors is broad. There are only a few companies out there in the world that have processor design capabilities at our level. And those capabilities can also work on other platforms. However, I think it's important to keep in mind where our core opportunities are for the moment. We will embrace any changes that are happening in our ecosystem. And I think with the changes the company has gone through, transforming us, and the business model we have now, I think we really are set up to cope and embrace the opportunities and possibilities that this could mean.

<Q – Patrick Wang>: Okay. Thanks so much. Good luck.

<A – Thomas Seifert>: Thank you.

<A – Ruth Cotter>: Operator, we're happy to take questions from two more participants, please.

Operator: Okay. Our next questioner in queue is David Wong with Wells Fargo. Please go ahead.

<Q – David Wong>: Thank you very much. Could you give us some idea of your server – sequential growth in server-related revenues?

<A – Thomas Seifert>: So for the current year, you mean?

<Q – David Wong>: For the December quarter and what you expect in the March quarter.

<A – Thomas Seifert>: So for the December quarter, we will be slightly down. For this quarter, we have higher ambitions.

<Q – David Wong>: Great. And when you ramp your 32-nanometer products in the second half of this year, will they have -are you reckoning they'll have a higher gross margin, a comparable gross margin, or a lower gross margin than the 45-nanometer products they'll supersede?

<A – Thomas Seifert>: That depends on which – when you look at it. In the early beginning of the ramp, you have ramp costs that will impact your profitability. But we've never made a secret out of our goal and opportunity this technology offers. In the end, this will be highly gross margin accretive.

<A – Rick Bergman>: To be clear, the question was stated ramping in the second half of the year. We have begun that production ramp now. And obviously it picks up through the course of the year, but we're starting now.

<Q – David Wong>: But does your – your gross margin guidance for the year assumes that as you ship 32-nanometer product in the second half of the year, that could have a somewhat lower gross margin, at least initially? Is that correct?

<A – Thomas Seifert>: Well, we gave guidance for this year in the range of 44% to 48%. And this guidance includes that with a ramp-up in new technology, you have certain ramp-up costs. But the guidance we gave is inclusive of those costs.

<Q – David Wong>: Yes, thank you very much.

Operator: Thank you. Our final question in queue for today comes from Stacy Rasgon with Sanford Bernstein. Please go ahead.

<Q – Stacy Rasgon>: Hi, guys. Thanks for squeezing me in. Two questions for you. The first one, now that you're shipping Brazos in a little more volume, can you give us a little more color on the ASP and margin profile of those products? Can you give us some – maybe I'll just stop it there. For this one.

<A – Thomas Seifert>: Well, you know that we never provide gross margin profiles on a product basis.

<Q – Stacy Rasgon>: I mean, just – can you give us some feeling just sort of relative to corporate average? Is it above? Is it below? Is it in line?

<A – Thomas Seifert>: So we always said that the launch of the Fusion products, both on the Brazos as well as on the Llano level are going to margin accretive to the overall model. So I think it's fair to assume that the product is going to be above the corporate average.

<Q – Stacy Rasgon>: Got it. That's great. And for one more question. I know you don't want to give any more color behind Dirk's dismissal, but in terms of the reasoning behind it, which has been reported to be around the long-term strategic vision, around tablets and the mobile connected devices, why is developing a focus on that space today as important for you as – when arguably I could make the argument you that can continue to seek out the incremental growth opportunities in your core market.

Your products from a power standpoint right now probably aren't ready for the tablet space. There are a lot of other competitors there. The margins might not be as attractive. And overall, the opportunity is probably smaller. And frankly, I'm glad to hear that the Llano looks like it's on the way. But you're not done executing on what's in front of you right now. Why is right now the time to shift the focus to more of these long-term strategies rather than really trying to redouble the focus on the x86 opportunity, which is in front of you today?

<A – Thomas Seifert>: So a very good question. Let me start with the second part first and only slightly comment on your first part. There is no deviation from the near-term priorities within the company. The focus on execution and delivering the promises and the guidance we gave is the top priority for the company, and it's my top priority. So let there be no doubt.

The question on the future outlook – it's shortened in what was reported. I think the discussion was more than just a tablet strategy. The mobility discussion, as well a client as also, as well as an infrastructure question, and it was also a topic that you heard from the press that we talked about picking up the pace for the company and addressing some of the near-term opportunities that we have to improve our profitability in a more aggressive manner. So to reduce it to a just tablet statement would be wrong and was certainly not the case. And it's certainly not an indication that we are going to let the focus shift away from what the priorities are in terms of delivering what we promised.

<Q – Stacy Rasgon>: Got it. Thank you, guys.

<A – Thomas Seifert>: Thank you.

Ruth Cotter, Investor Relations

We'd like to thank everybody for participating in today's call, and we look forward to seeing you at the Goldman Sachs conference in February. Thank you.

Operator: Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you for your participation, and have a wonderful day. Attendees, you may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon my name is Latece and I will be your conference operator for today. At this time, I would like to welcome everyone to AMD's third quarter 2010 earnings conference call. All lines have been placed on a listen-only mode at this time.

After the speakers' remarks you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today. I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Senior Manager, Investor Relations

Thank you and welcome to AMD's third quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO, and Thomas Seifert, our Chief Financial Officer. This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1485779. The telephone replay will be available for the next ten days starting later this evening.

Before we start, I would like to highlight a few dates for you. Firstly, AMD will host its financial analyst day on November 9th in its company's Sunnyvale offices in California, also Thomas Seifert our CFO will present at the Credit Suisse technology conference on 1 December in Arizona and lastly, our fourth quarter earnings quiet time will begin at the close of business on Friday, 10 December.

Our Class A preferred share ownership in GLOBALFOUNDRIES decreased from 79% as of the end of the second quarter to approximately 77% at the end of the third quarter, as a result of additional capital calls that ATIC participated in and AMD did not. As a result, AMD's ownership on a fully diluted basis also decreased to approximately 26%.

Reconciliation for all non-GAAP financial measures is included in our financial tables that accompany our earnings release which is also available in the investor relations section of amd.com.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC, where we discuss the risk factors that could cause actual results to differ materially from our expectations.

You will find detailed discussions about such risk factors in our most recent SEC filing, AMD's quarterly report on Form 10-Q for the quarter ended June 26th, 2010. Now with that, I would like to turn the call over to Dirk.

Dirk Meyer, President and Chief Executive Officer

Thanks, Ruth, and good afternoon to all of you on the call this afternoon. AMD's third quarter performance was a good demonstration of our capacity to execute profitably in the context of our fabless business model. Despite an environment of weaker than expected consumer demand, we improved operating income and non-GAAP adjusted free cash flow sequentially by continuing to focus on growth in the largest margin pools in our industry.

In our client business we set an all-time record for notebook MPU shipments in the quarter. We saw sequential revenue gains in both our desktop and notebook processor product lines and an improved mix in our notebook offerings.

Our VISION campaign continues to pay dividends across our client business. As you may remember, VISION is designed to both differentiate AMD based platforms and encourage sell up to more robust systems in mainstream retail. During the back-to-school period, our higher-end VISION Premium and Ultimate platforms accounted for roughly half of VISION branded sales.

In our server business we were pleased to add IBM to the list of customers offering AMD Opteron 6000 based systems in the third quarter. AMD OEM server partners, led by HP and Dell, now offer more than 40 6000-series platforms and over 20 4000-series platforms as of the end of this past quarter.

In graphics, we are about to complete our first full year of top-to-bottom DX11 enabled products. We are very pleased that Apple refreshed their Mac and Mac Pro desktop computers with our new Radeon GPU line, making Radeon GPUs the only graphics solution for all configurations of these products. To date, we have shipped over 25 million DX11 GPUs and we will be launching our second generation DX11 graphics offerings next week.

Customer and partner enthusiasm continues to grow for the industry's first accelerated processing units, or what we call AMD Fusion family of APUs. Our first APU platforms, code-named Brazos and based on our Zacate and Ontario processors, are expected to bring many of the vivid digital computing experiences once reserved for high end PCs to value and mainstream notebooks and desktops early next year. Brazos is ahead of schedule with customer shipments on track for the fourth quarter and customer systems available early next year. The AMD Fusion family is a game changer that will significantly expand our addressable market and is already changing the way the industry harnesses the power of the GPU.

Production shipments of Llano, our 32-nanometer APUs, are planned to occur in the first half of next year as well. Meanwhile, industry anticipation of our new Bulldozer core is high and growing. We remain on track to ship Bulldozer based server and desktop processors next year.

So to summarize, AMD's third quarter demonstrated a number of important and positive aspects of our plans for future success. Our new business model is solid, as we showed improving margins and free cash flow in a softer than anticipated consumer PC environment. Our VISION program is working as we emphasize graphics and end user experience to differentiate our offerings and sell up the stack. And our AMD Fusion strategy is changing the industry as the revolutionary potential of vivid GPU accelerated applications is becoming a reality and the performance, value, and power efficiency of AMD Fusion platforms, starting with Brazos, will be compelling.

We remain focused on growth inside the largest margin pools in our industry, and our combination of intellectual property, customer relationships, and design and marketing expertise gives us increasing confidence in our capacity to thrive while developing that opportunity in the years ahead.

With that, I will turn it over to Tom.

Thomas Seifert, Senior Vice President and Chief Financial Officer

Thank you, Dirk. Third quarter revenue was $1.62 billion, down 2% compared to the second quarter of 2010, and up 16% compared to the same period a year ago.

We reported non-GAAP net income of $108 million in the third quarter of 2010. To calculate the non-GAAP net income, we excluded our share of financial results and other equity accounting adjustments related to GLOBALFOUNDRIES, a non-cash loss of $186 million. As usual, we also excluded the $16 million amortization of acquired intangible assets and a $24 million charge related to our repurchase of $800 million of our 6% notes in August.

Our non-GAAP diluted EPS of $0.15 in the third quarter is calculated using 731 million shares. Third quarter non-GAAP operating income was $144 million, excluding the amortization charge I mentioned already.

Gross margin for the quarter was 46%, up 1 percentage point compared to last quarter. The increase was mainly due to ongoing improvements in cost management and product mix. Operating expenses in the quarter were $595 million. R&D was $359 million, and SG&A was $236 million, which includes the marketing expense accrual impact of approximately $30 million as guided.

Spending came in lower than our OpEx guidance of $630 million as we managed costs and expenses to align with the lower revenue in the quarter.

Third quarter adjusted EBITDA was $245 million, up $1 million from the previous quarter. Non-GAAP adjusted free cash flow was $91 million, resulting in $344 million of non-GAAP adjusted free cash flow year-to-date.

Now, switching to the business segments: in the computing solutions segment, third quarter revenue was $1.23 billion. We recorded our second straight record quarter of mobile processor unit shipments. Notebook processor ASP was up sequentially as AMD-based multi-core notebook platforms continued to penetrate higher priced market segments. We saw single digit sequential gains in desktop processor revenue, primarily driven by channel sales in China, the Americas and Europe.

Opteron 6000 and 4000-series processors continued to gain traction, representing nearly half of server processor revenue in the quarter. Overall microprocessor ASP declined slightly compared to last quarter but increased year-over-year. Computing solutions segment operating income was $164 million, compared with $128 million in the second quarter of 2010.

In the graphics segment, revenue for the quarter was $390 million, down 11% sequentially. The sequential decrease was driven primarily by lower mobile GPU shipments in the quarter, offset slightly by higher desktop graphics shipments in the AIB channel and double-digit revenue growth in workstation graphics.

GPU ASP decreased sequentially due to greater mix of value segment products but increased year-over-year. We reserved next generation GPUs in the quarter while in development which we expect to sell in the fourth quarter. Operating income was $1 million, compared with $33 million in the second quarter.

Now turning to the balance sheet. Cash, cash equivalents and marketable securities balance at the end of the quarter was $1.73 billion. The decrease from the second quarter was primarily due to the repurchase of $800 million of our 6% convertible senior notes offset by non-GAAP adjusted free cash flow and proceeds from our issuance of 500 million of 7.75% senior notes which are due in 2020. Long-term debt as of the end of the third quarter was down to $2.2 billion.

This quarter, there's a new line item on the balance sheet related to our investment balance in GLOBALFOUNDRIES called accumulated loss in excess of investment in GLOBALFOUNDRIES.

As of the third quarter this balance turned negative and is therefore reflected on the liability side of the balance sheet. Based on the current structure of our wafer supply agreement and our ownership and governance relationship, we are required to record our share of the equity losses in excess of the carrying amount of our investments.

We will continue to assess the appropriateness of the current accounting treatment and make changes as needed based on circumstances.

Now, let me turn to the outlook. The following statements concerning AMD are forward-looking, and actual results could differ materially from current expectations.

For the fourth quarter of 2010, we expect revenue to be approximately flat as compared to the third quarter. Operating expenses are expected to be approximately $610 million, which includes the remaining impact of marketing program expenses accrual we introduced in the second quarter. Recall that we now accrue marketing expenses earlier and closer in line with the revenue development. The transition to the new marketing program is expected to be completed in the fourth quarter.

Interest expenses, expense is expected to be lower moving forward due to the re-profiling of our debt maturities which reduced our approximate quarterly interest expense to $48 million. This results in a quarterly savings of about $8 million. We expect tax provision in the fourth quarter to be zero.

In conclusion, we continue to drive profitability and free cash flow generation as we execute our business model, focusing on growth and more profitable market opportunities which we will look forward to discussing at our financial analyst day on November 9th.

At this point, I would like to turn it back to Ruth for Q&A.

Ruth Cotter, Senior Manager, Investor Relations

Operator, we would be happy to take some questions, please, from participants. If you could poll the audience, that would be great, thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions] Our first question comes from Uche Orji [UBS].

<Q – Uche Orji>: Thank you very much. Well, first of all, congratulations on keeping the expenses as tight as you did and the numbers you put out. Let me just start out by asking you about notebooks. I'm just trying to understand, if the U.S. was weak and Western Europe was weak when you preannounced, what kind of drove the strength in notebooks? And also if you could talk about how much of the mix is multi-core, quad-core notebooks and what sort of applications are compelling people to buy these quad-core notebooks?

<A – Dirk Meyer>: Well, sure. First of all, as we said in our pre-announcement, we saw, as compared to our beginning of quarter plans, a relative weakness in North America and Western Europe consumer markets for notebooks. That's not to say the markets were experiencing negative growth on a PC consumption basis, simply PC consumption was weaker than the plans that we had and that our customers had.

That said, emerging markets still represented a pretty good source of growth. In particular, China was still a strongly growing market in Q3, although the growth rate there was, again, lower than what we saw in the first half.

Your second question was pertaining to the mix of the AMD notebook platform and the fraction of our shipments that were triple and quad-core and we don't go into specifics on that, other than to say, as I said in my opening remarks, we did see a relatively richer mix of triple and quad-core Phenom, VISION-branded notebooks which contributed to an increase in ASP. Our message there and motivation there to get consumers to buy is really around the multimedia experience for these machines, particularly around video processing, you know, the codecs are threaded applications that run better on a multi-core platform. So that's an example.

<Q – Uche Orji>: And just let me ask you about servers, Magny-Cours, last quarter you mentioned that the uptake was a little bit disappointing. I just want to understand what progress you've made there and then also switching to graphics, if you can, you know, talk about how you see yourself with Fusion against Sandy Bridge and the key concern we have with the graphics business is that the value added by products like Sandy Bridge could reduce the attach rate for graphics. Any comments as to how you see the graphics market evolving through the introduction of those products? Thank you.

<A – Dirk Meyer>: Sure, I will take the second one first and that was around graphics. From my perspective, to the extent that the industry conversation is increasingly a conversation around graphics, I think that's just awesome news for AMD since we've got the world's best graphics and, you know, clearly, graphics capability is increasingly important to consumers given what they do with these machines.

You know, it – the chatter in the industry is, of course, that Sandy Bridge has improved graphics capability as compared to Intel's previous integrated graphics platforms, and while we expect that to be the true, we also expect that that capability is not going to be at the leading edge of capability that consumers demand. You know, an example of the modern graphics standard these days is the Windows 7, DX11 standard, which it is our understanding that the Sandy Bridge doesn't support.

So the information that we have from our OEMs suggests that the OEMs are still interested in having a discrete graphics step up for their SKUs so that they can, in the market, sell a richer mix of systems. So does that answer your second question?

<Q – Uche Orji>: It does. I mean, what about attach rates for graphics in general if you bring in these capabilities for something like Fusion as well as Sandy Bridge? Does that – do you think we see attach rates fall?

<A – Dirk Meyer>: We are not really planning that in the near term, meaning the next couple of quarters. I think as you look out over time and speculate as to how we and Intel use increasing effective silicon area, from technology node to technology node, you might assume that more and more of that die area gets devoted to graphics which could over time eat into the low-end of the discrete GPU market but I think that's more of an out in time phenomenon, that's certainly not a next year situation.

<Q – Uche Orji>: And the question on servers.

<A – Dirk Meyer>: Your next question on servers, I will first remind you of the picture. The Magny-Cours technology was launched in effect by us in March. The Opteron 6000 platforms from our OEMs really only came online at the end of Q2 and of course the Opteron 4000 platforms started showing up from our OEM partners really in the end of Q3. So in a lot of ways we are a quarter into seeing OEM platforms in the market.

As Thomas said, we did see a pretty good ramp of Opteron 6000 platforms within our product line and that platform represents about half of our unit shipments in the current quarter. So I think, you know, Opteron 6000 is ramping pretty well. The next opportunity, of course, is for us to ramp the Opteron 4000 platform which is really only just becoming available and represented hardly any of our shipments in the current quarter. So now that we walk into Q4 with what I will call the full arsenal, I think we will be in a position to, you know, benefit from some share growth.

That said, you know, I would characterize the ramp so far as good, but not as good as we think we can do given the great value proposition of these platforms.

<Q – Uche Orji>: So with that, if we look into the quarter guidance of flat revenues, with that kind of mix, what kind of impact to margins should we be anticipating for next quarter?

<A – Dirk Meyer>: Well, I don't want to forecast margins specifically but we are forecasting flat and I think we have an opportunity to do better than flat in servers

<Q – Uche Orji>: Great. Thank you.

Operator: Thank you. Your next question comes from John Pitzer of Credit Suisse.

<Q – John Pitzer>: Good afternoon guys, congratulations. Dirk, maybe as a follow-on to that last comment you just made, I'm just kind of curious relative to that flat revenue guidance, how you see graphics trending after the pause in the September quarter and then mobile desktop and then I guess your flat, is that assuming that you trend in line with market conditions or that the fourth quarter is still a share gain quarter for you?

<A – Dirk Meyer>: We don't typically – well, we don't forecast share gains. I can give you some color on the thinking that causes us to guide flat. You know, first, I think it's very clear that PC OEMs worldwide were really – and the entire supply chain leaving Q2 was really thinking and planning for continued – I will call it explosive growth of consumer PCs and as the consumption – the consumer levels started to dampen a bit into Q3, I think we saw a reaction across the supply chain aimed at bringing down or preventing an inventory build.

We don't think that process is complete as of the end of Q3 and in fact will continue going into Q4, and that's why we're guiding flat on a sales in basis, but we still do see positive sequential growth for PC consumption. Now, it's kind of hard to pick it apart, component by component, GPU and CPU, and I think we will refrain from doing that.

<Q – John Pitzer>: Dirk, just a little bit of color, the sequential decline in graphics, is that just a case that you were able to gain share in CPU and your graphic share is pretty static and so you followed the graphics market in the September quarter?

<A – Dirk Meyer>: Yeah, let me -- I think your question is probably okay. What happened with discrete notebook graphics, why are we saying we were down, that's the spirit of your question?

<Q – John Pitzer>: Yes.

<A – Dirk Meyer>: It's a good question and I think there are probably three factors and it's really hard to assign a number to the three, but, you know, first of all, I think with the benefit of hindsight, we probably saw in Q2 some customers double ordering from us, you know, it was chatter in the industry that our foundry supplier for GPUs was short. Our supplies were short and therefore, we probably saw OEMs trying to ensure that they had enough inventory to cover whatever demand scenario unfolded and therefore as demand weakened a little bit, we probably saw OEMs want to start to drain their notebook GPU inventory. That's factor number one.

Factor number two, I think there's probably no question that some of our customers in response to our real or perceived GPU shortages, created NVIDIA capable notebook platforms just to protect their position and ability to ship. So it's possible we suffered a little bit of share loss in the quarter.

And finally, we saw at least anecdotal evidence of OEMs de-featuring the discrete graphics option in response to the dramatic weakening of the euro that occurred 90 days ago. So the OEMs have price points committed in the market and therefore want to reduce their costs to protect their margins. So I think we saw a little bit of that in Europe for sure.

Hard to assign percentages to each of those, but those are the three factors I would cite.

<Q – John Pitzer>: That's helpful. If I could just sneak one last one in, I'm just kind of curious around Ontario, help us understand the ASP and gross margin and is there any update on Llano from a manufacturing standpoint?

<A – Dirk Meyer>: The second one first, the plan is still to ship Llano in the first half of next year as we cited 90 days ago on this call. And I think I'll refrain from giving you a lot of specifics on Brazos because we are a mere three weeks away from our financial analyst day where we will give you lots of detail.

<Q – John Pitzer>: Great. Thanks, guys.

<A – Dirk Meyer>: Okay.

Operator: Thank you. Our next question comes from Glen Yeung from Citi.

<Q – Glen Yeung>: Thanks. Dirk, I now may be barking up the wrong tree given your last comment, but I will ask it anyways. When you look out at the netbook opportunity and I think Brazos is initially going to be oriented there. How do you see that opportunity shaping up for AMD and maybe as you respond to that, any perspective you may have on the impact of tablets on the growth or potential in that market next year?

<A – Dirk Meyer>: Yeah. So first, the technology that, you know, we put under the broad umbrella of the Brazos platform has two CPU SKUs. One code-named Ontario that's targeted at netbooks and the other is Zacate that's targeted at more full featured mainstream notebooks, although low cost mainstream notebooks, 14, 15-inch display.

It turns out a lot of our Brazos design wins are really in the low end of mainstream category. So there what we see is really a substitution of new technology in form factors and price points where we participate today, though probably with components that are better suited to those price points that is lower cost.

Netbooks represent the other big chunk of the design wins we see. Clearly that's a category that we barely participated in. So that is all, I will say, SAM expansion for us.

The last question was what's the tablet factor? And I think clearly the last quarter or two the tablet has represented a disruption in the notebook market. If you ask five people in the industry, you will get five different answers as to what degree there has been cannibalization by tablets of either netbooks or notebooks. I personally think the answer is both; given the pretty high price points of the iPad, there's probably some cannibalization even of mainstream notebooks.

We still believe in the long term that tablet form factor is accretive to the market opportunity for companies like AMD. So hopefully that answers your question.

<Q – Glen Yeung>: That's helpful. Can I just ask a follow-up on the netbook opportunity? Do you think you can sort of get the same amount of share in netbooks that you enjoy in notebooks overall? Do you think the Ontario offering is that good? The reviews seem quite good.

<A – Dirk Meyer>: Well, as a reference point, our notebook share is sitting pretty low at 13, 14%, which I don't find very inspiring. And I would certainly hope we can do even better than that not only in notebooks over time but also in netbooks. So the answer is YES, with all capitals.

<Q – Glen Yeung>: Good to know. One last question here has got to do with discretes. We've now had the first half or first quarter of 2011 notebook designs completed and I wondered if you had any sense within that – I think you may have answered this already, but I'm just double checking – any sense within that as to whether attach rates for notebooks look to have been impacted at all by some of these hybrid-type microprocessors going in?

<A – Dirk Meyer>: I think it's too early to call because what matters, of course, is the sell out, and we're not going to know that until we are there. As I said in response to a prior question, we continue to see OEMs expressing interest in having a SKU lineup that includes a step up to discrete graphics.

<Q – Glen Yeung>: Okay.

<A – Dirk Meyer>: And that remains true next year.

<Q – Glen Yeung>: Okay, that's helpful. Thanks a lot.

<A – Dirk Meyer>: Yes.

Operator: Thank you, our next question comes from Jim Covello of Goldman Sachs.

<Q – Jim Covello>: Great, guys. Thanks so much for taking the question. If I could just follow-up on the tablet or the iPad question, I guess one concern or thought is that the areas of weakness this quarter were the only areas where the tablet was shipping in terms of consumer in the established markets and now that the tablet is shipping into some of the emerging markets, it could have a more significant impact. I guess the question is how much have you worked that into your guidance for the out quarter?

<A – Dirk Meyer>: Certainly we certainly factored in every environmental factor we know of, including that one. So that would be the short answer.

I would say, again, going beyond that, there's no question that the tablet phenomenon has been a source of volatility relative to any of our customers' ability to predict the market. But as you will see or hear from us when we have our financial analyst day, we are still, tablet aside, looking at a prospect, based on everything we can tell, of pretty healthy notebook growth next year. And we will give you more detail in a couple of weeks.

<Q – Jim Covello>: And if I could just follow up on that. There's a slight difference now, it's not huge but a slight difference in the sequential guidance for yourselves and your competitor. Do you think maybe you guys are taking a little more of a cautious or conservative approach relative to the tablet cannibalization or do you think it has something to do with graphics or are there other factors or maybe just small enough that it falls into the noise factor?

<A – Dirk Meyer>: From everything I know, the 3% difference, roughly, is noise and within the error bars of any prediction.

<Q – Jim Covello>: Okay, so nothing specific that you would be making a call on as different from what your competitor is saying?

<A – Dirk Meyer>: No.

<Q – Jim Covello>: Okay, great. Thanks very much.

Operator: Thank you. Our next question comes from Doug Freedman of Gleacher.

<Q – Doug Freedman>: Great, thanks for taking my question and congratulations on holding onto the strong margins. Dirk, if you could focus a little bit on the GPU product line, I believe you guys are due to refresh that product line. Can you give us any idea of timing, when we're going to see that and what impact you might expect to see out of that?

<A – Dirk Meyer>: Sure. As I said in my opening remarks, Doug, we will be introducing our second generation of DX11 technology into the market with some launch activities actually next week. We'll be shipping all of the family members of that product line, I will call it, by the end of this quarter. And total volume, think in terms of several hundred thousand or hundreds of thousands of units.

<Q – Doug Freedman>: Do you think that there was any sort of pause in front of your products refreshing given the fact that many of them have been in the market for quite a while?

<A – Dirk Meyer>: No. I don't really think that was the factor. As we said, the one area of sequential weakness we saw was in notebooks, and we attribute that to the three factors I outlined earlier, not a market stall waiting for new technology.

<Q – Doug Freedman>: Okay. And moving on, if we look at the APUs and their introduction to the market, you have already commented a bunch on the impact on GPU attach. How about your ability to garner dollar share in the systems? What are you expecting the APUs to do as far as ASPs, and if you could give us some idea if they are having any incremental benefit around the margins that you achieve as well?

<A – Dirk Meyer>: Yeah, we'll talk about this at greater length, Doug, on financial analyst day. But in a nutshell, we expect the APUs to provide an opportunity for us to get more platform design wins and get a greater percentage of sell out, based on the differentiated value proposition, which comes really in two forms, number one, superior graphics performance at better price points and better power points than is available from the competition, and as well as a little bit initially increasingly over time, the ability of the APU and the GPU within the APU to pick up more of the workload for these media centric, user interface centric applications and therefore be able to deliver a more vivid experience to the user. And we'll talk about some of the applications that we have in mind at the financial analyst day.

So the results should be the opportunity for not only better share, but a richer mix and, you know, more sell up, based on our APU technology.

<Q – Doug Freedman>: Terrific and my last question, really, you have already touched on a bit the tablet market. Can you give us an idea of when your products will be able to go after this market and what are the, you know, processing demands, whether it be a power envelope that the tablet market is seeking and how long will it be before you have a product for that market?

<A – Dirk Meyer>: Yeah, good question and, again, you know, the – I expect we are going to see tablets of various form factors and thicknesses over time. You know, from everything we understand today, which, this is still a pretty new market, you know, a tablet would optimally have a maximum power dissipation of two to three watts which is a little – a little more than half of what I will call a fanless netbook would tolerate, though I expect that customers will take components that were really designed with the netbook in mind and put them in tablets. And I think you will even – you will see AMD-based solutions in tablets in the next couple of years for that reason.

You know, our overall strategy with respect to tablets is to first observe that that's a form factor that we think is going to grow over time and be important over time, as I said and be accretive and one which we'll devote specific R&D energy towards when the market is big enough to justify that investment. Frankly we are still so small in the notebook market that given all the opportunities in front of us, it doesn't make sense for us to start turning R&D dollar spending towards the tablet market yet. We will start doing that when the market is big enough and then you can anticipate we will show up with a differentiated offering with great graphics and video technology and so on, and we'll talk a little bit more in detail about that on the financial analyst day on that one too.

<Q – Doug Freedman>: Great. Thanks so much.

Operator: Thank you. Our next question comes from Tim Luke of Barclays Capital.

<Q – Tim Luke>: Thanks so much. I hope you can hear me. I see that Uche set the tone with the questions so I will try to keep my questions to single digits tonight. I just was curious, it sounds like you are guiding for your servers to be up somewhat. With the other segments, are they largely anticipated to be flat or are we factoring in that the – one of the – notebooks, desktops or graphics is likely to be somewhat lower? And then maybe for Thomas, could you give us some sense of what you think the key variables going forward may be with respect to your gross margin looking forward? Thank you.

<A – Dirk Meyer>: Yes, Tim, it's a good question. I respect it, but I think maybe you are assigning a little bit too much weight to my concluding comment. Overall, our guidance is flat quarter-on-quarter. If you look at our server business and, you know, I think there's reasons to believe we can do better than that, but we are not giving guidance on a per product line basis, notebook, desktop, server, GPU, so therefore I really don't want you to put too much weight on the color commentary that I'm trying to give beneath the overall headline, which is flat guidance quarter-on-quarter for AMD as a company.

<A – Thomas Seifert>: So let me comment on the gross margin for the quarter. There are gives and takes this quarter. We will face a little bit of headwind coming out of the exchange rate volatility in the last couple of weeks so the euro has strengthened significantly and we have to deal with that.

And we also will see some headwinds from the product mix in the fourth quarter which is generally more consumer driven.

On the other side, we have been rather successful over the last two quarters, putting significant effort on increasing productivity and getting manufacturing costs down. And we will continue in that direction also this quarter. And then we'll see some positive effects from the first APU shipments that will help our gross margin expansion.

So those are the gives and takes for the quarter, and you know, we are quite optimistic that we are in good shape.

<Q – Tim Luke>: Lastly if I may, you said the Llano product is still on track for the first half of next year. Could you give us any color on what you think is going to be sort of key in terms of getting that product to market in that timeframe and what you think some of the key variables may be? Thank you.

<A – Dirk Meyer>: Yeah, we will go into more detail in a couple of weeks, Tim, but the sign posts, I would say are volume samples to customers in Q1, followed by, you know, a steep production ramp and shipments in the first half.

<Q – Tim Luke>: Thank you very much.

Operator: Thank you. Our next question comes from Shawn Webster of Macquarie.

<Q – Shawn Webster>: Great. Thank you. I was wondering if you could give us an update on the utilization rate charges and what those did in Q3 and how you expect them to change or evolve moving forward the next couple of quarters?

<A – Thomas Seifert>: Yes, since our volume was pretty much flat Q2 to Q3, the utilization rates really have not changed in a meaningful way in the third quarter and keeping our guidance in mind for the fourth quarter, we don't expect any big changes in the current quarter either.

<Q – Shawn Webster>: So is the expectation still that as we go into Q2 next year, the benefit you will get from taking the underutilization charges out will be 50 to 100 basis still?

<A – Thomas Seifert>: The mechanics are not going to change because of the demand questions. I'm not – I don't want to really comment now on 2011 impacts. We'll go into more detail with respect to our guidance for next year at the analyst day. But for the fourth quarter, you should not expect any big swings.

<Q – Shawn Webster>: Okay. And then within the segments, did server revenue increase sequentially and can you give us an update on the chipset part of your business, how the business evolved there for Q3 for you?

<A – Dirk Meyer>: Sure. Server revenues were roughly flat sequentially and chipset revenues were down.

<Q – Shawn Webster>: Okay. And then can – how do you find the – you said you had slight declines in average pricing, but how was the pricing environment for the last three to four weeks? Some of us have heard that pricing has been more competitive than usual. Would you describe it as the same as always, or more or less competitive?

<A – Dirk Meyer>: I wouldn't say that there's anything exceptional in the environment.

<Q – Shawn Webster>: Okay. And maybe the last one for me is when things looked really lean out there as we went through Q1 and Q2 but then it looked like there was excess inventory building. Where do you see the excess inventory now? Is it in the channel? Is it at OEM customers, distributors? Where do you guys see the excess?

<A – Dirk Meyer>: In our case, you know, I can't speak for the whole market, but the component distribution channel seems relatively okay. Where we saw, I will say a reaction was more across the notebook supply chain from ODMs all the way through OEMs, into our OEM channels so across the entirety of that supply.

<Q – Shawn Webster>: Okay. Thank you.

Operator: Thank you. Our next question comes from Ross Seymore of Deutsche Bank.

<Q – Ross Seymore>: Hey, Dirk, kind of following on that last question, you mentioned that you expected the inventory adjustment to continue in the fourth quarter. Do you think it will be finished in the fourth quarter?

<A – Dirk Meyer>: We do. We expect to see sequential growth of PC consumption in Q4 and again, we are forecasting roughly flat with the anticipation that we are kind of normalized certainly by the end of the quarter.

<Q – Ross Seymore>: And maybe a little bit more for Thomas. What do you expect your internal inventory to do sequentially?

<A – Thomas Seifert>: Well, we had a slight buildup, a modest buildup in Q3. We tried to keep it flat in the fourth quarter.

<Q – Ross Seymore>: Great. And then on the GPU side when you talked, about – I guess on the CPU side that your notebook units were not as good as you hoped but still positive in the quarter. Did some of the bundling that you had expected to do kind of break down as part of the GPU weakness?

<A – Dirk Meyer>: You know, I don't think so. You know, again, we saw unit growth sequentially in MPUs. And I would just attribute the notebook GPU situation to the three factors outlined earlier as opposed to saying there was some sort of bundling breakdown.

<Q – Ross Seymore>: I guess the last one from me, one of those three features that you mentioned – or one of the three factors you mentioned was the de-featuring, specifically in Europe. What are your thoughts on that either ending or continuing as we go into the fourth quarter?

<A – Dirk Meyer>: Well, the euro has strengthened again here, and, again, what I referenced are anecdotal examples and therefore, it was hard for me to characterize how strong a factor that was. I wouldn't highlight it as a factor for Q4.

<Q – Ross Seymore>: Great. Thank you.

Operator: Thank you. Our next question comes from Chris Danely of JPMorgan.

<Q – Chris Danely>: Hey, thanks. Hey, Dirk, you said pricing is more or less normal. With things slowing down a little bit this quarter and then heading into the seasonally weaker time of year, in the first half of next year, should we or would you expect pricing to get a little more squishy or do you think it would hold up?

<A – Dirk Meyer>: Well, you know, the – we're, of course, the small player in the market. So, you know, I can only tell you what our strategy is and that is to, you know, protect and grow our margins, and not have a bloody fight for share. So, you know, our strategy is certainly to get good value from the product, have a good footprint in the market place but protect our margins.

<Q – Chris Danely>: Sure. No, that's fine. Then the second question is, your competitor threw out a mid-teens PC growth for next year. Is that something you feel comfortable with? Do you think that that's reasonable?

<A – Dirk Meyer>: I think we will give you a finer point on it at financial analyst day. But certainly double-digit growth seems reasonable for next year.

<Q – Chris Danely>: Great. And then last question which is a little more futuristic. If we are sitting here a couple years from now, how much of your business would ideally be made up of APUs?

<A – Dirk Meyer>: At what point in time? I'm sorry?

<Q – Chris Danely>: Let's just say a couple of years out, when things – after it's been out for a while.

<A – Dirk Meyer>: Oh, boy, that's really not even a next year question, but a beyond next year question which I really want to punt to the financial analyst day in three weeks.

<Q – Chris Danely>: I will take next year instead, if you've got that?

<A – Dirk Meyer>: Will wait for three weeks.

<Q – Chris Danely>: All right, thanks a lot.

Operator: Thank you. Our next question comes from Ambrish Srivastava of Bank of Montreal.

<Q – Ambrish Srivastava>: Hi, thank you. Just a question on the reported quarter and Dirk, if you did mention it, I apologize, I probably didn't get it. On the server side, did you give color on units and ASPs and then I had a quick follow-up?

<A – Dirk Meyer>: We didn't, but I can tell you that sequentially we were roughly flat in all dimensions: revenue, units and ASPs.

<Q – Ambrish Srivastava>: Okay. And then switching to graphics, the profitability, it's pretty volatile, but over the last three quarters, it's been sequentially down very consistently. So now we are at roughly no operating income. Does that turn around or what is the outlook over the next couple of quarters for that?

<A – Thomas Seifert>: Good question and Dirk already mentioned it, profitability is the big focus and we put that focus also in our graphic business, however, the third quarter was a bit special. We saw a significant sequential decline in revenue and with that, a loss in gross margin that we could not compensate for and then we also mentioned that we had an inventory adjustment in terms of building up a reserve for the new products that have not been qualified yet, but will be shipping this quarter. So we are just a week or so away from launching our second generation of DX11 products.

Those two effects I think you have to keep in mind when you look at the profitability of the graphics segment, however, moving forward we'll put enough focus into that segment to make sure that we earn the right amount of money.

<Q – Ambrish Srivastava>: So my interpretation is that we are not looking at a near term or protracted price war now that both of you are competitive products out there?

<A – Thomas Seifert>: Yes.

<Q – Ambrish Srivastava>: Okay. Thank you.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question comes from Patrick Wang of Wedbush Securities.

<Q – Patrick Wang>: Great. Thanks and congrats on the nice quarter. My first question is just on the 32-nanometer Fusion parts that are coming out here. You talked about some challenges when you updated your product launch schedule last quarter. I was just curious how pleased you have been with the yields, how has it ramped just over the last couple of months here?

<A – Dirk Meyer>: Well, the high-order answer is that we can't say we are pleased in the sense that we announced last quarter that the yields were not at the level of maturity that we had planned and for that reason, as well as a few others we mentioned, we moved the ramp back into next year. If your question is, what kind of progress we are making, I will say that over the last 90 days, the GLOBALFOUNDRIES team has made progress, are building momentum and we need to see that progress continue into next year and we expect them to do so.

<Q – Patrick Wang>: So no real change off of your most recent updates?

<A – Dirk Meyer>: Correct.

<Q – Patrick Wang>: Okay, gotcha. And when we think about your upcoming Bulldozer core, are there any particular milestones we should start thinking about?

<A – Dirk Meyer>: You are probably asking milestones that will be externally visible or that we will talk about?

<Q – Patrick Wang>: Yes.

<A – Dirk Meyer>: We will start generating limited samples to customers before the end of this year, volume samples in the first half of next year in support of production next year.

<Q – Patrick Wang>: I see, gotcha. And then it seems like your microprocessor mix could have improved a little bit last quarter but yet your ASPs declined. Can you help us characterize where you saw some lower pricing?

<A – Dirk Meyer>: Well, the decline, first of all, wasn't very big. You know, as I said, the server ASPs were roughly flat. Notebook, as a result of richer mix of triple and quad-core came up and desktop came down, largely through mix shifts and, you know, the puts and takes across those three factors resulting in a modest decrease sequentially in overall MPU ASPs.

<Q – Patrick Wang>: Okay, got you. And then last question just on graphics here. I'm just kind of curious, how much of an impact did you see last quarter from I guess a high volume desktop part from your competitor? And then I guess when you look into the next few months leading into the holiday season, how do you feel about your position with your 40-nanometer refresh? Thank you.

<A – Dirk Meyer>: Well, clearly, NVIDIA came out with some I'll call them more competitive DX11 products finally, and those had some impact in the marketplace, although as I said we've now shipped 25 million DX11 parts and are going to refresh the product line top to bottom here this quarter. So we feel very bullish about where we'll leave the year competitively.

<**Q – Patrick Wang**>**:** Got you, so locked and loaded.

<**A – Dirk Meyer**>**:** Yes.

<**Q – Patrick Wang**>**:** Thanks so much.

<**A – Ruth Cotter**>**:** Operator, we'll take two more questions, please.

Operator: Yes, ma'am. Our next question comes from David Wong of Wells Fargo.

<**Q – David Wong**>**:** Thanks very much. With your current schedules, will Llano appear in systems and ramp before the Bulldozer desktop and server chips or after the Bulldozer desktop and server chips?

<**A – Dirk Meyer**>**:** Before.

<**Q – David Wong**>**:** Llano will be before, okay, thanks. And just a clarification of something you said earlier. Did you say that desktop processor revenues grew sequentially in the quarter?

<**A – Dirk Meyer**>**:** Yes.

<**Q – David Wong**>**:** Great. And my last question, server ASPs flattish. Are you seeing a transition to Magny-Cours in the four-way space? So is there something else that's offsetting the lower four-way price of Magny-Cours or is that transition happening relatively slowly, which is why server ASPs are not going down?

<**A – Dirk Meyer**>**:** Good question. So the 6000 series replaces the 4000 and the 2000. So I would say there's a positive effect on ASPs to the extent that the 6000 replaces 8000 – sorry, negative effect, but a positive effect as the 6000 replaces the 2000. And at least in the past quarter, the two effects canceled and we remained roughly flat.

<**Q – David Wong**>**:** Great. Thanks.

Operator: Thank you. Our next question comes from Stacy Rasgon of Sanford Bernstein.

<**Q – Stacy Rasgon**>**:** Hi, guys, thanks for squeezing me in. Just a couple of quick questions. Number one, around the inventory, so it was up 7% this quarter. I'm just curious, to the extent that that inventory build might have contributed to higher utilization and a little bit of margin support this quarter, and given that you're guiding to inventory dollars I assume about flat next quarter, is there a potential utilization hit given flat revenues as well? And what are the implications on margins in Q4 from that?

<**A – Thomas Seifert**>**:** Negligible, I would say. We did not really benefit on the gross margin side this quarter from the inventory effects. I think we did, keeping the revenue development in mind, a pretty good job keeping inventory growth at a modest level. And I don't expect any major impact on the gross margin in the fourth quarter.

<**Q – Stacy Rasgon**>**:** Got it. Next quick question around the servers. So we had server units, ASPs and revenues all about flat compared with your competitor where server revenues were up a bit and maybe units as well. I know you guys lost a bit of share in calendar Q2. Does this sort of imply that you were maybe continuing to lose a bit of server share in Q3 as well? And I'm wondering when – it sounds like you are looking for a bit more share gain maybe in Q4, but if you

could just give us a little more color on where you think share went in Q3, I think that would be helpful.

<A – Dirk Meyer>: I think you summarized the situation as well as I could. As I said in response to a previous question, the opportunity for us is to do an even better job of getting the end users to understand the great value proposition that we have around the 6000 series, as well as the opportunity we have with the 4000 series finally being in market from our OEMs.

<Q – Stacy Rasgon>: Why do you think you haven't been so successful with that yet?

<A – Dirk Meyer>: Well, I just think that it's a big market and with products only in the market for roughly 90 days, there's a seed program, a certification cycle before enterprise buyers really start to buy. So this is not a consumer marketplace where, boom, the product is there and everybody turns on to it immediately.

<Q – Stacy Rasgon>: Got it. And one more quick question. Can you just let me know how big the capital call was and how it was funded in terms of was it 80% Class A equity, 20% Class B?

<A – Thomas Seifert>: So we did not participate. The capital calls in total were about 300 million.

<Q – Stacy Rasgon>: Got it. And in terms of how it was funded, just so I can make sure my capital structure model is right?

<A – Thomas Seifert>: The way you mentioned it: 80/20.

<Q – Stacy Rasgon>: 80% Class A, 20% Class B. Great, thank you, guys. I appreciate it.

<A – Dirk Meyer>: Thank you.

Ruth Cotter, Vice President, Investor Relations

Operator, that concludes our earnings conference call. We'd like to thank everybody for participating and look forward to seeing you at our analyst day on the 9th November. Thank you.

Operator: That does conclude your call, ladies and gentlemen. Thank you for your participation. You may disconnect your lines at this time.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your conference operator for today. At this time, I would like to welcome everyone to AMD's second quarter 2010 earnings conference call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you'll be invited to participate in the question and answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Miss Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations

Thank you, and welcome to AMD's second quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO, and Thomas Seifert, our Chief Financial Officer.

This is a live call and will be replayed via webcast on AMD.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both 11465123. The telephone replay will be available for the next 10 days starting later this evening.

Before we start, I'd like to highlight that AMD will attend the Citi Technology Conference on September 7 in New York. And also AMD will host its Financial Analysts Day on November 9 at the company's headquarters in Sunnyvale, California, and not November 11 as previously communicated. Lastly, our third quarter quiet time will begin at the close of business on Friday, September 10.

Last January, we announced that we deconsolidated GLOBALFOUNDRIES as of the first quarter of 2010 and began accounting for our ownership interest under the equity method of accounting. AMD has an ownership stake in GLOBALFOUNDRIES, which is reflected in the Equity and Net Loss of Investee line on our statement of operations. AMD's Class A preferred share ownership of GLOBALFOUNDRIES decreased from approximately 82% to approximately 79% as a result of additional capital calls that took place in the second quarter. ATIC participated in the cash calls, and AMD did not. As a result, AMD's ownership on a fully diluted basis also decreased to approximately 28%.

Reconciliation of all non-GAAP financial measures disclosed today are included in the financial tables that accompany our earnings press release, which are also available in the Investor Relations section of AMD.com.

Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC, where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions of such risk factors in our most recent SEC filing, AMD's quarterly report on Form 10-Q for the quarter ended March 27, 2010.

Now with that, I'd like to hand the call over to Dirk.

Dirk Meyer, President and Chief Executive Officer

Thank you, Ruth.

In an environment of healthy demand for IT products, AMD delivered another solid quarter of revenue growth and operating performance. Our second quarter results demonstrate that we can generate profits while continuing to transform the business to achieve our short- and long-term goals.

Demand for our GPU offerings in the quarter was very strong, and shipments were tempered only by supply constraints. This was the second straight quarter of record GPU shipments, led by an 18% sequential increase in notebook discrete units. More than half of our GPU shipments in the quarter were DX11-capable, and we have shipped nearly 16 million DX11 GPUs to date. In the second half of the year, we expect GPU demand to remain healthy and supply constraints to ease. We remain on track to bolster our GPU leadership with the introduction of our second-generation DX11 graphics products later this year.

We completed the roll-out of our hi-lo server products. We are targeting power- and value-conscious markets with the new Opteron 4000 Series we introduced late in June. The Opteron 4100 series processor is the world's lowest-power-per-core server processor and the first CPU designed specifically for cloud data centers. We are targeting performance-oriented markets with our Opteron 6000 series. Shipments of our 6000 series nearly quadrupled sequentially, ramping late in the quarter as our largest customers transitioned the bulk of their AMD-based offerings to the new platform. We expect to see the substantial impact of our new-generation server products to fully materialize in the third quarter.

Turning to our client PC business. Customer response to our newest AMD VISION client offerings is outstanding. We more than tripled the number of VISION-branded platforms in the market compared to just nine months ago. The launch of our latest VISION offerings was the most successful platform introduction in our history, driving record mobile CPU unit shipments for the quarter. We secured more than 130 design wins spanning multiple price points across both the consumer and commercial markets. Customer adoption of our Danube mainstream notebook platform in higher price bands is a testament to the competitiveness of our platform offerings. The broad assortment of VISION offerings positions us well for the key back-to-school and holiday buying cycles. We are very pleased that Sony is now offering notebooks based on AMD's CPUs as part of its VISION-enabled Bio notebooks, and we welcome Sony back to the ranks of AMD's CPU customers.

We're excited about building on our market momentum with the introduction of the world's first Fusion accelerated processing units, or APUs, and two new x86 processor cores that will be the foundation for our next-generation platforms. One of our forthcoming APUs, code-named Ontario, combines our new low-power Bobcat CPU core and the DX11 GPU. The Bobcat CPU core featured in Ontario delivers mainstream CPU performance in less than half the area and a fraction of the power consumption. Ontario offers the ideal solution to meet the growing demand for low-power, small-form-factor computers that deliver a visual computing experience previously available only on high-end PCs. We're excited about the opportunities Ontario offers. It's a game-changer that significantly expands our addressable market. Based on strong customer demand and an accelerated engineering cycle, we now expect Ontario to be the first Fusion APU we bring to market. We plan to ship Ontario APUs in the fourth quarter of this year, ahead of schedule. Customer systems based on Ontario are planned to be available early next year.

Llano, our Fusion APU offering and at the higher end of the client market, is also generating positive customer response. However, in reaction to Ontario's market opportunities and a slower-than-anticipated progress up the 32-nanometer yield curve, we are switching the timing of the

Ontario and Llano production ramps. Llano production shipments are still expected to occur in the first half of next year.

In the second quarter this year, we also taped out the first 32-nanometer product based on our new high-performance Bulldozer CPU core. We plan to begin sampling our Bulldozer-based server and desktop processors in the second half of this year and remain on track for 2011 launches. These new processors will deliver significant performance improvements to the AMD platform.

Customers are increasingly excited about our portfolio of technologies and product roadmap. The growing importance of graphics is clear. The revolutionary potential of vivid, GPU-accelerated applications is becoming a reality, and the performance, value, and power efficiency of AMD Fusion platforms, starting with Ontario, will be compelling.

In closing, we are pleased with our overall performance in the quarter. We see strong opportunities for continued improvement in our operating performance and an exciting future for AMD built on the power of our Fusion and VISION platform strategies. And with that, I'll turn it over to Thomas.

Thomas Seifert, Senior Vice President and Chief Financial Officer

Thank you, Dirk.

Robust demand for our latest mobile platforms and solid execution of our business model drove record second quarter revenues and increased profitability. Second quarter revenue was $1.65 billion, up 5% compared to the first quarter of 2010 and up 40% compared to the same period a year ago. AMD reported non-GAAP net income of $83 million in the second quarter of 2010. To calculate the non-GAAP net income, we excluded our share of financial results and other equity accounting adjustments related to GLOBALFOUNDRIES, a noncash loss of $120 million. As usual, we also excluded the $17 million amortization of acquired intangible assets and other non-reoccurring charges and credits as outlined in our earnings press release tables.

Our non-GAAP diluted EPS of $0.11 in the second quarter was calculated using 733 million shares. Second quarter non-GAAP operating income was $138 million, excluding the charges and credits as outlined in our earnings release. Gross margin for the quarter was 45%, up 2 percentage points compared to the non-GAAP gross margin last quarter. The increase was mainly due to improved product mix and GLOBALFOUNDRIES fab utilization rates.

Operating expenses in the quarter were 600 million. R&D was 371 million, and SG&A was 229 million for the period. Operating expenses came in higher than guidance, largely due to revenue and operating income variable expenses coming in higher than planned. We also incurred some additional R&D costs associated with accelerating the time to market for Ontario. As you heard Dirk mention, Ontario will be our first APU and will ship ahead of schedule in the fourth quarter of this year.

Second quarter adjusted EBITDA was 244 million, down from 302 million. However, excluding the first quarter one-time gross-margin benefit of $69 million related to GLOBALFOUNDRIES' deconsolidation, the adjusted EBITDA was up 11 million sequentially. Adjusted free cash flow was $76 million, resulting in $253 million in adjusted free cash flow for the first half of 2010.

Now switching to the business segments. Second quarter revenue increased sequentially in both our Computing Solutions and Graphic segments. In the Computing Solutions segment, second quarter revenue was $1.21 billion, up 4% sequentially. The sequential revenue increase in Computing Solutions was primarily driven by record notebook processor and chipset unit shipments. Both of these product lines saw double-digit revenue and unit percentage growth sequentially and year over year.

Server ASP improved for the fourth consecutive quarter as we nearly quadrupled shipments on the AMD Opteron 6000 Series platform, also known as Magny-Cours. We look forward to extending the success of our latest server offerings into the two-socket volume space with the Opteron 4000 Series platform, recently launched in June. Overall, microprocessor ASP was flat sequentially and increased year over year. Computing Solutions segment operating income was 128 million, compared with $146 million in the first quarter of 2010.

In the Graphics segment, revenue for the quarter was $440 million, up 8% sequentially. The sequential increase was driven by record GPU shipments as mobile discrete GPU shipments achieved a fourth record quarter in a row. GPU ASP decreased sequentially due to an increased mix of notebook discrete unit shipments, coupled with supply constraints for the AIB channel. Operating income was 33 million compared with 47 million in the first quarter.

Now turning to the balance sheet. Our cash and marketable security balance at the end of the quarter was $1.9 billion. Long-term debt as of the end of the second quarter of 2010 was $2.4 billion. We retired 206 million of our 6% convertible senior notes due in 2015 during the quarter via open-market repurchases. Debt reduction continues to be a focus for us for the remainder of the year.

Now let me turn to the outlook. The following statements concerning AMD are forward-looking, and actual results could differ materially from current expectations. For the third quarter of 2010, AMD expects revenue to be up seasonally. Operating expenses are expected to be 630 million for Q3. The 30 million sequential increase is due to a change in our marketing programs. We will now accrue marketing expenses earlier and closer in line with revenue development. The transition to the new marketing program is expected to take two quarters.

In conclusion, we continue to execute well to our business strategy, and our success is reflected in our financial performance. We remain focused on our financial targets as we prepare to deliver the first APUs to our customers in the fourth quarter of this year.

At this point, I would like to turn it back to Ruth for Q&A.

Ruth Cotter, Investor Relations

Thank you, Thomas. Huey, if you could now poll the audience, please, for their questions. That will be good.

QUESTION AND ANSWER SECTION

Operator: Thank you, Miss Cotter. [Operator Instructions] Our first question in queue comes from Tim Luke with Barclays Capital. Your question, please.

<Q – Tim Luke>: Thank you so much. And well done on the strong quarter. I was wondering first, Thomas, given that you had a lot of variability in the seasonal and the sequential revenue progression for the third quarter, how you perceive seasonal guidance, what's the framework for that? And I was also wondering, if I may, if you could give some color on – with the higher revenue that you saw in the quarter, why were the operating margins slightly lower for both the Computing segment and the Graphics segment, if could you give some color on that? And then lastly, just for Dirk, can you just clarify your comments on the timeline for 32-nanometer? I think you said that it would begin shipping perhaps in the fourth quarter with Ontario. Is that revenue now in the fourth quarter of this year? Thanks.

<A – Thomas Seifert>: Yeah. Lots of good questions. So let's start with our guidance first. We said seasonally up. We like to see the midpoint 7, 7.5 to 8%, and we would like to paint a box of 5 to 10% around it.

<Q – Tim Luke>: Okay.

<A – Thomas Seifert>: If you come to the operating performance, you have to keep in mind that we had some special events in the first quarter that impacted our operating income. So especially if you look at the operating income for the Computing Solutions segment and the 146 million of operating income in the first quarter, we had a one-time positive effect of 39 million. If you take that out and look at the development of then 107 to 128, a very good development in our opinion. The Graphics segment is a bit more difficult. You heard me say that we saw a quarter-over-quarter price decrease that affected our operating income, mainly because our product mix being shifted and not having, because of the supply constraints, enough material available to participate in a higher-priced performing AIB channel.

<Q – Tim Luke>: Dirk?

<A – Dirk Meyer>: Yeah, Tim. So your question was do we expect to realize revenue for Ontario shipments in Q4 this year?

<Q – Tim Luke>: I guess that, and just clarify what you said about the timelines. It sounds like there's a push-out, to some extent, on Llano. Is that correct? And that – you mentioned that related to yield. Is that correct? And how has the timeline for Ontario changed, or not?

<A – Dirk Meyer>: Yeah. So first, the timeline for Ontario has changed quite dramatically.

<Q – Tim Luke>: Okay.

<A – Dirk Meyer>: We'll begin – plan to begin shipments to our customers in Q4 for revenue, which is a substantial pull-in from our prior plans. Meanwhile, we have seen the rate of yield learning below our plans on 32-nanometer, and as a result of the opportunity, frankly, that Ontario gives us and in reaction to the yield situation, we've put our engineering resources into creating samples for Ontario, supporting ODMs and OEM system designs, while we take a bit more time to work the 32-nanometer yields up the curve. So the effective change, if you will, to our internal plans on Llano amounts to a couple of months.

<Q – Tim Luke>: What's the margin implication there?

<Q – Thomas Seifert>: We are not here yet to talk about margins for 2011, but we are also not in a position to make any steps back from the long-term guidance we had in mind. As Dirk mentioned, Llano will still come in the first half of next year, and the pull-in potential that we generate with Ontario is quite significant.

<Q – Tim Luke>: Lastly if I may, just to clarify, you had a very strong gross margin. Would you expect, with the seasonally improved revenue, that this level of gross margin could be sustained or improved, Thomas, for the [inaudible]?

<Q – Thomas Seifert>: Yeah. A very good question. Of course, we are quite happy with the performance we have seen so far on the gross-margin side. Mainly coming from two effects, as we said: improved ASPs through mix and also better utilization of GLOBALFOUNDRIES capacity.

Moving forward in the second half of this year, we see some ups that support the trend and of course some downs. So if you look at the upside opportunities, it's of course selling up the stack; our product mix and our product platforms are improving. We also see some further potential in increasing GLOBALFOUNDRIES' utilization. And then there will be some headwinds to that. The exchange rate development over the last weeks reversed, and we also have to keep in mind that while the second half is strong in terms of revenue, demand is also generated more from the consumer segment. But I think that gives you a pretty good picture on where the potentials are moving into the second half.

<Q – Tim Luke>: Thank you.

Operator: Thank you. Our next question in queue comes from Doug Freedman with Gleacher & Company. Your line is now open.

<Q – Doug Freedman>: Great. Thanks so much for taking my question. Can you guys talk about what percentage of sales are you presently seeing from where you're selling both the GPU and CPU, so a full platform?

<A – Dirk Meyer>: Doug, let me rephrase that to make sure I've got it. So what percent of our total revenue comes from platform sales where we have the CPU and the GPU populated together?

<Q – Doug Freedman>: Correct.

<A – Dirk Meyer>: Well, it's a really good question, and honestly, it's a hard one for us to get our hands around. Especially on the channel side, where what we see is sell-in into distribution, but it's really hard to know how the components actually end up getting mated by system builders two and three tiers below the master distributors. So it's a good question, and it's one we struggle with, too.

I can tell you on the other hand, that on the OEM side, we are seeing very much of an increase in what we call AMD on AMD on AMD. That means AMD CPUs, AMD chipsets, and AMD discrete graphics. And the final point I'll say is that we are seeing the discrete attach rate on the AMD platform, and in particular, the AMD notebook platform, increasing over time as a result of what Thomas alluded to, which is our platforms being assorted at slightly richer price points than in the past.

<Q – Doug Freedman>: All right, terrific. If I could move on from that point. Can you talk about how your Fusion product is going to line up against the offering that we're expecting to see out of Intel at the end of the year? I think there's a little bit of confusion in the marketplace as far as what segment of the market these different products are targeted at?

<A – Dirk Meyer>: Yeah. Well, I'll first of all lay out our Fusion products and talk about where we position them. Obviously, the Intel ones, you'll have to talk to them about. So we've got planned, in essence, three different Fusion silicon designs, which will span four different packages and a class of systems ranging from netbooks and low-power, low-form-factor – small-form-factor desktops on the one extreme all the way up through mainstream notebooks and mainstream desktops on the other extreme. The bookends are the two code names that I used in my opening remarks, which are Ontario on the one hand, which is targeted specifically at the low-cost, low-power, I'll call it netbook and small-form-factor category. The other bookends being two different pieces of silicon design under the umbrella of Llano, which will together be positioned in mainstream desktops as well as mainstream notebooks.

<Q – Doug Freedman>: Are you willing to disclose yet how low a power Ontario is going to be?

<A – Dirk Meyer>: We won't go there yet. We'll talk about that clearly at the launch. It'll open up segments for us that we haven't been able to compete in before – namely, the low-powered netbook segments – as well as bring us a better cost base to some of the price points that we compete in today. So it really is a market expansion potential for us.

<A – Thomas Seifert>: Yeah, and we should not forget, this allows us really to get graphic performance into form factors where this type of graphical experience was not possible before.

<A – Dirk Meyer>: Right.

<Q – Doug Freedman>: All right. And for my last question, if I could, can I just get a sense of where you see enterprise spending going and what impact that is expected to have on either your server ramp or client upgrade cycle?

<A – Dirk Meyer>: Yeah, good question. Well, first, on the server side, we still see robust demand for enterprise servers. I would say our big opportunity is less variation around what happens with enterprise consumption versus just ramping our new platforms. As I've said often, we've become what I think what is pretty terribly underrepresented in the server category. Our share is at relative all-time lows. We feel very good about the positioning of Magny-Cours. Those products from our big customers really just became available in June. So I think the big story for us and the big swing factor for us is more about successfully positioning and selling those platforms in the market, versus minor swings in overall enterprise market size.

On the client PC side of our business, frankly, that's our lowest priority in terms of focus. Number one, clearly consumer is the big market. SMB and gov-ed are the other two big ones. And enterprise, yeah, we do play there, but it's the smallest part of the market overall, and as a result, the smallest focus area for AMD.

<Q – Doug Freedman>: Great, thanks so much. Congrats on the nice results.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question in queue is from David Wong with Wells Fargo Securities. Your line is now open.

<Q – David Wong>: Thank you very much. For the Ontario core processor, can you tell us what technology it will be done on? Will it be 45-nanometer technology or 32? And which foundry will be it done at, GLOBALFOUNDRIES or somewhere else? Is it bulk or SOI, and will you be able to give us die size on it?

<A – Dirk Meyer>: Sure, it's built in the 40-nanometer bulk technology supplied by TSMC, and we'll hold off on the die size statement until we get closer to launch.

<Q – David Wong>: Great. Thank you very much.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question in queue comes from Glen Yeung with Citigroup. Please go ahead.

<Q – Glen Yeung>: Thanks. You know – good results from you. Good results from Intel, and the forecast for both of you also seemingly quite good. But when we look in the supply chain, data points maybe not quite as good. Certainly not as closely aligned to seasonality as you seem to expect. I wonder if you could just give us any thoughts you may have on the discrepancy that we're seeing between the supply chain and what both now microprocessor companies are talking about?

<A – Dirk Meyer>: Glen, when you say supply chain, who are you talking about?

<Q – Glen Yeung>: Notebook ODMs, motherboard companies, those kinds of guys.

<A – Dirk Meyer>: Well, again, I don't know what chatter you're hearing. What I can say – and really what you're asking for is commentary on the back half, maybe a little color, Glen, is that right?

<Q – Glen Yeung>: Yeah, that's probably right. Or your confidence, maybe, in that.

<A – Dirk Meyer>: Yeah. So I guess I'll start with a high-order statement that says we expect overall PC unit growth to be in the 15 to 20% range year on year, which is up from what we were thinking going into this year. As you might recall, we were thinking 10 to 15%. That's what we talked about at the analysts conference. So as a high-level statement, that's still showing a fair amount of bullishness on the year and also the back half.

I will say that all of our customers and partners read the general business press the same way we all do, and they're nervous about things like the debt crisis in Europe, worried about the potential of a slowdown in China as a result of the changes around housing and so on. And therefore, everybody is very reluctant to put cash into inventory. In many ways, I consider that good news because as we look across the supply chain, we don't see any inventory buildups anywhere.

<Q – Glen Yeung>: Okay.

<A – Dirk Meyer>: And as far as end user demand goes, which is really what, in the end of the day, drives the business, we still see a pretty good story. All of our regions were healthy going into Q2. Clearly, everybody is nervous for the many reasons I said, but overall, in terms of PC consumption, we're still feeling pretty good about the back half of the year.

<Q – Glen Yeung>: And Dirk, maybe as part of that, it would appear that in notebook and in graphics, you're probably gaining share. One, is that a fair statement? And two, is that also part of the way you're looking at your confidence in the second half?

<A – Dirk Meyer>: Yes and yes.

<Q – Glen Yeung>: What about two-way server in that also? Is that something where you feel like, as early as second half, you'll be gaining share there?

<A – Dirk Meyer>: I think we should start to gain share in the back half of the year. I will say I'm not all that happy with the way we did in Q2. As I said, our big OEMs didn't have their products out in the market until June. So I suspect, frankly, we lost a little bit of share in Q2, and we'll be crawling our way up from a lower basis. But as I said, I think we've got a lot of opportunity in the form of Magny-Cours and also the 4000 series.

<Q – Glen Yeung>: Okay, that's great. Thanks a lot. I appreciate that.

<A – Dirk Meyer>: Yeah.

Operator: Thank you. Our next question in queue comes from Uche Orji with UBS. Your line is open.

<Q – Uche Orji>: Yes, thank you very much. Let me start by asking you how we should think about R&D for next quarter and going up and given all the changes you've made to products? So tell us, how should we think of R&D next quarter and then going forward for the rest of the year? Should we be modeling at this elevated levels, or should we expect it to come down sharply?

<A – Thomas Seifert>: Well, we are currently assuming that R&D spending will be flat for the second half.

<Q – Uche Orji>: Flat on this 371 quarterly run rate?

<A – Thomas Seifert>: Flat coming out of the second quarter. So we are comfortable with the guidance we have been giving and the ranges we have been giving, but on a spending level, R&D will be flat.

<Q – Uche Orji>: Okay. That's one, thank you. Different question. Let me just understand how you're positioning – Ontario will be for netbooks. With Llano and with 32-nanometer products, should we be expecting that you should be able to be able to compete in tablet markets, or do we expect that to be with 28-nanometer products?

<A – Dirk Meyer>: Okay. Good question. So Ontario will be the APU that is positioned at lower price points, lower power envelopes, and hence, smaller form factors as compared to Llano. Llano will be assorted in mainstream notebooks as well as mainstream desktops. In Ontario, in the technology components for Ontario, I'll say, that is the Bobcat core and our graphics IP, we clearly have the capability to create products targeted to tablets, but that will not be where Ontario will be targeted. It'll be more netbooks and up into the low end of mainstream notebooks.

<Q – Uche Orji>: So – okay, that's fair.

<A – Thomas Seifert>: Let me underline the statement we just made, because I think that's a very important statement from our perspective. It is going to increase for us the addressable market. And especially in times of, that we've been talking about, more market economic uncertainty, I think this is the exciting part for us, that we really increased our addressable market, with the pull-in of Ontario.

<Q – Uche Orji>: Right, right. Okay. Dirk, could you talk about 32-nanometer difficulties? I mean, I know you probably would be talking out of turn now to describe what's going on at the house GLOBALFOUNDRIES. But is there anything you can tell us as to why the yield is a little bit slower for you? I mean, Intel's done it. AMD – TSMC's finally done it. I mean, anything you can tell us without necessarily compromising what GLOBALFOUNDRIES would like us to know?

<A – Dirk Meyer>: Yeah, I don't want to paint too bright a light on the situation. One thing I will correct you on is GSMC is not at the 32-nanometer node either. At the highest level, we're simply a little bit behind our progress up the yield curve. Your question is why – well, I'm not going to go into details. I will say that we all anticipated that GLOBALFOUNDRIES would have an awful lot of work on their plate in terms of supporting a very difficult transition for us in the form of 32 nanometers, while at the same time expanding their technology portfolio to include support for other customers

This is a risk that we all knew about. I think we're managing it very well, and I'm very encouraged by the progress we've made over the past couple of weeks in GLOBALFOUNDRIES and pretty confident that we'll climb up the yield curve consistent with the new expectations that we painted in my opening comments.

The final point is I feel very good about the technology roadmap that GLOBALFOUNDRIES has put in place for AMD in the sense that it represents a workload that I think is very practical and achievable for them, and really good for our products. And we're looking forward to talking about both of those in the upcoming analysts conference in November.

<Q – Uche Orji>: And then just lastly, two markets that people were worried about, Europe and of course China. Can you just talk about what you see by way of the end market that makes China situation products in those two markets , and possibly just for as many geographies as you, the U.S., North America, and just for us to get a sense of what the real demand situation is. Because there just seems to be a disconnect of what we think is happening with the macro and what you have seen and what Intel has seen.

<A – Dirk Meyer>: Yeah. It's a really good question. And Europe first. It's hard to know what's going to happen. I can tell you what the mood amongst the partners is. Number one, as I said, due to the caution driven by macroeconomic concerns, there's a resistance to put a lot of cash into inventory. Therefore, the supply chain is being managed very tightly, which all in all, is not a bad thing.

The other thing that you'll obviously see in Europe in response to the degradation of the euro is OEMs in some sense mixing down the solutions that they assort at the various price points. So as an example, at 599 euro, they might buy a lower-end CPU so they can still assort graphics. That's just an example. In China, on the other hand, first, we had a good quarter in China. We had a good quarter in every region pretty consistently. There again, our partners are wondering whether the back half of the year is going to hold up, but we're not seeing any evidence that would suggest we change the guidance that Thomas gave at this point. And we're still pretty optimistic that China is going to be a growth engine for us, both in the back half of this year and, frankly, for many years to come.

And then the rest of the world, I would say is – nothing exceptional to report, frankly.

<Q – Uche Orji>: This is great. Thank you very much.

<A – Dirk Meyer>: Yeah.

Operator: Thank you, sir. Our next question in queue comes from Ross Seymore with Deutsche Bank. Your question, please.

<Q – Ross Seymore>: Thanks, and congrats on the strong results, guys. Just looking at the inventory side of the equation on your balance sheet. Obviously, it didn't rise very much, which I think keeps everybody pretty happy. Given that you're guiding to seasonality there, is there any limitations in your availability of chips given that the inventory didn't really rise ahead of what is guided to normal seasonality?

<A – Thomas Seifert>: I think the story that Dirk gave you for the industry certainly grew fast, too. So we manage our working capital very carefully. We watch the inventory and at which point we decide to build inventory very carefully. That's why you see inventory flat overall. Actually in days in inventory, it came down by four days quarter over quarter. But with the improved processes and focus the company has put on it, we feel very confident that we can execute to the range that we have provided.

<Q – Ross Seymore>: And then as far as the two main markets you serve, in the CSG and GPU side of things, the seasonal outlook you have, is there a wide variability on which of those two segments would do better seasonally and any semblance of what "normal seasonal" means by those two segments as opposed to for the company as a whole?

<A – Dirk Meyer>: Yeah. I don't remember, frankly, the numbers for each of the GPU and MPU segments but I will say that of the two, Q3 is typically stronger for GPU than MPU. And then Q4 is the other way around, seasonally weaker for GPU than MPU.

<Q – Ross Seymore>: And the last question – when you talked about the GPU being – the operating margin being hurt by mix and that was because of the shortages of actual parts, you also mentioned that some of those shortages are actually lessening. Should that start to help the operating margin as we think about your ability to mix up the GPU segment, and therefore, maybe the ASPs could actually start heading the other direction?

<A – Thomas Seifert>: Yes.

<Q – Ross Seymore>: And finally, I guess, one last one quickly. Any evidence of like-for-like price competition changing, either for better or worse, in the GPU segment?

<A – Thomas Seifert>: Well, it's always going to be a competitive environment, but we see the trends that we've seen so far continue.

<Q – Ross Seymore>: Great. Thanks, and congrats again.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question in queue comes from John Pitzer with Credit Suisse. Your line is open.

<Q – John Pitzer>: Yeah, guys. Thanks and congratulations. Dirk, you talked a little bit about, relative to the notebook market share gains, the server business has been a little bit relative disappointing. I'm kind of curious, can you quantify how much the server business was up in the June quarter? And then relative to sort of that midpoint of overall guidance, do you think servers outperform or underperform in the September quarter?

<A – Dirk Meyer>: Yeah. First one first, then I'll ask you to qualify the second one. Intel clearly knocked the ball out of the park in their server business. They were up on units and revenue. On our side, we were up on ASPs, down on units, and a wee bit down on revenue. So you look at that, and clearly we lost some share. Now, I attribute much of that to the slight delay in availability from our big OEMs and new platform. But we're clearly going to be climbing out of a slightly lower share base than we had anticipated.

Could you clarify your second question for me?

<Q – John Pitzer>: You guided overall revenue up about 5 to 10% sequentially for the overall business. I'm just kind of curious, as we think about servers and some of the 6,000 parts that seemed to have better availability at the end of the June quarter, do you think servers grow faster than the overall company in the September quarter for you?

<A – Dirk Meyer>: I don't think they need to in order for to us to hit that forecast.

<Q – John Pitzer>: And then, Dirk, again, on the Llano part, I'm just kind of curious, are you still committed to only manufacture that part at GLOBALFOUNDRIES, or would you think about potentially having another foundry partner on Llano? Does that run the risk, this push-out, that some of the good market share gains you've had in notebooks might reverse? And then I know there was speculation of better wafer pricing from GLOBALFOUNDRIES in the first part of next year, and I'm just kind of curious as to whether or not the Llano push-out changes that at all.

<A – Dirk Meyer>: So first, Llano is a GLOBALFOUNDRIES part, period, the end. Clearly, there is share implications if Llano becomes qualitatively delayed from our expectations, which is not what we're seeing today. And I guess I'll not provide specific comments on the wafer pricing difference between our various foundries.

<Q – John Pitzer>: Perfect. Thanks, guys.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question in queue comes from Shawn Webster with Macquarie. Your line is open.

<Q – Shawn Webster>: Yeah. Thank you. Can you guys hear me okay?

<A – Dirk Meyer>: Yes.

<Q – Shawn Webster>: Okay. On the lead time question, things are sounding a little bit tight on the graphics side. Is there tightness elsewhere in your portfolio of products, and do you expect the tightness to normalize in Q3 or Q4? What's your expectation there?

<A – Dirk Meyer>: We've also got a little bit of tightness on chipsets for much of the same reason, just the supply chain really heated up. But we expect the – well, we've been successfully managing through that issue and expect to continue to do so. So the chipset supply doesn't at all limit our CPU availability.

<Q – Shawn Webster>: Okay. And were your revenues limited in any way because of the tightness you had in Q2?

<A – Dirk Meyer>: GPUs, yes; elsewhere, no.

<Q – Shawn Webster>: Okay. And then in terms of the desktop business, can you provide some color on that part of the business in terms of what the revenue did sequentially and maybe even units?

<A – Dirk Meyer>: Just very high-level. ASPs were up. Units were down. And revenues were down by a little bit.

<Q – Shawn Webster>: Okay. And then on the chipset business, it sounds like you're doing – I think your commentary on the chipsets being a record was specifically for notebooks, but maybe could you provide some color on how your chipset business is doing and your expectations for Q3, Q4?

<A – Dirk Meyer>: Yeah, our chipset business is doing very well. First of all, on our notebook platform, the chipset attach is essentially 100%. And our desktop business, the chipset attach on the OEM side is very close to 100%. And on the desktop channel, we still have very good support from Invidia on chipsets. That answer your question?

<Q – Shawn Webster>: Yeah, it does. Thank you very much.

<A – Dirk Meyer>: Okay. Yeah.

Operator: Thank you. Our next question in queue comes from Jim Covello with Goldman Sachs. Your line is open.

<Q – Kate Kotlarsky>: Thank you. This is Kate Kotlarsky for Jim Covello. Had a couple of questions. One, on the Ontario product. I know you talked about it expanding your market opportunity. I know the product is targeted primarily toward netbooks. I was just curious whether your thoughts and outlook on the notebook market has changed at all now with Apple coming out with the iPad and other tablets that are going to be launching in the second half of the year. Do you think that those at all will cannibalize some of the opportunity in netbooks?

<A – Dirk Meyer>: At this point, no. I mean, clearly the tablet market is still in its relative infancy. There's really only one supplier out there, namely Apple, that's shipping substantial volume. I guess speaking broadly, we view tablets as yet another form factor that allow people to access media and the Internet and therefore view it as market expansion. I think clearly in the same way that on the margin between mainstream notebooks and netbooks there's some cannibalization or overlap, you'll see the same things between netbooks and tablets. But on whole, I think tablets are a market expansion.

<Q – Kate Kotlarsky>: Okay.

<A – Dirk Meyer>: Let me clarify one other thing, though. Ontario is not purely positioned in netbooks. It will cover netbooks and allow us no-excuses means of doing so, but we'll also position Ontario variants in the low end of the mainstream notebook market as well.

<Q – Kate Kotlarsky>: Okay, and then my other question was on the server business and if you can maybe comment about how you're thinking about your ramp in servers impacting margins in the second half. I know you talked about seasonality being more sort of consumer-oriented being in the second half of the year, but how are you thinking about the impact of maybe the second half typically being more of a consumer-heavy quarter but at the same time you're ramping your server product?

<A – Dirk Meyer>: Well, I guess what I would say is that one could make an argument that those two facts would conspire to cancel each other, in effect.

<Q – Kate Kotlarsky>: Okay, so you don't think the impact of one is meaningfully greater than another?

<A – Dirk Meyer>: No.

<Q – Kate Kotlarsky>: Okay, thank you. That's it for me.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question in queue comes from Christopher Danely with J.P. Morgan. Your question, please.

<Q – Chris Danely>: Great. Hey, thanks, guys. For the upcoming Ontario, can you just maybe give us sort of a rough comparison on processing capability versus your current lineup and also versus the competition and maybe also a view on the price relative to your current lineup and competition?

<A – Dirk Meyer>: Clearly don't want to get too specific because I don't want to launch the product here on the telephone. What I can say is to reflect back on the opening commentary I made, which is the Bobcat core delivers essentially the performance that you see in I'll call it the low end of today's mainstream, full-size notebooks in a much smaller die area and at much better power efficiency. And very importantly, Ontario also includes, in addition to the Bobcat core, a pretty high-performance DX11-capable GPU, which is really the game-changer for that segment of the market, where with Ontario, people will be able to get small-form-factor PCs with good, mainstream CPU performance and almost outrageous graphics and video processing performance, bringing a visual experience into these small form factors that you really can only get on kind of midrange notebooks today.

<Q – Chris Danely>: Sure, so I guess would you expect to get a premium, then, for that type of a performance?

<A – Dirk Meyer>: Well, it depends on – a premium against what? I mean, we think it'll position very well against Atom-based anything, as an example.

<Q – Chris Danely>: How about versus your own products?

<A – Thomas Seifert>: Well, we always said that the Fusion launch and the Fusion product are a part of our story to increase gross margin over time.

<Q – Chris Danely>: Got it. And then as my follow-up, do you expect to be doing any more processors at TSMC?

<A – Dirk Meyer>: Any more than what we're doing today?

<Q – Chris Danely>: Exactly.

<A – Dirk Meyer>: Yeah. TSMC is an important partner, and I expect to use them in GPUs and, as they continue to perform well in the fullness of time, sure. But, make no mistake, in the near term, GLOBALFOUNDRIES is our first and foremost MPU partner and will be until further notice.

<Q – Chris Danely>: Yeah, I guess the point I'm trying to make is if you guys start to give TSMC more and more capacity, isn't that bad for GLOBALFOUNDRIES, which would be bad for you guys?

<A – Dirk Meyer>: Well, at the end of the day, competition in the supply base is a good thing. Clearly, it's incredibly important for to us see GLOBALFOUNDRIES be big, prosper, execute well for AMD for our roadmap, and also support other customers. We're going to do everything we can to make sure they do all of those things. On the other hand, having TSMC as a supplier of chipsets and GPUs is a good thing. They've been a good partner, and having them in competition for that part of our portfolio versus GLOBALFOUNDRIES is also good for us.

<Q – Chris Danely>: Okay, got it. Thanks a lot.

<A – Dirk Meyer>: Yeah.

Operator: Thank you. Our next question in queue comes from Patrick Wang with Wedbush Securities. Your question, please.

<Q – Patrick Wang>: Great, thanks so much. I guess, Dirk, I just wanted to follow up on Chris' question earlier. Could you help us maybe understand how the graphics portion of Ontario and Llano are supposed to line up? I guess – or, looked at it from another way, do they line up with some of your current integrated or discrete graphics solutions today?

<A – Dirk Meyer>: Yeah, again, I don't want to launch both products here on the phone. What I can say is that compared to each other, Ontario versus Llano, Llano has a step up in CPU performance and a step up in graphics performance, and Llano will clearly deliver better CPU and graphics than today's platforms that AMD has available. But that's about as granular as I want to get because, again, I don't want to launch all these products here on the phone.

<Q – Patrick Wang>: Okay, no that's fair. So it's basically stay tuned on that one. And then I guess you also had mentioned that you had big expectations for server in the third quarter. Could you touch on that? I mean, I guess I just wanted to get a sense of what you thought specifically, how you felt about that Magny-Cours ramp in the back half of the year, and just any color there.

<A – Dirk Meyer>: Yeah. Well, as we've said, we think that – well, we know Magny-Cours is the most competitive and best server offering that we've had in three or four years. The headline has been more cores, more memory for more money. We've got a four-socket value proposition that's unbelievable, and even in the volume two-socket space, we've got clear performance leadership in some categories, such as high-performance computing, in memory-intensive categories like virtualization and database, we can show customers clear performance-per-dollar advantage and performance-per-watt advantage versus the competition's contemporary offerings.

So you put all that together, and it suggests if we sell and market appropriately, we ought to be able to gain share. I'm personally disappointed that these OEM ramps have been what they have, and we only got a month of advantage out of that for Magny-Cours in Q2, but I think that spells opportunity in Q3 and beyond.

<Q – Patrick Wang>: Okay, got you. So you see the build in the forecast for the third quarter, and you feel comfortable with that at this point?

<A – Dirk Meyer>: Yes.

<Q – Patrick Wang>: Okay. And then I guess, Thomas, you guys had great margin performance here in the second quarter. I guess you said most of that 200 basis points improvement driven by higher utilizations. Can you talk about some of the moving pieces as we go into the third quarter?

<A – Thomas Seifert>: Yeah, I think that is what I said in the beginning. I think we see opportunity clearly increasing the utilization of the GLOBALFOUNDRIES capacity. We see opportunity in the product mix moving forward, and we'll see some headwind coming out of the consumer demand-driven revenue upside and also their reversion of the currency development.

<Q – Patrick Wang>: Okay. So should we – I mean, net-net, does that mean we should expect margins to be slightly up in the third quarter? I mean, that's what it kind of sounds like, but I just -

<A – Thomas Seifert>: We'll see how the two things work out, but we are happy with where we are today, and we are looking forward to develop in the direction that we have given in terms of the guidance for 2010.

<Q – Patrick Wang>: Okay. And just from a utilization standpoint, it sounds like there's more headroom to go on that?

<A – Thomas Seifert>: We always said that the P&L was burdened in the first and often the second quarter with underutilization. We've improved utilization the second quarter, but there's still room to improve going forward.

<Q – Patrick Wang>: Okay, last question here. The higher marketing expense in the third quarter, that's going to persist – is that for two or three quarters, or is that just, you know?

<A – Thomas Seifert>: Currently, we estimate that we'll have all the customers on board by the end of this year. It's more an accrual-driven topic, not so much a cash topic. And we foresee two quarters of that effect at this point, maybe two and a half.

<**Q – Patrick Wang>:** And then it would drop first quarter next year?

<**A – Thomas Seifert>:** And then, all other things being equal, it will normalize again.

<**Q – Patrick Wang>:** Terrific. Congrats so much, guys. And thanks so much.

<**A – Dirk Meyer>:** Thank you.

Operator: Thank you. Our next question in queue comes from Srini Pajjuri with CLSA. Please go ahead.

<**Q – Srini Pajjuri>:** Thank you. Couple of questions on the Graphics ASP. It kind of sounds counterintuitive to me that on one hand, you have capacity being very tight, and on the other hand, you are seeing price pressures. I'm just wondering if you could give me a bit more clarity as to why you couldn't have either raised prices or kind of utilized the capacity tightness to your advantage to improve the mix?

<**A – Dirk Meyer>:** Yeah. That's a good question. So we were capacity-constrained and therefore had to make choices about which customers to serve to the utmost. And we generated a lot of notebook design wins over the past couple of quarters from major OEMs, and once those design wins are done, the designs actually have the GPUs designed down on the motherboard and therefore for our OEMs to ship, they need supply from AMD. Therefore, we leaned more towards the OEM notebooks in terms of supply delivery. What that means is we shipped a lower mix than what the demand was because the notebook OEMs tend to use the lower two products in our four-product stack. And therefore, in effect, we didn't supply the AIB channel with all the volume we could have, and hence didn't supply the upper two products in the stack to the degree we could have, which brought our mix lower, in effect.

<**Q – Srini Pajjuri>:** Fair enough.

<**A – Dirk Meyer>:** That make sense?

<**Q – Srini Pajjuri>:** Yeah, yeah, it does. And then, Dirk, given the capacity tightness and the fact that you are coming out with another new product, Ontario, at the same node and at the same foundry, how do you feel about supply once you launch that product?

<**A – Dirk Meyer>:** Yeah, good question. What we said in the opening comments is that we see the supply constraints diminishing through the back half of the year, and we made that statement in the context of the accelerated Ontario ramp.

<**Q – Srini Pajjuri>:** Okay. And then finally, could you talk about some – any thoughts on the design win traction for Ontario, and also if you have any expectations for what kind of market share you expect in the netbook market? Thank you.

<**A – Dirk Meyer>:** Yeah, I don't want to set market share expectations, but I will say that we've been happy and quite surprised at the enthusiastic response that our customers have given Ontario. Frankly, we went back to them in Q2 and asked them to accelerate their plans pretty dramatically to support our goal of moving Ontario into the market sooner, and we've gotten a very good and enthusiastic response, I think in large part because OEMs want competition in every category, including netbooks, number one, and number two, they see the potential that we see given the outstanding graphics capability that we're bringing into that form factor.

<**Q – Srini Pajjuri>:** Thanks, Dirk.

Operator: Thank you. Our next question in queue comes from Krishna Shankar with ThinkEquity. Your question, please.

<Q – Krishna Shankar>: Yes. As you look back, what was sort of your historical high in server market share? And you said you may have lost a little bit of market share here in Q2. How rapidly would you expect to sort of regain market share with the new Magny-Cours server chip? And are you also pursuing the strategy of giving more cores for the same dollar to the customer versus your competitor? In other words, six cores for a four-core price, et cetera?

<A – Dirk Meyer>: On the share, I'll just stick to the facts. Our historic share peak for server processors – this is not a server system statement, it's a server microprocessor statement – was about 25, 26%, if memory serves. We left Q1 at just under 10%, okay? I won't speculate on where the share ended up leaving Q2, and I don't want to predict how rapidly we climb back our market share.

You asked about the strategy, and I'll say that our strategy in every market has really been to bring to market differentiated features and great value at every price point, and that's certainly what we do with both the Opteron 6000 and 4000 series. Whether it's more cores for the money, more memory support for the money, lower power, or better performance per watt, the goal is always to deliver a better value for the dollar.

<Q – Krishna Shankar>: Okay. And my second question is on the 32-nanometer yield challenges, is that an SOI 32-nanometer high-k and metal gate process, and are there sort of changes being implemented that improve the yields, or is it just the learning curve?

<A – Dirk Meyer>: It is SOI high-k/metal gate, as we've announced previously. And yeah, sure, there are process tweaks that we make all along as we climb our way up the yield curve and up the learning curve.

<Q – Krishna Shankar>: But there was no sort of dramatic change in the process architecture, gate first, gate last and things like that?

<A – Dirk Meyer>: No. No, no. These are just the – kind of the standard yield learnings that one encounters as one introduces a new technology.

<Q – Krishna Shankar>: Great. And my final question is given the importance of graphics in notebooks, I seems a little counterintuitive as to why you would position Ontario at the low end of notebook. Consumers care about graphics and high-def video, so if you can offer that at low power, why wouldn't you strive to address higher price points in the consumer notebook marketplace rather than just netbooks and the low end of the notebook market?

<A – Dirk Meyer>: Well, I'm not sure I understand the question. What I will say is, first, Ontario has differentiating features and capabilities at lower price points, lower power envelopes, and hence small form factors. That's a big and growing market and one we don't participate in broadly. So that's a good thing. Across more mainstream client platforms, we think the Fusion architecture is going to bring differentiating features and performance into those markets by virtue of bringing the GPU and the CPU together on one die, delivering better power efficiency and also more effective GPU computing, which will drive much better visual applications in the future.

<Q – Krishna Shankar>: And finally, are there any other special hooks that Microsoft or other browsers have put in place for the GPU component onboard Fusion? And any differentiating factors you would have in terms of operating system or browser support for native GPU features on the CPU?

<A – Dirk Meyer>: In a sense, yes, in that we're seeing Microsoft in IE9, I think it is, Internet Explorer 9, enabling compute offload as well as other ISVs doing the same. And to the extent applications are written to take advantage of the GPU for things other than 3-D graphics, that plays right into the sweet spot of Fusion because Fusion, by virtue of having the CPU and GPU together on one die, will execute those GPU-optimized applications even better.

<Q – Krishna Shankar>: Great. Thank you.

<A – Dirk Meyer>: Thank you.

<A – Ruth Cotter>: Operator, we'll take two more questions, please.

Operator: Sure thing. Our next question in queue comes from Hans Mosesmann with Raymond James. Your question please.

<Q – Hans Mosesmann>: Thanks, I'll be quick. What is the updated terms of your graphics refresh? It is going to happen in the fall of this year? It is next year? Can you give us some details on that? Thanks.

<A – Dirk Meyer>: Yeah, Hans. We'll start introducing the second generation of our DX11 products before the end of the year.

<Q – Hans Mosesmann>: Thank you. Congratulations.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. And our final question for today comes from Frank Jarman with Goldman Sachs. Your line is now open.

<Q – Frank Jarman>: Great. Thank you. I guess I have two questions for Thomas. First, in the quarter you bought back 200 million of the converts, and you stated that debt reduction continues to be a focus. Can you just provide some more details around what you'd like to do with the cap structure and how much flexibility you feel like you have right now?

<A – Thomas Seifert>: Yeah. Very good question. So we were very outspoken from – all year that working on the debt is our top priority. We'd like to come into a net cash position over time. We are not going to talk about which tactics we employ, how we get there, but we will continue to work on the debt towers as they are. We're now down to $2.4 billion, so way to go. You can also see if you look at the cash generation that we have seen in the first half, $258 million of free cash flow, and that is significant. We have promised that we would deploy any free cash flow that we generate, and any cash that we can free up on the balance sheet we'll deploy towards restructuring. And so far, we've living up to that guidance. And this is what we are going to continue do moving forward.

<Q – Frank Jarman>: Great, thanks. And just on the free cash flow, I know you show an adjusted free cash flow versus your GAAP free cash flow, and I think it has to do with the IBM credit facility. Can you just help me think about how I should think about the difference between adjusted free cash flow and GAAP free cash flow and how that credit facility has an impact on it?

<A – Thomas Seifert>: That is the only difference.

<Q – Frank Jarman>: Okay. Great. Thanks very much. That's all I had. Great quarter.

<A – Thomas Seifert>: Thank you.

Ruth Cotter, Investor Relations

That concludes AMD's second quarter earnings conference call, and we'd like to thank everyone for participating today.

Operator: Thank you, Miss Cotter. Ladies and gentlemen, this does conclude today's program. Thank you for your participation, and have a wonderful day. Attendees, you may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is [Said] , I will be the conference operator for today. At this time, I would like to welcome everyone to AMD's first quarter 2010 earnings conference call. All lines have been placed in a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I'd now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations and Treasury for AMD. Ma'am, please go ahead.

Ruth Cotter, Director of Investor Relations and Treasury

Thank you and welcome to AMD's first quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO; and Thomas Seifert, our Chief Financial Officer. This is a live call, and will be replayed via webcast on AMD.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States the number is 703-925-2533. The access code for both is 1446133. The telephone replay will be available for the next ten days starting later this evening.

Before we start, I'd like to highlight that AMD will attend UBS's Investment Conference on June 9 in New York and that our second quarter quiet time will begin at the close of business on Friday, June 11.

Last January, we announced that we deconsolidated GLOBALFOUNDRIES as of the first quarter of 2010 and began accounting for our ownership interest under the equity method of accounting. AMD has an ownership stake in GLOBALFOUNDRIES, which is reflected in the equity and net loss of investee line of our statement of operations. For your information, our Class A preferred share ownership decreased from 83% to 82% as a result of the capital call that took place on the 1st of April. ATIC participated in the cash call and AMD did not. As a result, AMD's ownership on a fully diluted basis also decreased to approximately 30% as of the second quarter of 2010.

Reconciliation of all non-GAAP financial measures are included in our financial tables that accompany our earnings release available in the Investor Relations section of AMD.com.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in our most recent SEC filing, AMD's Annual Report on Form 10-K for the year ended December 26, 2009.

With that, let me now hand it over to Dirk.

Dirk Meyer, President and Chief Executive Officer

Thanks, Ruth, and thanks to everybody on the call for joining us today. As I said at our analyst event back in November, our priorities this year are to: deliver compelling platforms, increase access to customer demand, and transform our business model. In the first quarter of this year, we made good progress on each of these priorities. And in an improving global economic environment, we delivered record first quarter revenue coupled with good operating performance.

Our platform execution continued to be solid across the board, with key new product transitions initiated in each of our main businesses. In graphics, we shipped a total of over 6 million DX11-enabled units to date and expanded the family into the mainstream and value segments. In addition, we unveiled the industry's first DX11 products for notebooks, where we continue to grow share. Demand for all of our DX11 products is very healthy and continues to outpace supply.

We are seeing strong support for our AMD VISION program, an innovative campaign designed to simplify the consumer buying experience at retail, showcase the benefits of an all-AMD solution, and increase upsell. Today, over 50% of AMD-based notebook systems in the market are VISION branded, enabling us to participate more thoroughly in higher price bands.

Meanwhile in servers, demand for the new AMD Opteron 6000 Series has been strong with HP, Dell, and Acer all announcing new platforms at launch. These are the world's first eight and twelve-core x86 processors, delivering on customer needs for more cores and more memory for less money.

OEM interest in our AMD Opteron 4000 Series has been strong as well. The 4000 Series is on track for launch this quarter.

AMD momentum in notebooks is growing as we expand our platform footprint and our list of top tier customers. We were very pleased to add Lenovo to the list of customers attracted to our unique value proposition in notebooks. And we continue to see strong end customer demand for a vivid digital experience coupled with strong battery life and real-world application scenarios. To that end, customer interest in our Danube and Nile platforms is very promising.

On the business model, the deconsolidation of GLOBALFOUNDRIES is complete. Our operating performance is improving. The cash generation potential of the business is beginning to be realized, and we are improving our balance sheet.

In summary, our first quarter was another in a series of solid quarters, a good balance of achieving strategic milestones and solid operating performance in an improving market.

And with that, I'll turn it over to Thomas.

Thomas Seifert, Senior Vice President and Chief Financial Officer

Thank you, Dirk. We are pleased to report another quarter of good product and financial execution as we further demonstrated the strengths of our business model by growing ASPs, margins, and improving cash flow.

First quarter revenue was $1.57 billion, down 4% compared to the fourth quarter of '09 and up 34% compared to the same period a year ago.

AMD recorded non-GAAP net income of $63 million in the first quarter of 2010. To calculate the non-GAAP net income, we excluded the $17 million amortization of intangible assets and three items related to the deconsolidation of GLOBALFOUNDRIES: first, a non-cash one-time gain of $325 million based on the fair value assessment of our investment in GLOBALFOUNDRIES; second, a gross margin benefit of $69 million related to inventory; and third, a non-cash loss of $183 million, which includes our share of GLOBALFOUNDRIES operating results and other equity accounting related adjustments.

We continue to reference non-GAAP financial measures because we believe they are more indicative of our ongoing operating performance.

Our non-GAAP diluted EPS of $0.09 in the first quarter was calculated using 730 million shares which excludes the impact of the 5-3/4 2012 convertible debt dilution because the diluted EPS inflection point of $0.29 for the quarter was not triggered. For modeling purposes, if this inflection point is triggered, you'll need to add back about 7 million in interest charges applicable to the debt and approximately 24 million common shares issuable upon conversion to calculate the diluted EPS.

First quarter non-GAAP operating income was $130 million excluding the gross margin benefit related to inventory and amortization of acquired intangible assets. Non-GAAP gross margin for the quarter was 43%, up two percentage points from last quarter, mainly due to improved product mix that drove higher ASPs.

Operating expenses in the quarter were $542 million, within the guided range. R&D was at $323 million, and SG&A was at 219 million for the period.

First quarter adjusted EBITDA was $302 million, up from 282 million in the fourth quarter, and adjusted free cash flow was $177 million.

Now switching to the business segments. First quarter revenue decreased sequentially in both our Computing Solutions and Graphics segments. In the Computing Solutions segment, first quarter revenue was $1.16 billion, down 5% sequentially. For historical comparison, please note that starting in Q1 of this year, we are accounting for the Embedded Graphics business under the Computing Solutions segment. Previously it was part of the Graphics product group. Prior periods also have been recast.

The sequential revenue decrease in Computing Solutions was primarily driven by a decrease in microprocessor unit shipments, partially offset by increased microprocessor ASPs, particularly in notebooks. Our server notebook and desktop businesses saw double-digit revenue growth compared to this period last year. Server revenue and units demonstrated the strongest year-over-year growth, reflecting the continuing strength in enterprise IT spending.

We are encouraged by the ongoing success of our six-core AMD Opteron platform as well as the broad acceptance of the recently launched eight and twelve-core offerings. Combined, the two platforms drove higher server overall ASPs in the quarter and made up more than two-thirds of server revenue.

Computing Solutions segment operating income was $146 million compared with 161 million in Q4 '09.

In the Graphics segment, revenue for the quarter was $409 million, down 3% sequentially in a constrained capacity environment. Record mobile GPU shipments were more than offset by a combination of seasonally lower game console royalties and desktop discrete graphics sales. Graphics processor ASPs increased sequentially on continued demand for ADI's 5000 Series of graphics cards.

Graphics segment operating income was $47 million compared with 50 million in the fourth quarter.

Now turning to the balance sheet, starting in the first quarter there's an additional line item in our balance sheet to reflect our investment in GLOBALFOUNDRIES. The ending investment balance for the first quarter of 2010 was $270 million. This balance will be adjusted on a quarterly basis, primarily based on our equity gain or loss under the equity method of accounting.

Our cash and marketable securities balance at the end of the quarter was $1.9 billion. Long-term debt as of the end of the first quarter of 2010 was $2.6 billion.

Now let me turn to the outlook. The following statements concerning AMD are forward looking, and actual results could differ materially from current expectations.

For the second quarter of 2010, AMD expects revenue to be seasonally down. As a result of deconsolidation, we expect an additional gross margin benefit of approximately $15 million in Q2 related to inventory. Operating expenses are expected to be approximately $560 million because of quarter-to-quarter timing of expenses. We continue to expect capital expenditures to come in at approximately $160 million in 2010.

In conclusion, AMD's first quarter was a solid demonstration of the earnings potential of our business model. We are pleased with the market's response to our new products and platforms, and we will remain optimistic about our capacity to scale our business as we offer increasingly compelling platforms with greater access to customer demand.

At this point, I would like to turn it back to Ruth for the Q&A.

Ruth Cotter, Director of Investor Relations and Treasury

Thank you, Thomas. Said, please poll our participants for their questions and we'll start the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Cotter. [Operator Instructions] Your first question comes from Tim Luke from Barclays.

<Q – Tim Luke>: Thanks very much and congratulations on your numbers. Thomas, maybe you could frame some of the things that contributed to the improved gross margin in the quarter and how you perceive the puts and takes for the gross margin as you move into the second quarter with what you've described as seasonally lower revenue and how you perceive the backdrop for the second half of the year. And maybe also just on the operating expense side, you might be able to give some color about whether you'll be able to hold the OpEx in this range. Thank you.

<A – Thomas Seifert>: Yes, so for the first quarter, ASP improvement was really driven by a better – an improved product mix that drove higher ASPs. Overall, for the remainder of the year we have no reason to deviate from the guidance; that we are inclined to stay in the range of 40 to 45% for the whole year. We see some opportunity in the second quarter because of better product mix because of the product launches we will perform, especially in the notebook segment. And we will see some headwind because of the lower volume expectations in the second quarter.

With respect to the operating expenses for the second quarter, this is the guidance, $560 million, pretty much in the same range that we ended up in the first quarter but with some timing pull-ins to accelerate our R&D work.

<Q – Tim Luke>: If I may follow up, Dirk, could you talk about how you perceive the node ramps and transitions and your confidence in the 32-nanometer ramp? I'm not seeing any early indications about timelines, especially with Fusion going forward. Thank you.

<A – Dirk Meyer>: Sure, Tim. The first answer is the plan that we have talked about previously for the first Fusion launch remains the plan. That is to say we plan to commence volume production in the back half of this year. We do now have internal samples of both of our initial Fusion designs, and are learning quite a lot and quite happy with what we see. And we started sampling to select customers one of those two designs.

<Q – Tim Luke>: Lastly if I may just on inventory, it looked like it was fairly flat. How do you perceive your inventory level on hand and in the channel, and how would you expect it to trend in the second quarter as you prepare for the seasonally stronger second half? Thank you.

<A – Thomas Seifert>: So we perceive inventory in our – under our control as well as inventory in the channel as very healthy. We see ourselves building up inventory in the second quarter to prepare for a stronger second half.

<Q – Tim Luke>: Thank you so much.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Uche Orji from UBS.

<Q – Uche Orji>: Thank you very much. Maybe I will just start with a quick clarification. Thomas, did you say you are looking to pull in R&D in response to the earlier question? And if that's the case, how should we think about the trend for R&D for the rest of the year and possibly for OpEx in general?

<A – Thomas Seifert>: Pulling in is a mighty word, and we have some quarter end timing that gets us to 560 from a Q1 guidance of 550 in the first quarter, so pull in is a very strong word. We are confident with the guidance we have given in terms of R&D spend in relation to R&D for the remainder of the year.

<Q – Uche Orji>: Okay. Can I ask you about Magny-Cours? What's the availability and what will be the impact on margins? If we have to think about when the general availability for the public is, and any comments you can make in terms of the feedback from customers? I know you said HP and Dell are designing it in, but where will this be used from what you have seen so far? So any comments would be helpful.

<A – Dirk Meyer>: Sure. First, we did start production shipments actually of Mangy-Cours CPUs in March in support of our customers' platform plans. You'll see platforms become available starting really early in Q2 and being staged out of the course of Q2 from the three OEMs I outlined.

The response to the product has been pretty enthusiastic. Our OEMs have got some good design wins behind the product, and as well we're starting to get pretty encouraging feedback from some of the – I'll say big enterprises that have seen seat samples. And in fact, we've got some interesting wins so far. So I think that's a good precursor to the competitive position of the product and how we'll do in the market.

You asked about the gross margin puts and takes. And from my perspective to the extent we disproportionately grow our server business as compared to our other businesses, that's all upside for us.

<Q – Uche Orji>: Okay, and just very quickly, Apple announced some refresh of their MacBook product suite with product from NVIDIA, where one of the comments they made on their website is the whole concept of suitable graphics as part of the reason why they chose it and it has positive impact on the battery life. How does this compare to what you have? And how do you plan to respond to this type of competitive pressure coming from NVIDIA? If you can just talk about what Apple has done and the announcement they made and how that impacts your product. That would be helpful.

<A – Dirk Meyer>: Sure. I think that's a reference to what NVIDIA calls their Optimus...

<Q – Uche Orji>: That's correct.

<A – Dirk Meyer>: ...switchable graphics capability. At the high level, we've had switchable graphics capability in the ATI graphics platform for a couple of years under the banner of PowerXpress. My understanding of Optimus is it provides a little bit more of a software controlled experience and one that we have in our development pipeline as well.

The final thing I'll say is the ultimate high performance graphics experience in a notebook is actually going to be made available in the Fusion context, which is one of the reasons that we're so excited about having Fusion available in the market.

<Q – Uche Orji>: I see. Just one last question, please. IT spending, any comments you can make as to how you expect to see that progress for the rest of year from an enterprise perspective? And that's my last question, thanks.

<A – Dirk Meyer>: Sure. I think the best thing we can say is that enterprise server business really started to pick up in Q3 last year and has remained pretty healthy. I think clearly we've seen a minor seasonal downturn Q4 to Q1, but we're still optimistic that the server opportunity is going to remain there for us and pretty strong as CIOs continue to look at the ROI available in these new platforms if they decide to bring in these new platforms and consolidate. It's hard to talk with any confidence about the pace or rate of a client surge in IT spend, so I'll stay quiet on that.

<Q – Uche Orji>: Thank you.

Operator: Our next question comes from Glen Yeung from Citi.

<Q – Glen Yeung>: Thanks. My first question is about ASPs. Just to clarify that the improvement that you saw in first quarter was a function of mix predominantly, right, not absolute price increase? And then related to that, can you talk about the impact of your recent successes in notebook on ASP? And also your strategy in the two-way server market and how that might impact ASPs looking forward?

<A – Dirk Meyer>: Sure, Glenn. So first correct, the ASP commentary on the MPU side was all about mix, not one of raising prices on existing product. Your question on – could you repeat the question on notebooks?

<Q – Glen Yeung>: Just you had some success in notebooks. You did with Lenovo, for example, in the first quarter, and I assume that progresses in Q2. How does notebook help you or hurt you as you think about mix going forward, and the same for the two-way server market?

<A – Dirk Meyer>: Yeah, good question, so two things on notebook. One is, as we've said before, we see the notebook market as a big opportunity for us because we're relatively under-represented there. As you know, our unit share in desktop is in the high 20s. Our notebook unit share is much lower than that. And increasingly, we've closed whatever technological issues there might have been, such as battery life, perception gaps, or other on the notebook platform, so we feel technologically our platforms are awesome. Of course, the importance of graphics is becoming more clear to end users.

And finally, we feel really good about where we've got our triple and quad-core positioned in the market in terms of the power of those products and the sort of thin and light form factors that OEMs will be able to build around those products. And all of that in combination with the VISION campaign, we think it's going to result in not only the opportunity for some share growth looking forward but also a richer mix of AMD-based platforms in the marketplace.

Then your question on servers was in effect how do we think about the opportunity in 2P and how does that affect ASPs overall. So first the Magny-Cours product really gets us back in a great competitive position in by far the biggest volume part of the server market, 2P probably 80% of the unit opportunity. And we're in the best competitive position that we have been since probably the middle of 2006, so clearly an opportunity. And as I said in response to the earlier question, to the extent we disproportionately grow our server business, it's good for our ASPs and good for our margins.

<Q – Glen Yeung>: Right. Next question is, Thomas, the equity loss. I think if I'm doing the math right, the losses at GLOBAL actually grew this quarter. One, I guess is that correct? And if it is, what happened there?

<A – Thomas Seifert>: No, the math is not correct because this line item if you'll go back to the webcast we did in January contains more than just the operational loss at GLOBALFOUNDRIES. It also includes the dividend that we accrue on the Class B preferred shares, so there's more in there than just the operating loss.

On the operating losses at GLOBALFOUNDRIES moving forward, we will not comment. We will not give guidance on performance of GLOBALFOUNDRIES as a legal entity.

<Q – Glen Yeung>: Okay, last question is on going back to the inventory question, recognizing that it's low, I did notice that your deferred income to distribution was up marginally in the quarter, but it's actually high relative to the history of the business. Is there anything to read into that or is that really just because revenues are going up?

<A – Thomas Seifert>: Yes, so we moved more customers to a deferred revenue concept on our add-in board business, and this had some impact, the impact that you just described.

<Q – Glen Yeung>: That's great, thanks.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from John Pitzer from Credit Suisse.

<Q – John Pitzer>: Good afternoon, guys, thanks for letting me ask the question. Just on microprocessor, operating margins came in about 7%. I'm just curious; saving share gain, what else can you guys do to help drive profitability in the microprocessor business or is it really a top line story from here out?

<A – Dirk Meyer>: I would say largely a top line story in the form of a richer mix and unit share as well as market growth.

<A – Thomas Seifert>: Yes, Dirk, for this year there are some minor components that we will see playing out mainly in the second quarter. You might remember that we still have an obligation to pick up the fixed cost of the idle capacity increase and we are not at full utilization yet. As we go into the second half, this will have a margin impact, and then moving forward of course the transition to 32 nanometer nodes offsite.

<Q – John Pitzer>: Dirk, just so that I understand, the milestones or timeline for Fusion for volume, I know you're sampling to a couple customers now. But as we think about the big volume opportunity in Fusion, is that something that occurs late this year or is it a 2011 event? If you could help me understand that, I'd appreciate it.

<A – Dirk Meyer>: Yes, so we'll ramp production in the second half and you'll see platforms in the market in the first – early in the first half next year.

<Q – John Pitzer>: And then, Dirk, my last question, you guys did not go after the netbook market, and we saw that grow quickly and then plateau. I'm curious; any strategy around the tablet market or thoughts there?

<A – Dirk Meyer>: Yes, we've talked in the past about our Bobcat core. That's the brand new x86 micro-architecture which first appears in the Ontario product, which we talked about in the analyst conference. The Ontario product is really focused on – I'll call it value PCs and netbooks. But the Bobcat technology and other technologies we have in house are appropriate to lower power envelopes such as are appropriate for pads. And you'll see Bobcat based products show up the following year that are appropriate to that market segment.

<Q – John Pitzer>: All right, thanks, guys.

<A – Dirk Meyer>: Yes.

Operator: Our next question comes from Cody Acree from Williams Financial.

<Q – Cody Acree>: Hey, thanks, guys. Back to the server side, with the pricing differential between your chips and your competitor Intel chips, server chips, do you believe that they have created somewhat of a price umbrella where AMD can operate and gain share with a richer mix and drive gross margins? Or is there a – I guess is there a closing gap there that we shouldn't be looking toward?

<A – Dirk Meyer>: Repeat the second half of your question again, Cody? I'm sorry, closing gap I didn't understand.

<Q – Cody Acree>: Yes, I guess it's just the pricing differential between your server chips. You now have higher end server chips. The prices obviously with the higher performance move northward, and so does that start to close that price umbrella that maybe Intel has created and has allowed you gain some share?

<A – Dirk Meyer>: Let me turn it around and hope that I answer your question with the following words. First, the Magny-Cours product delivers leadership performance across a lot of workload, so we feel great about that. As a said, just on a raw performance basis, we're in the best competitive position we've been in, in quite some time. And importantly, a lot of the buying criteria now include not just absolute maximum performance but performance per watt per dollar. And there, Magny-Cours really shines both on a performance per watt basis and a performance per dollar basis.

The final thing that we've done is in the Opteron 6000 Series changed the pricing strategy and removed what had been a pretty big step up in price when you go from a two-socket capable processor to a four-socket capable processor. And we think what we're going do there is in some ways disrupt the market and encourage a lot of OEMs and end users to look at four-socket implementations where previously they didn't.

So you roll all that together, leadership performance in some applications, really leadership performance per watt per dollar, and a disruptive strategy around four sockets and we think we have got a good opportunity in the marketplace. Cody, I hope that – did I answer your question there?

<Q – Cody Acree>: Yes, you did, thank you very much. Just one follow-up, with a range of gross margin, 40 – 45%, but you have 32 nanometer coming on, a bit of corporate recovery, prices, ASPs doing a little bit better; as we look into latter quarters, what's the puts and takes to drive a more stable and possibly higher gross margin?

<A – Thomas Seifert>: So we do not provide guidance now for beyond 2010 beyond what we indicated on our Financial Analyst Day. But you have to keep in mind that 32-nanometer impact on gross margin will be more of a 2011 event from what Dirk just outlined. For the remainder of the year, we are still confident with the guidance we have given.

<Q – Cody Acree>: And I guess looking at the corporate spending environment, how much of an impact does that have to potential gross margin improvement?

<A – Dirk Meyer>: I would say not much other than to the extent it affects one way or another our server business line.

<Q – Cody Acree>: All right, great, thanks guys.

Operator: Our next question comes from Shawn Webster from Macquarie.

<Q – Shawn Webster>: Yes, thank you for taking my question. I was wondering if you could share with us how much your pricing increased for both your processors and your graphics chips?

<A – Dirk Meyer>: Shawn, we don't give out the specific numbers. But to be clear we didn't actually increase prices. Rather, what we saw is a favorable change in mix Q4 to Q1.

<Q – Shawn Webster>: Was it a slight increase or something more than slight?

<A – Dirk Meyer>: One man's slight is another man's big, so let's not go there.

<Q – Shawn Webster>: Okay. And then in terms of – are you experiencing any tightness? I know that in recent quarters, you've experienced it on the 40-nanometer side on GPUs. Has that gotten better? Is it about the same? Can you give us some clarity on how lead times are going in general for processors and graphics chips?

<A – Dirk Meyer>: Yes, first we were supply constrained in the 40-nanometer GPU product line in Q1. And while we saw improvements in supply including improvements in forward-looking committed supply, we're also seeing increases in demand and forecasted demand, the result being we still see a gap between demand and supply. Per our internal plans and thinking, that gap is going to narrow over the next months and quarters, but we still think we're going to be hand to mouth throughout much of this year.

<Q – Shawn Webster>: Okay. And then what is your mix or what was your mix of your processor business as split between server, desktop, and notebook in the last quarter?

<A – Dirk Meyer>: We don't give that level of specificity, Shawn.

<Q – Shawn Webster>: Okay, thank you.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Ross Seymore from Deutsche Bank.

<Q – Ross Seymore>: Hi, guys, just another question on the GPU side of things. I realize it was late in the quarter but any change in competitive dynamics at all with your competitor putting out their new generation GPU?

<A – Dirk Meyer>: None that affected Q1 of course because that product from the competitor wasn't available in Q1. In fact, I don't think it is available until later this month.

<Q – Ross Seymore>: Got you. But going forward as far as any of your customers using that as a competitive threat in their future ordering, et cetera, any kind of changes in the dynamics in that manner?

<A – Dirk Meyer>: Really no, and to amplify that, for quite some time we were looking at NVIDIA's next generation architecture as somewhat of a paper tiger. There was a lot of talk about it but it wasn't available, not a lot of details available. And now that we've seen the details, now that the product has been in theory launched, we feel better now than we did based on having a little information at that time. So we feel like from a performance per watt, performance per square millimeter of silicon perspective, we've got the best GPU products on the planet. And as well, we've got the single highest GPU card on the planet in the form of our HD 5970, so we feel very good about our product line looking throughout this year.

<Q – Ross Seymore>: In that area when eventually we get yields up and supply gets equilibrium versus demand, which do you think is more likely: that the profitability will rise because the cost will drop on the yield side; or a little more price and market share competition might ensue, so therefore the profitability might not rise as that battle starts in a more active manner?

<A – Dirk Meyer>: The history in this business is that the player with the best technology sees both share gain and margin expansion, and I would expect that to be the case in a normal environment.

But unfortunately the supply constraints that we're facing now make this not a normal environment and therefore very hard to forecast in the dimension you asked.

<Q – Ross Seymore>: Good, then the last question for Thomas. I know you're only guiding for the first quarter out or one quarter out in the OpEx side of things. But historically AMD's OpEx has moved around seasonally for all the right reasons and the third quarter rising, et cetera. Are there any reasons that that kind of seasonal fluctuation would not be something we should assume for the second half of the year?

<A – Thomas Seifert>: We gave OpEx in percentage of revenue guidance for all of 2010, and we have every intent to stay in this bucket and we will manage accordingly.

<Q – Ross Seymore>: Great, thank you.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from David Wong from Wells Fargo Securities.

<Q – David Wong>: Thank you very much. Going back to the earlier point about the pricing of your 6000 Series, the Magny-Cours, when you consider what you used to get for your 8000 Series, do you now expect your revenues for four-way server chips to drop going forward because I mean demand to market share gain is unlikely to make up for the lower price that you're getting in this particular high end segment? Is my math correct here?

<A – Dirk Meyer>: David, I understand the question, but in the 6000 Series we no longer have a four-socket specific product line. That 6000 Series will support both two-socket and four-socket. So in some ways, we're not going to be able to categorize the revenue in the form that you asked. The belief we have and the strategy is to be more effective, more competitive, deliver better performance, better performance per watt in the biggest segment of the market which is 2P, though I do expect the 6000 Series to also hunt and hunt well in the four-socket as well.

<Q – David Wong>: Can you give us then roughly what percentage did the 8000 Series account for in terms of total server revenue say in the past quarter and in prior quarters? Was it half or a quarter or?

<A – Dirk Meyer>: We can't give you that detail, David. I'm sorry.

<Q – David Wong>: Okay, thanks.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Stacy Rasgon from Sanford Bernstein.

<Q – Stacy Rasgon>: Hi, guys, thanks for taking my questions. First just around I think again the pricing environment, you saw better pricing this quarter from mix. Your competitor saw better pricing I think from ASPs coming up. And more importantly, they were pointing to what they saw as a more benign pricing environment for the rest of the year. I was just wondering if you could give us a little bit of color on where you see the overall pricing environment in your case for the rest of 2010.

<A – Dirk Meyer>: Yes, as you know, there are a couple of things at play here. One is the pricing environment as a result of price competition between players in the market, and the other is pricing influenced by what people choose to purchase in the way of systems and system prices, which drives the system mix and hence component mix.

On the former point, we really haven't seen much change for several quarters now. That is the competitive element. I mean it's generally speaking a competitive market. I think the wild card is the mix. Clearly '08 to '09, you saw quite a mix shift down market. And we're seeing some evidence that that historical trend will not be as dramatic '09 to '10 as it was in the past year, not surprising given the economic crisis last year.

Within our product line, as I said in a prior answer to a question, I think we've got an opportunity for the reasons I stated earlier to see a better mix within our client line and in particular our notebook line.

<Q – Stacy Rasgon>: Got it. One quick question about GPU unit seasonality, I know you said the units were up this quarter. Can you tell us what typical Q1 unit seasonality for GPUs would be?

<A – Dirk Meyer>: We're sitting here scrambling to find that number because it's not on the top of my head. It looks like roughly it depends whether you're talking notebook or desktop, but roughly flat across the whole product line.

<Q – Stacy Rasgon>: Right, and Thomas, a question for you. Can you give us a feeling for what you think your gross margins would have been had you been required to continue consolidating the foundry this quarter?

<A – Thomas Seifert>: No, I'm glad we did the deconsolidation. I'm very happy that we managed to report all the changes in this very short period of time. I'm not going to reverse engineer now the accounting to percent how we would have looked like if we had to consolidate them. This is really a time period that we gladly leave behind us.

<Q – Stacy Rasgon>: Got it, and just one more quick question around the foundry. Can you just give us a feeling for maybe what the foundry CapEx was this quarter as well as the amount of the capital call of the contribution from ATIC?

<A – Thomas Seifert>: As we outlined in January and also on our webcast, we cannot and we will not give guidance for GLOBALFOUNDRIES.

<Q – Stacy Rasgon>: I'm not asking for guidance, I'm just asking what was it this quarter.

<A – Thomas Seifert>: I cannot even give you numbers on their performance. We will not engage in giving comments on their business.

<Q – Stacy Rasgon>: Okay, great. Thank you, guys.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Doug Freedman from Broadpoint.

<Q – Doug Freedman>: Great, thanks for taking my questions, guys. Can you offer any more color on how much the royalty income in the GPU space was down and whether you believe you won some share or not in the other GPU markets, the desktop and notebook segments?

<A – Thomas Seifert>: Yes, we will not comment on the development of our royalty business in absolute size.

<A – Dirk Meyer>: And Doug, on the share front, I think it's too early to call. Of course, NVIDIA is a quarter behind us relative to reporting. I think there's lots of evidence that we gained share in notebooks, but overall it's tough to call.

<Q – Doug Freedman>: Okay and then moving on, your plan for GPU migration onto GLOBALFOUNDRIES, is that still at 28 nanometer, and are they still on track to get you some 28 nanometer product by the end of the year?

<A – Dirk Meyer>: Yes to the first one. That is the first intersection of our AMD GPUs and GLOBALFOUNDRIES will be 28 nanometers. We haven't been public with respect to any timing there.

<Q – Doug Freedman>: Okay. If I could move on to just in general the market condition, clearly you mentioned that you've got some forecast for demand I believe out of your GPU customers. On the CPU and chipset side, has visibility improved at all? And if so, could you comment on what visibility is as well as what your view is of the channel and market inventories?

<A – Dirk Meyer>: Yes, we don't see anything out of whack with respect to inventories either within our OEM customers or within the channel, either on the component side or the add-in board side on GPUs.

In terms of being specific with respect to visibility going forward, we're not going to provide anything other than the Q2 guidance that Thomas outlined. The only thing above that I will say is reflect back on what we said about our expectations for the market at our last analyst call, which is to say we expected PC unit consumption to grow between 10 and 15% year on year. And based on where we sit today, I'd say our expectations are above the center point of that range.

<Q – Doug Freedman>: All right, great and congratulations.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Jim Covello from Goldman Sachs.

<Q – Jim Covello>: Great, guys, thanks so much. The question I have is something that has been asked in different ways. But the way I would say it is if a lot of the share in the server market could go from four and eight-way to one and two-way, how do we think about that impacting profitability given that that market could be more price competitive?

<A – Dirk Meyer>: When you say a lot of the share, do you mean...

<Q – Jim Covello>: I mean if your share – unit share could remain flat hypothetically, but we go from some of that being four and eight-way share to one and two-way share. Do you think there's any way to offset the profitability impact of that?

<A – Dirk Meyer>: That's an interesting question but it has a hypothetical in the premise.

<Q – Jim Covello>: Sure, absolutely, yes.

<A – Dirk Meyer>: I don't want to answer a question that's got a hypothetical in the premise. What I'll say instead is to the extent we grow our server business faster than our other businesses, that's good for us.

<Q – Jim Covello>: Even if – I mean I guess how much do you have to grow – if there is share shift within servers, how much faster do you have to grow servers than the other businesses assuming the mix within servers were to deteriorate? I certainly understand what you're saying. It's totally plausible, but what's the balance?

<A – Dirk Meyer>: It sounds like you're asking me to give you the solution to a math equation on what our costs and ASPs are, which of course I can't do.

<Q – Jim Covello>: Is there any framework that we could think about what the impact of the mix shift within servers, what you would need to do to impact the mix shift even qualitatively?

<A – Dirk Meyer>: Yes, I think I'm best just saying we think we've got an opportunity to grow our participation in the biggest volume chunk of the market for all the reasons I said. And to the extent we do that, it's a good thing.

<Q – Jim Covello>: Terrific, okay, thanks so much.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Craig Berger from FBR Capital Markets.

<Q – Craig Berger>: Hey, guys, thanks for taking my question. I guess one of my questions, is there any way to help us understand either qualitatively or quantitatively what gross margins might look like once you're done paying the underutilization charges in Dresden or perhaps what the impact was in the quarter just on the...

<A – Thomas Seifert>: Well, in the quarter that just ended we had hardly any change, and the utilization volume came down from previous quarter. So there was certainly no improvement. Moving forward, we have opportunity to improve. We said last quarter that our utilization was in the 75% range. So this is the indication of how much room we have improving our gross margin from a cost perspective moving forward.

<Q – Craig Berger>: And so what's the annual cost associated with the other 25% of the fab that you're not utilizing?

<A – Thomas Seifert>: I'm not going to give guidance on the cost structure for GLOBALFOUNDRIES, but I think this is something you could model.

<Q – Craig Berger>: Next question, you guys are still running through depreciation excluding amortization of about 83 million a quarter. I guess my question is what's in that number and how fast should we expect that to decline? And also as part of that, what's your capital intensity on a go-forward basis?

<A – Thomas Seifert>: We just reiterated our guidance for this year on CapEx. We feel quite comfortable with that range. It's a good indication where CapEx should move going forward. We see probably some spikes when we have to adjust testing infrastructure to new products, but this is a good range for us. The depreciation that is going – that's hitting our books currently is coming from data laboratory infrastructure and of course from our back end and assembly manufacturing facilities in Singapore, Penang, and Shanghai and Suzhou. And moving forward, we think invest in CapEx, it will take some time before this catches up and balances out.

<Q – Craig Berger>: Last question, when should we expect to see 32-nanometer products from you guys in case I missed it, and what market segments are going to be attached first? Thank you.

<A – Dirk Meyer>: Yes, we'll be commencing the volume ramp for 32 in the second half of the year with OEM system availability in the first half, and that's both a notebook and desktop PC statement.

<Q – Craig Berger>: Thank you.

Operator: Our next question comes from Hans Mosesmann from Raymond James.

<Q – Hans Mosesmann>: Yes, thanks, a couple of questions. Can you give us the mix of 40 nanometer shipments in the GPU space for the quarter?

<A – Dirk Meyer>: Yes, I don't want to be precise, but it was over 30%.

<Q – Hans Mosesmann>: And what were they in Q4 just as a reference?

<A – Dirk Meyer>: Much less. As I said, we've shipped about 6 million units in total of DX11 40-nanometer CPUs through the end of Q1.

<Q – Hans Mosesmann>: Great. And can you give us a timeline in terms of your move to take Fusion and/or GPUs to GLOBALFOUNDRIES? When can we expect to see products or GPUs based on that foundry and what process node would that be? Thanks.

<A – Dirk Meyer>: The process node will be 28-nanometer bolt, and we haven't been public with the date on that yet for GPUs. And your question on Fusion I think, the first Fusion parts will be out of GLOBALFOUNDRIES.

<Q – Hans Mosesmann>: Great, thank you very much.

Operator: Our next question comes from Patrick Wang from Wedbush.

<Q – Patrick Wang>: Great, thank you so much for taking the question. Just first off, Dirk, you gave us some color in terms of your expectations in the 2P service space and briefly touched on 4P. I guess seeing how you're pricing those chips at the same level as the 2P parts, do you have any evidence that the strategy is actually driving more customer interest, any examples you can actually cite?

<A – Dirk Meyer>: The only public example I can cite are the design wins that we talked about in the OEMs that we had lined up talking about the product alongside us at launch. We do have some positive feedback from some big enterprise customers; but as you know, we can't cite enterprise deployments by name.

<Q – Patrick Wang>: Right, got you, but the pricing strategy is actually taking hold and you're starting to see momentum on those parts?

<A – Dirk Meyer>: Yes, I think there's a lot of resonance in the industry for the strategy that we've deployed.

<Q – Patrick Wang>: Okay, I thought it was a clever strategy. And then I guess also, guys, can you give us a framework what you think seasonality in the second quarter is; the reason being that you were guiding for a seasonal decline and just a couple of days ago until I was out guiding for flattish type numbers. Just help us reconcile that, please.

<A – Thomas Seifert>: I think we would feel comfortable in the range of flat to minus 5%.

<Q – Patrick Wang>: Okay. Can you also maybe talk about the – help us reconcile maybe why it's not a little bit better than seasonal?

<A – Thomas Seifert>: I think it depends on what definition of seasonality you have. I think the range we have provided gives a good explanation on where we think the business is going and how we could perform and our expectations where the market is going to move.

<Q – Patrick Wang>: Okay, great, thanks so much. Good luck, guys.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Jake Kemeny from Morgan Stanley.

<Q – Jake Kemeny>: Hi, thanks for taking the question. Can you just walk through which debt remains outstanding, and did you repurchase any debt during the quarter?

<A – Thomas Seifert>: Last question first, only minor movement on the debt side. We repurchased about $10 million of debt in the first quarter. And your second question was?

<Q – Jake Kemeny>: Can you just walk through how much is outstanding under each of the major pieces of debt that you have?

<A – Thomas Seifert>: On the 2012 convertibles, we are at 485 million. And the 2015 convertible is at 1.6 billion – or 1.7 billion, and then 500 million under 2017.

<Q – Jake Kemeny>: Okay, thank you.

<A – Ruth Cotter>: Operator, we'll take one more question, please.

Operator: Our final question comes from Srini Pajjuri from CLSA.

<Q – Srini Pajjuri>: Thank you. Thomas, on the gross margin front, you said you still have the volume obligations. Could you give us some idea as to when those obligations expire and what kind of impact that will have on your gross margins?

<A – Thomas Seifert>: As we said in the last quarter, utilization was about 75% in the one module at GLOBALFOUNDRIES where we have this obligation for the fixed cost of the capacity that we do not utilize. This gives you an indication of how much room we have to improve. It would go away with either us filling this capacity over the course of the year, the obligation to pick it up contractually and the end of the first quarter 2011.

<Q – Srini Pajjuri>: When the obligation ends, do you expect any meaningful impact on the gross margin? I mean I would expect you'll become fully fabless, and obviously the gross margin will probably be more flattish, then being a bit better in the second half.

<A – Thomas Seifert>: The best-case scenario is that we are able to fill the capacity until then; and then the effect is meaningless or non-material.

<Q – Srini Pajjuri>: Okay and then one quick one for Dirk just to follow up to the previous question. Given your view about the demand and your product leadership in graphics, and obviously you also have a new product in servers, I guess the question is why not a bit more aggressive guidance for Q2. Is there anything you're seeing out there that makes you more cautious, Dirk?

<A – Dirk Meyer>: No, we've got the notebook products launching – or our customers launching about halfway through the quarter. And the server products are becoming available in the quarter, so we won't have a full quarter of benefit yet at that point. And as Thomas said, we're looking at typically a minus 2% quarter and we're comfortable with throwing that out there as a nominal plan to think about with of course a lot of variability to it.

<Q – Srini Pajjuri>: Thank you.

Ruth Cotter, Director of Investor Relations and Treasury

With that, we'd like to thank everybody for participating in our call today and we wish you all a good evening. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes our program for today. You may all disconnect and have a wonderful day.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to your Advanced Micro Devices Q4 '09 Earnings Call. [Operator Instructions] And now it's my pleasure to announce your host, Ruth Cotter.

Ruth Cotter, Investor Relations

Thank you, and welcome to AMD's fourth quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO, and Thomas Seifert, our Chief Financial Officer.

This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The replay number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1422675. The telephone replay will be available for the next 10 days, starting later this evening.

I'd like to take this opportunity to announce that AMD will hold its 2010 Financial Analyst Day on November the 11th. We'll provide you with more details including the location of the event over coming months. I'd also like to call to your attention that our first quarter 2010 earnings quiet time will begin at the close of business on Friday, March 12.

References to AMD on this earnings call referred to AMD Product Company which refers to the operating results of AMD excluding our foundry segment and intersegment eliminations. We provide a reconciliation of AMD Product Company to AMD consolidated operating results which are reported for GAAP purposes in today's earnings press release.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC where we discuss the risk factors that could cause actual results to differ materially from our expectations. You'll find detailed discussions about such risk factors in our most recent SEC filing, AMD's quarterly earnings report on Form 10-Q for the quarter ended September 26, 2009.

And with that, I'd like to turn the call over to Dirk Meyer, our CEO. Dirk?

Dirk Meyer, President and Chief Executive Officer

Thanks, Ruth, and thanks to everybody on the call for joining us today.

A year ago, in a very cloudy economic environment, we outlined a bold game plan to transform this company into one designed to generate consistent profitability while exploiting the unique combination of x86 and graphics processing technology that only AMD possesses. We're pleased with our progress on this transformation, both in the quarter and throughout the past year.

We promised to lower our break-even point, and we did. We promised to increase our focus on our core businesses, x86 microprocessors and graphics, and we have. We promised to execute on our road maps, on time and on budget, and we did. We promised to expose the truth about the monopolistic environment in which we were operating, and we did. We promised to execute our "Asset Smart" strategy and transform ourselves into a fabless company, and we did. And, we made significant progress in improving our balance sheet, reducing our overall debt by more than $2.2

billion through the creation of GLOBALFOUNDRIES and other debt transactions. In short, we delivered on every major milestone to which we committed in the past year, placing ourselves in a much stronger position to succeed in the quarters ahead.

In the meantime, our fourth quarter operating performance was solid. In an improving global economy, we saw growing customer and end-user response to AMD platforms, products, and marketing offerings, with particularly strong performance in our server and discrete graphics businesses.

In servers, customer adoption of the six-core AMD Opteron processor has been impressive, accounting for nearly 60% of our server revenue and half of our units. We saw particularly strong adoption in HPC and cloud computing cluster environments. In fact, AMD now powers the number one supercomputer in the world, the number one GPU-powered supercomputer in the world, and four of the top five supercomputers on the semi-annual TOP500 Supercomputer list.

In discrete graphics, we expanded our leadership position on the strength of the Radeon HD 5000 series, expanding our portfolio of the industry's only DirectX 11-capable graphics processors, and we shipped more than 2 million DirectX 11-capable GPUs in the first three months after launch.

AMD's world class sales and marketing engine is increasing its pace. Our innovative VISION marketing campaign is giving us – is gaining support across the industry, and we were thrilled to expand the program into commercial notebooks with the first commercial Lenovo ThinkPad based on AMD VISION Pro technology. Meanwhile, our Fusion Partner Program is exceeding expectations in the component channel, securing over 100 new premier partners in its first full quarter of operation.

In summary, our fourth quarter was a good balance of achieving strategic milestones and solid operating performance in an improving market. It also represents a springboard for the year ahead.

In the market, the center of gravity for innovation in our industry is in the consumer space, an historical AMD strength. Consumers demand a vivid digital experience, immersive, media-rich, with a natural user interface, and these play well to AMD's design, technology, and marketing strengths. Our customer list continues to grow, with customers attracted to AMD's differentiated technology portfolio, and growing recognition that good enough computing simply isn't good enough.

And we have a winning business model. We have access to leading-edge capacity from what has already become one of the most impressive semiconductor foundry companies in the world, GLOBALFOUNDRIES. We have a new operating footprint, and a strong emerging discipline of staying inside that operating envelope.

But, what is most difficult to see from outside the company is the change that is occurring within our culture. There's a renewed spark within our employees as we see growing validation of our innovative platform strategy and a rapidly approaching future based on the strength of AMD Fusion technology. I think it's important for you to know what this culture is all about. It's about winning. It's about changing the game. And, it's about consistent profitable growth, making money for our customers, our shareholders, and our employees.

And with that, I'll turn it over to Thomas.

Thomas Seifert, Senior Vice President and Chief Financial Officer

Thank you, Dirk. We're pleased to report that in 2009, we reached and maintained the target financial model we defined at the beginning of the year, and made significant progress in decreasing our operating loss. As Dirk mentioned, AMD delivered a solid quarter.

Fourth quarter revenue was $1.646 billion, up 18% compared to the third quarter of 2009, and up 42% compared to the same period a year ago. The quarter-over-quarter improvement was helped by a number of factors, including healthy holiday sell-through, increased enterprise spending, particularly in service, and strong demand for our industry-leading Radeon 5000 series, driving faster sell-through by our Add-In-Board partners.

AMD reported a non-GAAP net income of 80 million in the fourth quarter of 2009, which excludes a net favorable impact of $1.235 billion, primarily from the legal settlement with Intel. Fourth quarter non-GAAP operating income was $169 million, which excludes the impact of the legal settlement and our charges.

We continue to make good progress on gross margin as a result of double-digit unit growth in both the computing and graphic businesses, completion of our transition to 45-nanometer CPUs, and higher ASPs. Fourth quarter non-GAAP gross margin improved to 41%, compared to 38% in the prior quarter.

We managed operating expenses within our target model. R&D was $301 million, and SG&A was $209 million for the quarter. Fourth quarter adjusted EBITDA was $282 million, up from 169 million in the third quarter.

Before I turn to our business segments, I would like to point out that AMD's fourth quarter share count is 791 million on a fully-diluted basis. The diluted share count is high due to the inclusion of the 5.75 convertible common shares which were dilutive to the fourth quarter EPS.

Now switching to the business segments. Strong demand for our products and platforms drove several all-time records in the fourth quarter. We shipped a record number of notebook processors and record number of chip sets. In our graphic products business, we saw record discrete mobile unit shipments, and finally, we also recorded record gaming revenues in the quarter.

In our Computing Solutions segment, fourth quarter revenue was $1.214 billion, up 14% sequentially, driven primarily by double-digit unit growth. Notebook processor unit sales were up 19% quarter over quarter, while server processor unit sales grew 21% sequentially. And, operating income for the Computing Solutions segment was $158 million, up significantly from the third quarter operating income of $76 million.

In the graphics segment, revenue for the quarter was $427 million, up 40% sequentially. AMD's "sweet spot" strategy continues to pay dividends, as evidenced by another fast ramp of our new generation of graphic products. Growth in the graphics segment was driven by strong sales, indeed, at inboard channel, with double-digit increases in both mobile discrete graphics and workstation graphics. The graphics segment reported an operating income of $53 million, a substantial improvement from the prior quarter.

Now let's turn to the balance sheet. Our cash and marketable securities balance at the end of the quarter was $1.8 billion. In addition to the Intel settlement proceeds of $1.25 billion, and the reclassification of $58 million of our action-rate securities – auction-rate securities to long-term assets, we executed several debt transactions in the quarter. We redeemed the remaining amount outstanding of the 7.75 senior notes due in 2012, which was approximately $390 million, we reduced the aggregate amount outstanding of the 5.75 convertible senior notes due in 2012 by approximately $1 billion, and we issued 500 million of 8.125% senior notes due in 2017. As a result of these efforts, we were able to decrease our debt due in 2012 by nearly 1.4 billion, to $485 million.

Let me now spend some minutes talking about the deconsolidation of GLOBALFOUNDRIES. As I mentioned in December, our goal was to deconsolidate GLOBALFOUNDRIES as soon as possible in 2010. A number of events have occurred in the past quarter that allowed us to accelerate that process.

First, AMD and Intel agreed to a new cross-license agreement under which we have broad "have made" rights. Second, ATIC acquired Charter Semiconductor, which will now be jointly operated with GLOBALFOUNDRIES. And third, AMD agreed to waive some rights that previously required unanimous GLOBALFOUNDRIES' Board approval. Given these developments and new accounting regulation becoming effective in 2010, AMD is able to deconsolidate GLOBALFOUNDRIES. Starting in the first quarter of 2010, AMD's investment in GLOBALFOUNDRIES will be accounted for using the equity method of accounting. As a result of the deconsolidation, we are in the midst of valuation analysis of our GLOBALFOUNDRIES investment which may result in a one-time non-cash impact to our Q1 2010 financials.

Let's turn to the outlook now. The following statements concerning AMD are forward-looking and actual results could differ materially from current expectations. For the first quarter of 2010, AMD expects revenue to be down seasonally. Operating expenses are expected to be approximately $550 million due to salary reinstatement, performance-related accruals, and some R&D project expenses, and tax is expected to be approximately $3 million.

As a reminder, our 2010 guidance for AMD is as follows. Gross margin to be in the range of 40 to 45%, SG&A to be in the range of 14 to 17% of sales, depreciation and amortization to be in the range of 340 million to $370 million, capital expenditures to come in at approximately $120 million, profitability on an operating income levels throughout the year, and free cash flow to be positive.

In conclusion, we did what we said we would do in 2009, and we enter 2010 with a clear vision, executing to a lean business model. At this point, I would like to turn it back to Ruth for Q&A.

Ruth Cotter, Investor Relations

Thanks, Thomas. And John, we're very happy if you could poll our audience for some questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Okay. Our first question is coming from Glen Yeung from Citigroup.

<Q – Glen Yeung>: Thanks very much, and great quarter, everyone. I wonder if I can ask a question first on GPUs. Obviously huge growth there. Can you talk about the type of ASP increase you saw on a blended basis there? But also where you think inventory levels are after such great growth in the quarter? Channel inventories?

<A – Dirk Meyer>: Yeah, hi, Glen. Thanks. When you say ASP improvements on a blended basis, are you talking across -

<Q – Glen Yeung>: I mean across your various GPU business, not GPU and MPU.

<A – Dirk Meyer>: Yeah, don't want to get that granular, other than to say, clearly the ASP benefit was driven largely by the ramp of the 40-nanometer DX11 level products which lead the way in desktop and follow on in notebook -

<Q – Glen Yeung>: Okay.

<A – Dirk Meyer>: – this quarter. Relative to inventory, we don't see anything unhealthy about inventory levels downstream from us.

<Q – Glen Yeung>: Okay. Great to know. Dirk, while I've got you here, just one other question. Thinking about 2010 as a whole, when you look out into the year – and obviously it's been a relatively good end to Q – to 2009 and hopefully that segues into a good 2010. When you think out into the year and you think about your pricing strategy in microprocessor, how do you think about that? Is this the year where you want to be aggressive on price to regain share? Or is it one where you think the market can carry you along with the pricing strategy that you already have?

<A – Dirk Meyer>: Yeah, Glen, good question. In general, consistent with past policies, we price with a mind towards maximizing gross margin dollar volume, versus specific share targets or specific gross margin percent thoughts. Now having said that, there's a lot of moving parts in the marketplace. Emerging markets represent a big growth opportunity on the one hand. On the other hand, we feel pretty good about our opportunity to drive a richer product assortment with our OEMs. As you know, if you look at the distribution of our products across the system price points in the market, we tend to be – I'll say disproportionately represented in the value and mainstream segments.

<Q – Glen Yeung>: Right.

<A – Dirk Meyer>: So we think, on the strength of new products, combined with a very good and well-received marketing campaign in the form of VISION, we've got an opportunity to drive a richer mix. So in summary, a lot of moving parts.

<Q – Glen Yeung>: Just to follow up on that, does richer mix – to get that richer mix, do you actually – do think you need to discount it there, or do you think just the product can just stand on its own?

<A – Dirk Meyer>: Yeah, it's not so much a statement about discounting. It's more of a statement about driving more volume sales up our performance stack -

<Q – Glen Yeung>: Got it.

<A – Dirk Meyer>: – and also driving a higher GPU attach rate at the platform level. So that's what I mean when I say richer mix.

<Q – Glen Yeung>: That makes sense. Thanks you very much for that, Dirk.

<A – Dirk Meyer>: Thank you.

Operator: And thank you. Go with our next question from JoAnne Feeney from FTN Equity Capital.

<Q – JoAnne Feeney>: Great, thanks, and yeah, congrats on a really nice quarter. Really following up on Glen. If we could think about – perhaps you could help us understand the importance of graphics and your success there for your success over in notebooks. Could you give us an update on your traction with design wins with the new – with the Puma platform and with the new Congo? And perhaps give us an update on how well you're doing relative to perception that Intel has a better offering with regards to battery life and that sort of thing.

<A – Dirk Meyer>: Yeah. Thanks, JoAnne, good questions. I would say the best dial on the dashboard, if you will, that we have is our design win momentum. And we're doing very well, as evidenced by the recent announcement on Lenovo introducing for the first time notebook products based on AMD technology, both for the commercial segment under the ThinkPad brand, as well as later on this year, the consumer and SMB transactional segment under IdeaPad.

I would say that our strategy of positioning our offering around what is increasingly a consumer-driven usage model in the PC market is really resonating with our customers. The importance of graphics is clear and is becoming more so, including downstream from our customers into their channels and in the end-user community. We've noted year to year that an increasing percentage of our notebook platforms are being designed with discrete graphics attach capability, which is good, and going out the door with more GPUs attached as well, which is also good. So you put it all together, and we feel pretty good about our design win momentum, and feel good about the prospect for that momentum turning into positive sales momentum this year.

<Q – JoAnne Feeney>: And do you feel, as a follow-up, that you're sufficiently well positioned, in terms of the design wins you know about, to participate in an enterprise refresh cycle this year which will probably involve a fairly high ratio of notebooks?

<A – Dirk Meyer>: Good question, and before I answer, I'll remind you that with segmenting the market, the big volume opportunity is consumer. A little bit smaller is commercial. Within the commercial space, enterprise is actually the smallest of the segments, SMB being bigger. The SMB subsegment of commercial is really our focus area. As an example, the ThinkPad products from Lenovo are really targeted at the SMB segment, though having said that, I do expect, and we do see, our SMB-focused offerings from OEMs bleed over into enterprise, because they represent a very good value. So not a direct target for us, as compared to SMB, but, to the extent enterprise takes off, we'll get some updraft, for sure.

<Q – JoAnne Feeney>: Great. Thanks for clarifying that, that's the CSMB that's the larger of the two, and sounds like you're well targeted there, so -

<A – Dirk Meyer>: Yes.

<Q – JoAnne Feeney>: – that's helpful. Thanks very much.

<A – Dirk Meyer>: Yes.

Operator: Okay, thank you. We'll go with our next question from Tim Luke from Barclays Capital.

<Q – Tim Luke>: Thanks very much. Congratulations on your execution in the quarter. Just wanted to clarify a couple of things. So, Thomas, this is going to be the last quarter that you would report an un-deconsolidated AMD. So going forward, for the calendar first quarter, you're just going to report the numbers for AMD Product Company. Is – that's correct?

<A – Thomas Seifert>: This is correct.

<Q – Tim Luke>: Okay. You're – you mentioned you were going to have a one-time non-cash charge. Could you just outline that and just put a little bit more color on that?

And then for Dirk, 40% sequential revenue improvement in graphics, in a market that is perceived to have grown sort of in the low double digits, could you give us some color – are you taking a lot of share? Was the market maybe a lot stronger? Was there a lot of channel refill? Any color there, please?

<A – Dirk Meyer>: Sure. Yes. Thomas, you want -?

<A – Thomas Seifert>: Yeah, let me start there. So as a process – in this process of preparing for the deconsolidation, from the first quarter on, we will show a line on our balance sheet that says investment in GLOBALFOUNDRIES, and in order to determine the value, we have to make a valuation of the GLOBALFOUNDRY entity. So this is work in process. We're not going to speculate about the outcome. We will talk about when the results are available, and they will be available with us publishing our next quarter results.

<Q – Tim Luke>: And then there's an other income line for your stake, is that right?

<A – Thomas Seifert>: Yes. Yeah, very much. So all their distributed elements of GLOBALFOUNDRIES in the their – in the P&L today will be consolidated in one line item.

<A – Dirk Meyer>: And Tim, with respect to your other question, which, if I got it right, is 40% sequential growth on GPG is pretty stout, given kind of historical trends. What's that say about the market, versus AMD's performance in the market? Well number one, a lot of our quarter-to-quarter growth was driven by notebooks, and I think clearly, there's a share gain implication there. I mean, we'll see when the numbers come out. In addition, we've got a nearly a full quarter of shipment of some of our new DX11 products. We clearly have a distinctive product there, and that drove business generally in a positive way. And the final thing I'll say is, typical for us when we introduce new technology, we do so shipping a lot of cards. That is, AMD cards. So there was an unusually large, I'll say, card revenue in the quarter.

<Q – Tim Luke>: Thank you both so much.

Operator: Thank you. Our next question is coming from John Pitzer from Credit Suisse.

<Q – John Pitzer>: Yeah, guys, can you hear me?

<A – Dirk Meyer>: Yes.

<A – Ruth Cotter>: Yes.

<Q – John Pitzer>: Yeah, congratulations. Just a couple of follow-ups with that. Dirk, relative to the graphics market, there was some speculation, with the launch of Win 7, you'd actually see attach rates from discrete go up as Win 7 better uses sort of a discrete GPU within the system. Are you seeing clear evidence of that? And to a follow-up on a large portion of the revenue being cards this quarter, can you help us understand and quantify that a little bit?

<A – Dirk Meyer>: Yeah, second one first. I didn't mean to say a large percentage of the revenue. We ship cards every quarter, but typically, when we introduce a new technology, we ship a little bit more to get the market going. So I didn't mean to say a large fraction of GPU revenue was cards. And I don't want to get more granular than that.

With respect to GPU attach rates, we'll wait to see the numbers come out. It's hard to make definitive statements about the market, but there's no question that – and I'll say my anecdotal conversations with some of our customers, we're getting the feeling that, yes, in fact, GPU attach rates are going up, particularly on notebooks.

<Q – John Pitzer>: And then Dirk, just getting on the corporate side, can you help me understand what kind of ASP leverage you might have, if the mix skews towards corporate within the core PC business? And I guess a lot of us out here on The Street are trying to figure out whether or not that that corporate rebound is a first half or a second half phenomenon. Love to get your opinion on that.

<A – Dirk Meyer>: Yeah, that's a good question, and of course, we're more exposed clearly to the consumer market than is the market represented overall. And within commercial, we're – as I said on the earlier conversation with JoAnne, a little bit more exposed to small and medium business. So it's hard for us to speak definitively on experience on the big corporate market.

Now having said that, we kind of think the corporate buying refresh will be more of a second half phenomenon on the PC client side, as compared to first half.

<Q – John Pitzer>: And the potential ASP leverage, if the mix moves towards more corporate this year?

<A – Dirk Meyer>: Again, a lot of moving parts there as well. Clearly, historically, the commercial PC market was a richer opportunity. Frankly I think the – one of the reasons for that is, that was a market segment that benefited less from competition. That is, we didn't participate in that market as much as we did the consumer market. So we'll see how this changes as time unfolds here.

<Q – John Pitzer>: Thanks, guys. Appreciate it.

Operator: Okay, thank you. Our next question is coming from Uche Orji from UBS.

<Q – Uche Orji>: All right, thank you very much. Can I just start off again with the graphics business? Two questions there. First is, was there any progress made in FireGL? Was that any revenues within – in that in terms of part of what have driven the growth in graphics?

And then secondly, NVIDIA starts to roll out Fermi. I just want to understand how you think you can maintain momentum in graphics?

<A – Dirk Meyer>: Yeah, with respect to the FireGL, we did see quarter-to-quarter growth, but it wasn't a big absolute driver of the dollars. We still have a relatively small share in professional graphics. Although our design win momentum did pretty good and I expect that to be an opportunity for us over the next one to two years.

With respect to your question about the competition, it's hard to know in detail the answer to that question since they haven't launched anything yet. What I can tell you is, we've got very enthusiastic response to the products that are in our market today. We see a very good pipeline of OEM design wins down the road, which – our OEMs of course see both companies' road maps. And our strategy is to continue to stick to the "sweet spot" method we've had and deliver leadership products as measured by performance per watt per dollar, as well as features. And consistent with that, we're ramping the HD 5000 series now, and look forward to refreshing the entire lineup in the second half of next year. So we feel good about our prospects in that business.

<Q – Uche Orji>: Right. Just let me ask you about servers. One of the things – if I were to try to decompose the gross margin improvement, the three point gross margin improvement, how much of that we attribute to the strength of selling servers versus notebooks?

And going forward, can you also talk about a timing for Magny-Cours and in terms of what we should expect that to do to your server business? Thank you.

<A – Dirk Meyer>: Sure. I'll start with the gross margin commentary, and Thomas may want to go in a little bit. While the server units did outgrow our units on average by a little bit, I wouldn't call it a significant contribution to the gross margin improvement quarter to quarter. Rather, I'd just reflect back on the three things that we'd talked about on prior calls as being potential drivers for gross margin. Number one was improving capacity utilization in GLOBALFOUNDRIES' Dresden facility, which we're still on the hook for on a fixed-cost basis. That was number one. Number two, the completion of our transition to 45-nanometer MPUs. And number three, ASP improvements. And the improvement we saw quarter to quarter in gross margins I'd say was split relatively evenly across those three subcategories.

The next part of your next question was about how we feel about the Magny-Cours Maranello launch next quarter, and the short answer is, we feel very good. We are on track for that launch next quarter, and it represents the biggest improvement in performance that we'll be driving into our Opteron lineup since we introduced that product line in 2003. So we feel very good about our potential there, particularly around recapturing momentum in the two-socket space.

<Q – Uche Orji>: Great. Thank you.

Operator: Okay, thank you. Our next question comes from Doug Freedman from Broadpoint AmTech.

<Q – Doug Freedman>: Great, thanks, guys, and congratulations again. Dirk, can you dig into some more detail on the server market, how your units were this quarter and what your ASPs sort of look like? And maybe give us an idea of what that trend, or what your outlook for the year, given that you are coming with a complete product refresh?

<A – Dirk Meyer>: Sure. First, I – as we said in the prepared remarks, our unit growth quarter to quarter was a little bit north of 20%. And our ASPs were actually up a bit on servers. It's hard to forecast with a lot of granularity how the market's going to move next year. First, we did see kind of second half of the year characterized by increasing strength in the server market, particularly as we left the year. And we're hopeful that that momentum will continue at least through the first half. Clearly, middle of the first half, we're introducing a top-to-bottom new lineup. Intel's introducing new technology as well. So a lot of moving parts. I think, on a relative basis, we're going to have an even stronger competitive position in the two-socket space, which as you know, Doug, is 75 to 80% of the opportunity there. And really, that's where the game is played, so to the extent we're successful in getting traction and getting those machines in the market and gaining share, that'll be a good new story for AMD.

<Q – Doug Freedman>: Great, and it seems to be a thesis going around that PC is very cyclical, and our cycle is peaking. Can you talk to whether you're seeing any signs from your customers or end-market demand that would lead you guys to believe that we're nearing a peak, or what you would look for to sort of signal that?

<A – Dirk Meyer>: Sure. First, we're looking into next year feeling pretty good about the opportunity for the PC market being a growth year in 2010. Low double digits, 10, 11, 12%, something like that, more or less consistent with what we said in the Analyst Day call in November. I would say our experience with Q4 confirms that thesis about the way 2010 will look. End-user demand was strong, certainly the holiday sales out were strong, and that's true really in all regions. Even in Eastern Europe which was pretty weak through the whole of 2009, we started to see a recovery there. In addition, based on our conversations with our customers as well as with our distributors, inventories look to be in good shape. So we don't see any dangerous pile-up of inventories across the areas of the downstream supply chain that we can see. So based on all that, we're sticking to feeling pretty positive about the prospect for unit growth next year.

<Q – Doug Freedman>: And if I could, my last question, targeted really at GLOBALFOUNDRIES. I noticed that there was a filing recently over in Germany that highlighted their interest in possibly taking complete control. Are you guys at all interested – in your language in the press release today sounds like you're willing to go completely fabless. Is there a sort of point in time, or what would it take for you to sell the remaining interest in GLOBALFOUNDRIES?

<A – Thomas Seifert>: There's no discussion between the parties at this point in time. The statement you referred to has to do with ATIC filing in Europe, especially in Germany, for antitrust approval, to get into a joint operating mode. And I think some of the filing was misinterpreted.

<Q – Doug Freedman>: Okay. Great. Thank you.

<A – Dirk Meyer>: Thank you.

Operator: Your next question is coming from Craig Berger from FBR Capital Markets.

<Q – Craig Berger>: Good evening. Congrats, and thanks for taking my question. Just a couple of model questions here. First of all, on the gross margins. As you guys shift to being a fabless company here, when do you begin to pay kind of variable per-wafer pricing as opposed to more of a fully-burdened price?

<A – Thomas Seifert>: Yeah, good point. In our discussions last year, we already outlined a road map where we said gross margins in there – in 2010 will operate in a 40 to 45% range. 2010 is a year of transition for us in many ways. Before we migrate completely in a Fusion-driven environment on 32-nanometer, we are also, as you heard Dirk before, until at least the end of the second – first quarter of '11, responsible for the fixed cost of the capacity in one of the trace modules. So as I said, 2010 is a year of transition, and then we will move into a more variable cost environment beyond that.

<Q – Craig Berger>: And what do the margins look like then?

<A – Thomas Seifert>: We said that in a time – in a long-term range, we are going to get beyond the 45%.

<Q – Craig Berger>: Great. And then moving over to operating expenses, they stepped up – they're going to step up pretty meaningfully here in Q1. Is there any more step-up? Or how do we think about that progression during the rest of 2010?

<A – Thomas Seifert>: No, I think we've given the main reasons that drive the step-up in the first quarter. It's really restoring the salaries. We've done this in December of last quarter, and then the first quarter of this year, we see the full effect across the three months. We have to take some accruals with respect to performance-paid topics, and we see an acceleration of some R&D takeouts in the first quarter.

<Q – Craig Berger>: And then lastly, how do we think about share count and interest expense for both Q1 and 2010? Thank you very much.

<A – Thomas Seifert>: So share count is more difficult to forecast. The up in the fourth quarter was of course driven by the high profit that we had. And interest rate – interest payments will come down. Since we executed the transaction only towards the end of the fourth quarter, we didn't see much benefit in the fourth quarter numbers. You will see the full benefits of the transaction of course over the course of 2010.

<Q – Craig Berger>: Is 40 million a quarter about right on interest expense at this point?

<A – Thomas Seifert>: We don't want to go into this granularity at this point in time. As I said, the fourth quarter was without benefits, and we'll see the benefits of the transaction now in the complete year of 2010.

<Q – Craig Berger>: Great. Thank you.

Operator: Okay, thank you. Our next question is from Patrick Wang from Wedbush Securities.

<Q – Patrick Wang>: Thanks for the question, and congrats on the quarter. Most of my questions have been answered. I just wanted to ask one on cost structure here. I know Craig just asked about the wafer cost side of things. But if we take a look at how you – how you're actually going to be rolling out products and the integration into Fusion, just over the next four to six quarters, we've gone from – we've completed most of your 45-nanometer transition. How – what are some of the other moving parts, just on die size and things like that, that we should think about over the next couple of quarters?

<A – Thomas Seifert>: Yeah. Good point. So of course you're right, we have completed the 45-nanometer transition on the CPU side. We have still room to improve in respect to factory utilization in Dresden. We have room to improve in the yield segment, especially on the newer technology nodes that ramp our graphic product. We are going to see product mix improvement over the course of 2010 with the new products that are launching across the complete product portfolio. This will pretty much drive a margin expansion in 2010, and I already alluded to some of the factors that will get us beyond this, once we move into a Fusion environment.

<Q – Patrick Wang>: Okay, got you. And earlier you said that 2010 was a year of transition, implying margins of 40 to 45. Are you – is that – is it too much to read into, saying that maybe in 2011 we're talking about seeing a full-year margin of – above 45%?

<A – Thomas Seifert>: I'm not going to comment at this point in time on 2011. I think I'm – we provided a good logic behind what the number's going to do in 2010.

<Q – Patrick Wang>: Okay, got you. No, that's helpful. And then just one more question real quick. On the server market again, I know that you guys have talked about – clearly you had some really strong growth here in the fourth quarter, but can you give us a sense of – maybe talk a little bit more detail in terms of how you guys expect the server market to recover over the course of the year? Thank you.

<A – Dirk Meyer>: "How" means by segment? Or by geo, Patrick?

<Q – Patrick Wang>: Well, by segment, so of course the UP/DP/MP segments, and then across the world, where – when you would expect different geographies to start ramping back and start spending and refreshing that hardware?

<A – Dirk Meyer>: Sure. The first thing I'll say is that we were a little surprised at just how robust demand was in Q4. I think some enterprises are clearly looking to start upgrading technology now.

As I said in our remarks, we were – saw particular strength for us in the HPC segment, as well as in cloud infrastructure build-outs.

In terms of predicting the wider enterprise refresh cycle, I think that's difficult to be definitive about. We're hopeful that the momentum will continue into the first half, and beyond that, it's awful hard to say.

And then the geo mix, again, a little harder for us to call, because our aperture into the market is smaller than our other product lines, but we saw signs of strength essentially everywhere.

<Q – Patrick Wang>: Thanks so much.

Operator: And thank you. Our next question is coming from Hans Mosesmann from Raymond James.

<Q – Hans Mosesmann>: Thanks. Couple of questions. Were you constrained in graphics in the quarter? And if you were, how much more business could you have accomplished in the quarter?

<A – Dirk Meyer>: Yeah, hi, Hans. We were heavily constrained in the quarter, and we could have done a lot more business were we not so.

<Q – Hans Mosesmann>: When do you think the constraints are going to be – well if it's – when are they not an issue? Is that a quarter from now? Two quarters? How are the yields coming along in TSMC?

<A – Dirk Meyer>: Yeah, I don't want to get granular, other than to say we're seeing progress, both in terms of delivery of wafers and the underlying yields. But we're constrained today.

<Q – Hans Mosesmann>: Great. And then one last question. On the CPU side of the equation, do you expect to maintain or gain market share in 2010?

<A – Dirk Meyer>: Yes – if I look at where we've got opportunities, I think opportunity number one is in the notebook category. As you probably know, our unit share in notebooks is half or less than our desktop share, and increasingly, there's no good reason for that. Our customer footprint is healthy and growing in the notebook space. Our product offerings are very good and very appropriate to the needs of particularly consumers, but also small and medium businesses. We've seen good design win momentum. And I think that represents a very good opportunity, that being notebook, for share expansion for us this year.

<Q – Hans Mosesmann>: Great, thank you. Congratulations.

<A – Dirk Meyer>: Thank you.

Operator: Okay, thank you. Our next question is coming from Ross Seymore from Deutsche Bank.

<Q – Ross Seymore>: Hi, guys. Congrats from me as well. On the ASP commentary that you've given across the two main segments and even the subsegments, could you give any more granularity? Were prices up more on GPUs than CPUs? Within CPUs, where were they up more or less? Any additional color would be helpful.

<A – Thomas Seifert>: No, we don't want to get into more granularity. We'd rather stick with the level of guidance we have given when it comes to ASPs.

<Q – Ross Seymore>: Not even anything CPU versus GPU?

<A – Thomas Seifert>: We have – we said that prices were up compared to the third quarter in both segments, but we would not go into more differentiation at this point.

<Q – Ross Seymore>: Okay then, in – different topic then. Looking at the gross margin for the first quarter, you kind of gave us the range for the full year. What are you looking at for the first quarter?

<A – Thomas Seifert>: Good question. So of course we're comfortable with the range we have given for the remainder of – for the whole year, between 40 and 45%. We see topics of opportunity moving into the first quarter, especially when it comes to idle cost and yield improvement. We also have to see that we will see some headwind on the side, just by having lower volume and being down seasonally going into the first quarter.

<Q – Ross Seymore>: So does that mean, kind of look at the middle point of that range, because of those – those two dynamics you mentioned offset? Or lower end, because of seasonality?

<A – Dirk Meyer>: I don't think Thomas was trying to get that granular. I think he was trying to say, as compared to Q4, moving parts both on the upside and the downside.

<Q – Ross Seymore>: Okay. And then I guess the last question, and it's one that was kind of asked earlier, but relative to the 705 million shares, or the 790, I think it was, which end of that spectrum should we start to think about as we look into the first quarter, and then probably more importantly, for the remainder of 2010?

<A – Thomas Seifert>: For the first quarter, definitely the low end of your description.

<Q – Ross Seymore>: Okay. And is there anything that changes that through 2010? Is it just the profitability dynamic again?

<A – Thomas Seifert>: Yes, it is. There are certain thresholds when it comes to the convertibles, and those thresholds are valid for the quarter and for the year. For the 5.75 convertible, the threshold is about $0.30 per share. [inaudible]

<Q – Ross Seymore>: So I guess the last question for me then is, what would you plan to be doing on the inventory that you carry on your own balance sheet as we look into the first quarter?

<A – Dirk Meyer>: Your question is about how we expect our inventory to change quarter to quarter?

<Q – Ross Seymore>: Yeah. Inventory rising, falling, et cetera.

<A – Thomas Seifert>: So we have been building some inventory, ending the Q4, to be prepared for the graphic launches that will follow. I expect it to be rather flat quarter over quarter.

<Q – Ross Seymore>: Great. Thank you. And congrats again.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Our next question is coming from David Wu from GC Research.

<Q – David Wu>: Yes, good afternoon. I was wondering in the – in light of the supply constrain on the GPU side, is it possible that GPU actually would be flat and maybe even up sequentially, even though seasonally it's a down quarter? You don't have any competition until the month of March at the earliest, and judging from the graphic card customers of yours at the CES show, everybody seems to be fighting over your chips. So I was wondering whether the GPU could be unseasonally strong in this year's first quarter?

<A – Dirk Meyer>: Yeah, good question. I certainly wouldn't want to expect expectations around that. We're clearly walking into seasonally a down period. As well, an awful lot of our business in Q4 was still a 55-nanometer DX 10.1 product. So you're right, we've got an awful lot of demand on the DX11 stuff. But looking across the whole product line, I think it would be – we'd be overreaching to set an expectation around the GPUs being flat quarter to quarter.

<Q – David Wu>: I see. So I assume that then the bulk of the revenue in Q4 was still not 55-nanometers? Even though you shipped about 3 million units?

<A – Dirk Meyer>: Yeah, I don't want to get as granular as the bulk of, but there was substantial 55-nanometer revenue still in Q4, yes.

<Q – David Wu>: Okay. Maybe I'll just follow up with a CPU question. The – once you get Fusion started, which I guess is late this year, at what level of discretes would you play at? In other words, I assume that low end discrete chips will basically have no room to exist, and I was wondering, from a product standpoint, where do you start selling discretes, and where does Fusion end and discrete begins?

<A – Dirk Meyer>: Yeah, David, that's a really good question. I mean clearly, when we start putting this – these Fusion products into the market, there is going to be an interaction between our Fusion products and the discrete offerings. Rather than get into that in detail, I'd like to simply say, wait until the launch, where we'll talk in more detail about the positioning of the product line. It would be premature to get granular. But it's a very good question.

<Q – David Wu>: Thank you.

Operator: Thank you. Our next question is coming from Jim Covello from Goldman Sachs.

<Q – James Covello>: Hey, guys. Thanks so much for taking the questions. The only real question I had left is, relative to the comment about normal seasonality in Q1 or normal seasonal revenues in Q1, there's a very big difference between your historical mean seasonality and the median seasonality, with the median being just down very slightly, and the mean being down closer to almost double digits. Is there any granularity you could offer there in terms of which one you're talking about? [inaudible]

<A – Thomas Seifert>: Yeah. Yeah, good question. So looking at the fourth quarter of course, we ended revenue at a pretty high note. If you look today in the market, I think seasonality defined as being down in the high single digits. We would be comfortable to move into a range from between 5 and 10% down.

<Q – James Covello>: Really helpful. Thanks so much.

Operator: Thank you. Our next question is coming from Chris Danely from JPMorgan.

<Q – Christopher Danely>: Hey, thanks, guys. Can you give us your expectations on the relative growth rates between your graphics versus your CPU biz for 2010?

<A – Dirk Meyer>: The question was for the whole of 2010?

<Q – Christopher Danely>: Yes.

<A – Dirk Meyer>: Yeah, I don't think we want to get more granular than to reflect back on what Thomas conveyed at the Analyst Conference, which is to say that we expected the unit growth opportunity in the marketplace for both CPUs and GPUs to be in the 10 to 15% range, and that we expect to outgrow the market.

<Q – Christopher Danely>: Sure, that's fine. And then your expectations for ASPs?

<A – Dirk Meyer>: Another good question. Clearly if you look across many years, what we've seen is an erosion of PC system prices having resulting effect on lower ASPs at the component level. As a long-term trend, I expect that to continue. As I said, a lot of the unit growth opportunity is being driven by emerging markets, which tended to be a little bit lower system price opportunity. Across that backdrop, I would say we've – we got a real story for having CPU ASPs no worse than flat year to year. And the reason for that is what I said earlier. Our participation across system price points has us – I'll say overrepresented in the value category and the low end of the mainstream. Given the strength of the product introductions, the design wins, and the marketing campaigns we have, we feel like we got an opportunity to drive a little bit richer mix.

<Q – Christopher Danely>: Great. And then given all the demand for your graphics products, have you guys seen any extension in your lead times there?

<A – Dirk Meyer>: Well clearly, we're heavily supply-constrained, which always has a rippling effect on lead times. So sure.

<Q – Christopher Danely>: And you said – but you said you expect to have that fixed within a quarter or two?

<A – Dirk Meyer>: Yeah, over the course of the next one and two quarters, we'll work all that out. And it – we have seen improvements over the past months. Those improvements we expect to continue.

<Q – Christopher Danely>: Great, and then last question. When can we expect an update from the foundry company?

<A – Thomas Seifert>: I'm not sure I heard you. On the progress we make, or the progress they make?

<Q – Christopher Danely>: On them. Like their financials and what their goals are, et cetera, et cetera.

<A – Thomas Seifert>: Well, the nice thing about the event that we just announced is that this is information that you'll have to get from GLOBALFOUNDRIES moving forward.

<Q – Christopher Danely>: Got it.

<A – Ruth Cotter>: Operator, we'll take two more questions, please.

Operator: Okay. Our next question is coming from Daniel Berenbaum from Auriga USA.

<Q – Daniel Berenbaum>: Yeah, hi. Thanks for taking the question. Just going back to the deconsolidation so I'm clear. I understand you're going to account for your stake in GLOBALFOUNDRIES using the equity method, and you'll take a write-off in the balance sheet. Does that mean that the cash flow is completely deconsolidated, that your cash flow will only reflect the Product Company, and that your debt will be – your debt and cash will be reduced by the amount that goes with GLOBALFOUNDRIES?

<A – Thomas Seifert>: Well first, let me make one correction. I did not talk about a write-off. So we're in the process of valuation. This will have an impact. We have not determined what this impact is going to be.

<Q – Daniel Berenbaum>: Right. Apologize. I misspoke. Apologize.

<A – Thomas Seifert>: That's what [inaudible]. Yeah, but it's important to correct that.

<Q – Daniel Berenbaum>: Yeah, absolutely.

<A – Thomas Seifert>: With all the other statements, you are correct. Moving forward, our cash flow, our balance sheet, the debt structure on our balance sheet, will reflect Product Company and Product Company only.

<Q – Daniel Berenbaum>: So now, is there going to be any debts, or – excuse me, any debt service or any cash that's – that you're responsible to GLOBALFOUNDRIES for would all just flow through the P&L through that one equity line. Is that correct?

<A – Thomas Seifert>: There will be no responsibilities.

<A – Dirk Meyer>: So the only cash connection, if you will, between GLOBALFOUNDRIES and AMD will be through the purchase and sale of wafers.

<Q – Daniel Berenbaum>: Okay. Great. That makes sense. And then, just on the share count, with the higher share count for the GAAP EPS, what's the interest add-back on that?

<A – Thomas Seifert>: IR will come back to you on that.

<Q – Daniel Berenbaum>: Okay, great. Thanks very much.

Operator: Okay, and we'll take our final question, coming from Adam Benjamin from Jefferies.

<Q – Adam Benjamin>: Thanks, guys. Just a couple clarifications. First, you indicated you think you can gain some share on the notebook side in 2010. Do you mind just digging into that a little bit more? Is that with the thin-and-light strategy, verse the CULV, and kind of fitting in that niche above the netbooks but below the CLUV? Can you talk a little bit about that?

<A – Dirk Meyer>: I'll just say, we're – we see the opportunity to grow share generally in notebooks, for the reason I said. We're comparatively underpenetrated in that broad category of products. So that means traditional mainstream notebooks, as well as the ultra-portable category that we created with the Congo platform. And finally, we do have components showing up in netbook-sized form factors today from some of our customers. So the answer is yes across all those categories.

<Q – Adam Benjamin>: Okay. Any one in particular you'd like to call out?

<A – Dirk Meyer>: No, I think the broad category represents an opportunity for us.

<Q – Adam Benjamin>: Okay. And then on ASPs, you mentioned that you thought ASPs would be flattish. I was just looking to clarify. Is that on a blended basis across all your CPUs? Or could you give a little bit more granularity by desktop, notebook, and server?

<A – Thomas Seifert>: [inaudible]

<A – Dirk Meyer>: No, I was really talking about the whole MPU portfolio and really don't want to get more granular than that.

<Q – Adam Benjamin>: Could you just give directionally, then?

<A – Dirk Meyer>: Again directionally, we're thinking flat across the – average across the whole portfolio.

<Q – Adam Benjamin>: Got you. All right, that's all I have, guys. Thanks.

<A – Dirk Meyer>: Thank you.

Ruth Cotter, Investor Relations

Okay, we'd like to thank everybody for participating in this earnings call, and we look forward to talking to you again next quarter, and this concludes AMD's fourth quarter earnings call. Thank you.

Operator: Okay, ladies and gentlemen, this does conclude your conference for today. Everyone have a great day. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey and I'll be your conference operator for today. At this time, I would like to welcome everyone to AMD's Third Quarter 2009 Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Director of Investor Relations

Thank you, and welcome to AMD's third quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO, and Bob Rivet, our Chief Operations and Administrative Officer. This is a live call and will be replayed via webcast on AMD.com. There will also be a telephone replay. The replay number is 888-258-7854. Outside of the United States, the number is 703-925-2490. The access code for both is 1397389. The telephone replay will be available for the next ten days, starting later this evening.

I would like to take this opportunity to remind everyone that AMD will hold its Financial Analyst Day on November the 11th at its headquarters in Sunnyvale, California. I would also like to bring to your attention that our Q4 2009 earnings quiet time will begin at the close of business, on Friday, December the 11th.

References to AMD on this earnings call refer to AMD Product Company, which refers to the operating results of AMD, excluding our Foundry segment and Intersegment eliminations. We provide a reconciliation of AMD Product Company to AMD consolidated operating results which are reported for GAAP purposes in today's earnings press release issued earlier this afternoon.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to review our filings with the SEC where we review the risk factors setting forth information that could cause actual results to differ materially from our expectations. You will find detailed discussions about such risk factors in our most recent SEC filing, AMD's quarterly earnings report on Form 10-Q for the quarter ended June 27, 2009.

With that, I'd like to turn the call over to Dirk. Dirk?

Dirk Meyer, President and Chief Executive Officer

Thanks, Ruth. And thanks to everybody on the phone for joining us today. Before we begin, I'd like to introduce the newest member of our management team, Mr. Thomas Seifert, who is taking over the CFO role. Thomas, welcome aboard.

Thomas Seifert, Senior Vice President and Chief Financial Officer

Thank you, Dirk. I'm excited to be here, and I look forward to getting to work with all of you out there in the years ahead, beginning with our upcoming Financial Analyst Day in November.

Dirk Meyer, President and Chief Executive Officer

And so, again welcome, Thomas, and I also want to thank Bob for your steady hand in this arena over the past nine years. I know you're really looking forward to having 100% focus on your new role as Chief Operations and Administrative Officer.

Turning now to the business. Third quarter consumer PC demand continued to improve from prior periods, with particular strength in notebooks and in China, and continued recovery in Europe and North America. And, it appears the commercial IT markets are positioned to improve next year. We experienced very strong global demand for our discrete graphics offerings, particularly in the notebook sector, as consumers continue to value a graphics-rich PC experience.

And, I'm really encouraged by our financial performance in the quarter. We grew revenues by 18% sequentially. We improved our gross margins through a continued transition to 45-nanometer CPUs, increased factory utilization, and higher CPU ASPs. And we controlled expenses very well, reducing OpEx by 9%. And most importantly, AMD The Product Company put a positive number on the bottom line.

Meanwhile, we delivered on each of the three key pillars of our differentiation: platforms, discrete graphics leadership, and marketing focused on real-world end-user needs. With respect to platforms, our momentum continues to build with HP, Acer, Toshiba, Systec, and MSI all announcing plans to introduce more than 70 notebooks based on AMD's latest generation of mainstream and ultrathin platforms.

In servers, HP, IBM, and Dell are all using our new Six-Core AMD Opteron processors to meet the growing demand for energy efficient and high density server platforms. We now offer 15 full-featured low and very low power options for cloud computing deployments and hyperscale datacenters.

Our graphics business continues to gain momentum as we added to our industry-leading discrete graphics portfolio. The Radeon HD 5870 captured the graphics performance title, winning greater than 50 industry awards up to this point. The Radeon HD 5000 family is the first in the industry designed to take advantage of Microsoft's next generation DirectX 11 technology. We believe this new offering is uniquely well positioned to take advantage of Microsoft's Windows 7 upcoming rollout. And, the HD 5000 family also supports our widely acclaimed Eyefinity multi-display technology, allowing a single PC to drive up to six high-def monitors.

In marketing, we launched a pair of important new programs in the quarter: VISION Technology from AMD and the AMD Fusion Partner Program. The Fusion Partner Program will help AMD's channel partners gain sales traction and streamline the delivery of AMD platforms into the channel. And, with our new VISION campaign, we introduced a new approach to retail merchandising, simplifying the consumer buying experience by highlighting what can be done with a PC, rather than simply what's inside the PC. Industry response to the program has been very positive indeed. Both of these new programs are designed to demonstrate and reinforce the unique value proposition of an all-AMD platform.

On the manufacturing front, we joined with GLOBALFOUNDRIES to break ground on Fab 2 in New York, a state-of-the-art semiconductor manufacturing facility that will provide additional leading-edge manufacturing capacity when the facility enters production, which is scheduled for 2012.

In summary, the AMD value proposition continues to resonate across segments, product lines, and geographies. Our new products are strong, and in the case of our graphics offering, absolutely stunning. Our marketing programs are focused on the things that demonstrate our differentiation:

Graphics leadership, balanced platforms, and performance-per-watt superiority. Our customers tell me they like what we're delivering today, as well as what they see coming in the future.

Going forward, we believe we are well positioned to succeed. We are focused on the biggest and most opportunity-rich market for our technology: The PC market. Our product momentum is increasing. We are winning confidence and enthusiasm from our world-class customers. And we will continue to carefully manage costs, increasing operating efficiencies, and improve our financial performance.

With that, over to you, Bob.

Robert J. Rivet, Executive Vice President and Chief Operations and Administrative Officer

Thank you, Dirk, and welcome, Thomas.

In the fourth quarter of last year, we outlined a break-even business model for AMD The Product Company that was both sized to the new market reality and optimized for agility and flexibility. And in the past quarter, we demonstrated we are there, on the top-line and in our cost structure, achieving profitability in each of our core businesses.

Meanwhile, our partner ATIC reinforced their strategic commitment to the GLOBALFOUNDRIES investment opportunity by choosing to fully fund their first capital call, which took place during the past quarter. In short, we hit all the major milestones in the quarter.

Third party – third quarter revenue was $1.396 billion, growing 18% compared to the second quarter of 2009. Compared to the third quarter of last year, revenue declined 22%. However, excluding the $191 million process technology license revenue, revenue declined 13% on a non-GAAP basis.

AMD Product Company reported a non-GAAP net income of $2 million in the third quarter 2009, which excludes a net favorable impact of $54 million, primarily from a $66 million gain from the repurchase of debt. Third quarter non-GAAP operating income was $47 million, which excludes the impact of unusual items, as described in the press release.

We made very good progress on gross margin in the third quarter, a result of higher unit volumes across the entire portfolio, a stronger mix of 45-nanometer CPUs, higher microprocessor ASPs, and improved factory utilization rates. As a result, third quarter non-GAAP gross margin improved to 38%, compared to 27% in the prior quarter.

You may remember our break-even model is predicated on SG&A of $200 million and R&D of $300 million per quarter. We met and exceeded both targets in the third quarter, reducing SG&A spending to $195 million and R&D to $285 million. As a result of our operating discipline, we saw our adjusted EBITDA improve significantly over the second quarter, to $214 million in the third quarter.

Switching to the business segments, we are pleased to report that both of our computing solutions and graphic business were profitable in the third quarter, each reporting sequential double-digit revenue growth. We were encouraged by our demand for our products and the growth of our business with OEM and channel partners, particularly in Europe and greater China.

Computing Solution revenue was $1.069 billion in the third quarter, up 17% sequentially, driven by higher microprocessor ASPs and double-digit unit growth. Unit growth was mainly driven by notebook processor shipments, which increased by 28% quarter-over-quarter. We saw revenue and unit growth at each of our desktop, notebook, and server businesses, and saw a record quarter in our chipset business. Operating income for the Computing Solution group was $76 million, a significant increase over a loss of $72 million in the second quarter.

In the Graphics segment, revenue for the quarter was $306 million, up 22% sequentially. Growth was driven by significantly higher shipments of mobile discrete graphic processors. Demand in the add-in board and retail channels was spurred by the launch of the Radeon HD 5000 series, the industry's first DX11 compatible graphics cards. And the graphics business also reported an operating income of $8 million for the quarter, an improvement from a loss of 12 million from the second quarter.

Now turning to the AMD Product Company's balance sheet, our cash and marketable security balance at the end of the quarter was $1.5 billion. We used $104 million to repurchase $186 million of principal amount of debt. Excluding this retirement of debt, cash was flat quarter-on-quarter. Since this time last year, we have retired a total of $419 million of outstanding convertible notes.

As I mentioned a moment ago, it's worth noting that GLOBALFOUNDRIES had its first capital call in July for $260 million. AMD declined to participate in this funding.

Now let me turn to the outlook. The following statements concerning AMD The Product Company are forward-looking and the actual results could differ materially from current expectations.

For the fourth quarter, AMD expects revenue to be up modestly. We expect operating expenses to be approximately $500 million, in line with the break-even model, and capital expenditure guidance remains unchanged at approximately $100 million for the year.

In conclusion, we executed well in the third quarter, reaching our break-even model and achieving profitability while we continued to improve our balance sheet. We believe we are now operating at a grounded and sustainable business model, the benefits of which will be amplified with a return to normal IT spending in the commercial sector. In the meantime, demands for our balanced platforms, discrete graphics, and chipsets offering should provide continued strong momentum as we go out the year.

At this point, let's go to Q&A with Ruth.

Ruth Cotter, Investor Relations

Thanks, Bob. We'll now move to our question-and-answer session, which Dirk and Bob will host. Huey, if you could please poll our participants for questions, that would be good. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you, ma'am. [Operator Instructions] First question comes from Doug Freedman from Broadpoint [Broadpoint Gleacher Securities]. Your question, please.

<Q – Doug Freedman>: Great, guys, thanks for taking my question. If I could start off with – I think the language we understand is "seasonality." If you could help us understand where "moderately" fits in with "seasonality" on the top-line guidance?

<A – Dirk Meyer>: Sure, Doug. Our view is that the seasonal increases, Q3 to Q4, average around 9%, and are 6 or 7% on the low side. Given the big build we've seen in PCs in anticipation of the Win 7 launch, we're really wanting to see the consumption side of that build happen in Q4, and therefore, at this point, we're calling a moderate, which is a little bit less bullish than average seasonality, I would say.

<Q – Doug Freedman>: All right, terrific, thanks for that color. Can you talk a little bit about what are they – going to be the give-and-takes on the gross margin? And if you wouldn't mind, in the process of doing that, maybe rank for us sort of the gross margin contribution differences between GPU, notebook, and desktop platforms? Maybe lastly, fit server in there? What your – what our expectation and outlook should sort of be on the gross margin line and how are you guys going to balance, say, gross margins with possible share gains, or potential opportunities for share gains?

<A – Dirk Meyer>: Sure. The first clarifying point, your question about the product-by-product breakdown is directional? Meaning Q2 to Q3, what were the moving parts?

<Q – Doug Freedman>: Q – I'm looking – more helpful, Q3 going to Q4.

<A – Dirk Meyer>: Okay. Well, standing back, and first of all, the Q2 to Q3 improvement was driven by the three factors that we'd been talking about, and talked about on last call. Number one was increased mix of 45-nanometer CPUs. Number two, factory utilization. Number three, ASPs. We certainly got the opportunity to drive forward-looking improvement based on the first of those, going from Q3 to Q4. We're not done completely with the 45-nanometer transition on a sales-out basis. As well, we'll drive slightly higher utilization rates in Q4 as compared to Q3.

ASPs of course are always a wild card, but we feel good about some of the new products that we introduced, both on the GPU side, as well, the CPU side, with the new notebook programs that are hitting the market.

You asked also about how we think about gross margin playing off against market share, and there, we're going to approach the market the way we always have, which is aimed at maximizing gross margin dollar accumulation over the course of the quarter.

<Q – Doug Freedman>: [inaudible]

<A – Robert Rivet>: And this is Bob, and I'd just – would amplify. In particular, since we still have a lot of capacities in our factories to take advantage of upside unit opportunities, obviously we'll do the appropriate math on each of those opportunities, as Dirk said, but we have definitely room to ship more units.

<Q – Doug Freedman>: Can you offer us some sort of a timeline as well on separation and de-consolidation between AMD The Product Company and GLOBALFOUNDRIES and what milestones we might measure along that path?

<A – Robert Rivet>: Yeah, if we circle back, we've had this conversation before, so I'll remind you. It's really this simple. The biggest milestone will be third party revenue by GLOBALFOUNDRIES. It will – from that perspective, and they have a ways to go before that'll happen. But it's really the appropriate magnitude of third party revenue, so it's not a related-party transaction just between GLOBALFOUNDRIES and AMD. There are other accounting things that will have to happen, but that's the single biggest thing that I would say would be the fencepost that needs to be out there and measured over time.

<Q – Doug Freedman>: Terrific, and congratulations on the profitable quarter.

<A – Robert Rivet>: Thanks.

<A – Dirk Meyer>: Thank you.

Operator: Thank you, sir. Our next question comes from Ross Seymore with Deutsche Bank. Your question, please.

<Q – Ross Seymore>: Hi guys. Just wanted to get a little more color on the ASP trends that you highlighted in the quarter, both within CPUs and GPUs. Just – what drove those between the various metrics? Mix, apples-to-apples pricing, et cetera?

<A – Dirk Meyer>: Sure. First, on the CPU side, the biggest driver was on the desktop part of the product line, largely driven by mix improvement. A relatively larger mix of both Phenom II and Athlon II products helped there. Notebooks, largely flat. Server ASPs were actually up a bit in the quarter, although the overall server revenue grew more or less in line with MPU revenue.

On the GPU side, as we said I think in the press release, ASPs were down just a bit quarter-on-quarter.

<Q – Ross Seymore>: What would – I would be – I would have thought, with some of the new products that you had on the GPU side, that that would've helped blend up ASPs. Is it just that they didn't have a chance to get to be a meaningful part of the mix to impact overall ASPs?

<A – Dirk Meyer>: Yeah, exactly right. The 5000 series in particular really didn't contribute meaningfully in the Q3 timeframe.

<Q – Ross Seymore>: So when you think about it going forward, I know it's always hard to talk about ASPs in the future, but just from the mix component in GPUs, would you expect that to have a positive impact as you go into the fourth quarter?

<A – Dirk Meyer>: Clearly an opportunity, yes.

<Q – Ross Seymore>: And then, a follow-on question, completely different topic. Just from an SOI technology point of view, and with your new marketing program with Fusion, et cetera, how should we think about going from SOI to bulk CMOS, from a timing perspective, if at all?

<A – Dirk Meyer>: Yeah, it's a good question, and we'll put a little bit more light on this in the Analyst Call. Course, the CPU products are on 45-nanometer SOI today. We'll have a CPU so-called Fusion parts on 32-nanometer SOI in the next generation, and then the bulk SOI question is one we evaluate in every subsequent generation. More to come in the Analyst Conference.

<Q – Ross Seymore>: Okay, great. Thank you.

Operator: Thank you, sir. Our next question comes from Chris Danely with JPMorgan. Your question please.

<Q – Christopher Danely>: Hey. Thanks, guys. Real quick, Bob, just follow up on Dougie's question. Can you give us a revenue number, or a level, for the GLOBALFOUNDRIES business?

And does that include the charter revenue, or is it just GLOBALFOUNDRIES revenue, for when you can start to spin it out?

<A – Robert Rivet>: It's just GLOBALFOUNDRIES revenue, and that's a little bit of – I'll call it "the mystery" of how big that number has to be. But it has to be a respectable portion of what GLOBALFOUNDRIES would report. So I'd say, it's got to probably be above 10, 15%, and it would be helpful if it's more than just one additional customer. So it's got to be a meaningful number. It can't just be a million bucks. It's got to be bigger number than that.

<Q – Christopher Danely>: Sure. And then Dirk, any plans for a netbook processor offering?

<A – Dirk Meyer>: Yeah, netbook is a little bit of a nebulous term. We actually have customers who have – I'll call it netbook-like offerings based on our components out there today, meaning screen sizes down below 12 inches. And we continue to work with our customers to enable – I'll say small, thin, and light form factors. You'll hear more in the Financial Analyst Conference next month about the product lineup that we'll be rolling out over the course of the next two years, which will include increasing focus on those small form-factor notebooks.

<Q – Christopher Danely>: Okay, great. And for my last question, you mentioned a little bit of a build for Win 7 out there, kind of goes against what some of your competitors are saying. Can you just shed a little more color on that, maybe give some clarity as to the magnitude, and where the product is?

<A – Dirk Meyer>: Yeah, that's a good question. I didn't mean to convey necessarily inventory builds in the channels. Rather, simply a lot of PCs have been built. We're not hearing at this point about any unnatural pile-up of inventory. But nonetheless, there is a lot of consumption that still has to happen in Q4 before we can say we're really entering a normal seasonal selling cycle on Q4 in preparation for first half next year PC consumption.

<Q – Christopher Danely>: Great. Thanks a lot.

<A – Dirk Meyer>: Sure.

Operator: Thank you, sir. Our next question comes from Glen Yeung with Citi. Please go ahead.

<Q – Glen Yeung>: Thanks. Can you just give us a sense, looking into the fourth quarter, whether or not you think graphics or your microprocessor business will grow faster?

<A – Robert Rivet>: If you kind of, again, go back – let's just talk about seasonality in general and then get into specifics. But in typical seasonality mode, microprocessors lead. They have the strongest growth rate from third to fourth. The big quarter for graphics is the third.

Now, as Dirk kind of outlined, we're not sure we're exactly normal yet. I would say that trends – I would – so therefore – but we don't think that'll break the trends in the fourth quarter. We expect CPU revenues to be stronger than GPU between the two pieces.

<Q – Glen Yeung>: Okay, makes sense. And then, you mentioned that you're starting to see Europe get a little bit better here, and that's actually been a region that you've done relatively well in. Do you think that, as Europe comes back, given the product portfolio that you have, that you can continue to show good growth as you maintain or even gain share in that market?

<A – Dirk Meyer>: Yeah. I would say – and Europe is fairly an important market for us, one, because we have had relatively good share in that region over the years, and number two, it tends to be a relatively high attach rate region for discrete GPUs, which is also important for us. So, as

Europe comes back, that's going to help us differentially. In particular, Eastern Europe happens to be a very rich discrete graphics market.

<Q – Glen Yeung>: Okay. And then last one for me, Dirk, maybe for you. If you could just give us some examples of where you're gaining traction in – with Congo and with Istanbul? What kind of business we might expect to see?

And then maybe add to that, what the OEMs are telling you about those products? Are they coming to you because they're greater products, or are they coming to you because they feel like they – you need to gain some more share here? What's driving them towards your product at this point?

<A – Dirk Meyer>: Good question, and I would say both. I mean clearly, all of our customers want two strong suppliers in their supply base. And that's a positive factor for us. But as well, our products are darn good products. In particular, Istanbul is doing well in an area that's been one of historic strength for us, namely four and eight socket servers. The other area where we're seeing a lot of opportunity alongside our OEMs is in high-density datacenter installations, where our EE and HE Opteron parts in the Six-Core variety are really darn good.

On the Congo, or in the second-generation thin-and-light platform, we've got a number of design wins, as I spoke to in the opening remarks. I expect to see a lot more momentum in that – essentially new product category that we created between netbooks and mainstream notebooks, going into the Christmas cycle. We created that category really in partnership with HP. We only had one platform in the market together, it was the HP dv2. It did well relative to our expectations, but we'll have a much broader assortment of platforms walking into the Christmas cycle and I expect we'll see increased momentum as a result.

<Q – Glen Yeung>: That's great. Good job, you guys.

<A – Robert Rivet>: Thanks.

<A – Dirk Meyer>: Thank you.

Operator: Thank you, sir. Our next question comes from David Wong with Wells Fargo.

<Q – David Wong>: Thank you very much. Can you give us some idea of how – what Istanbul was as a percentage of server chips in the third quarter and what you expect for the fourth quarter?

And did you see growth with – was growth higher in four-way server processors than four-way server processors in September?

<A – Dirk Meyer>: Sure. High level, the Six-Core stuff was about a third of our server mix overall. And I would call the growth of our two- and four-socket platforms to be first order similar.

<Q – David Wong>: Thanks so much.

Operator: Thank you, sir. Our next question comes from JoAnne Feeney with FTN Equity Capital. Please go ahead.

<Q – JoAnne Feeney>: Hi. Good afternoon, folks, and congrats on a very nice quarter.

<A – Robert Rivet>: Thank you.

<Q – JoAnne Feeney>: I'd like some more clarity, if you would, on the notebook side, that – the strength there is a little bit of a surprise, given that you aren't launching Tigris until this quarter. So if you could clarify, that was a – that did not include any sales of Tigris, correct? And if you could explain sort of where that strength came from, I think that'd be a great help.

<A – Dirk Meyer>: Sure, JoAnne. Actually we did start selling Tigris components into OEMs at the very end of the quarter, to prepare them for their builds for the Christmas cycle. But to your point, most of the sales was on the prior generation Puma platform, where we just saw a very strong back-to-school cycle. So, as a result, and a good notebook sales in the quarter.

<Q – JoAnne Feeney>: Well that's terrific news. And then if I could, a follow-up on the graphics side. What do you see, as we transition over to your newer product, the 5000 series, what do you see as your gross margin potential in that segment? And how does that evolve over the next several quarters, as you move from OEM sales to add-in board sales?

<A – Robert Rivet>: Think about it this way, JoAnne, is – in the graphics business, the zone, the ZIP code you want to be in is in the 35 to 45% gross margin level. We're not in that model right now. We believe – the execution we've had in the 5000 series will help us push toward closer to the model, AT least break in from the lower level. So it's moving in that – in the appropriate direction.

<A – Dirk Meyer>: And then -

<Q – JoAnne Feeney>: Do you feel like, as prices are set for these new products, where you can get there, once those take over your offerings? Or is it another generation that we should expect to wait before that really happens?

<A – Dirk Meyer>: It's hard to be that clairvoyant, JoAnne. I'll give you a few factors to watch. One is, we have been doing extremely well on the current series with our OEM customers in notebook and desktop. The big opportunity is for us to further increase our share in the so-called AIB channel, and in particular, drive high-end GPU business in that channel. We feel really bullish about the 5000 series as we walk into Q4 and obviously next year.

The next big opportunity for us is in workstation graphics, which we've spoken to in the past. There, the rate of penetration is going to be naturally slower, since that's an enterprise market and it takes us time to get the ISP certifications, ISP co-marketing programs going, and so on. So I think you're looking at a couple of years' story to really get all the way into the zone that Bob described.

<Q – JoAnne Feeney>: Okay. And then, just one follow-up that – on someone else's question about the budget thin-and-light. Do you have a sense of what share of your fourth quarter notebook shipments that might be able to achieve?

<A – Dirk Meyer>: Well less than half.

<Q – JoAnne Feeney>: For the Congo platform?

<A – Dirk Meyer>: Sure. Well less than half.

<Q – JoAnne Feeney>: Okay. And more than 10%?

<A – Dirk Meyer>: Yes.

<Q – JoAnne Feeney>: Okay, great. Thanks a lot.

<A – Robert Rivet>: Thank you.

Operator: Thank you, ma'am. Our next question comes from Tim Luke with Barclays Capital. Please go ahead.

<Q – Tim Luke>: Thanks so much. Couple of quick clarifications, if I may. It – was it correct to infer that you were suggesting that your graphics and microprocessors might grow at fairly similar rates in the quarter? In the fourth quarter, Bob?

<A – Robert Rivet>: No, Tim, I was the other way around. CPUs will grow faster than GPUs.

<Q – Tim Luke>: Even though you have the new product in the GPU area?

<A – Dirk Meyer>: I would love them to be equal, but that's how I'd handicap it right now.

<Q – Tim Luke>: Okay. And just to be clear on what Dirk was inferring earlier, he was saying that six to seven is sort of lower end of the norm, and that's largely what you're thinking? Or you think it's going to be a bit below the six to seven?

<A – Robert Rivet>: No, I think what Dirk said – I mean, what Dirk said is, the average is around nine. This is probably below that – below the average, so I'd call it more in the six, seven range.

<Q – Tim Luke>: All right.

<A – Robert Rivet>: Five to seven.

<Q – Tim Luke>: That's very helpful. And just on the gross margins, with all the things that Dirk was outlining, on volume, utilization, ASP, you would then think – 200 basis points plus of improvement may be achievable?

<A – Robert Rivet>: I'm not going to give that level of granularity, but as Dirk outlined – as we outlined in the current quarter and we outlined, those are the same factors that we'll continue to make – we'll make progress on in the current quarter. Nowhere near the level of improvement we made from second to third -

<Q – Tim Luke>: Sure.

<A – Robert Rivet>: – but we will make progress.

<Q – Tim Luke>: And there were some stories about Congo moving from the beginning of the quarter to maybe middle of November. Can you just clarify when you would expect to see that launch? And then also, Bob, if you have any sort of over – any commentaries on the legal backdrop and what we should anticipate in terms of the next three to six months, that would be helpful, too.

<A – Dirk Meyer>: Yeah, on Congo, we haven't had any change to our original plans. So I don't know where those stories came from.

<Q – Tim Luke>: What is that – the plan, Dirk, just to clarify?

<A – Dirk Meyer>: You'll see Congo notebooks out of the normal Christmas cycle.

<A – Robert Rivet>: Yeah. Post-October 22.

<Q – Tim Luke>: Legal, then?

<A – Robert Rivet>: Legal, nothing to report from that perspective, so – we'll just leave it at that. We continue to work down the right path. Trial is scheduled for the end of March.

<**Q – Tim Luke**>**:** And then you – Dirk, you said, SOI for 32, below that, that's when you could start moving to bulk? For the microprocessors -

<**A – Dirk Meyer**>**:** No -

<**Q – Tim Luke**>**:** – for low power?

<**A – Dirk Meyer**>**:** – no. What I meant to convey, Tim, is that in the generations beyond 32, we evaluate the technology choices, as we do in every generation, and we'll give you some more granularity on all of this next month.

<**Q – Tim Luke**>**:** Very good. Thank you, guys. Good. Good. Excellent.

Operator: Thank you, Tim. Our next question comes from John Pitzer from Credit Suisse. Please go ahead.

<**Q – John Pitzer**>**:** Hey, guys. Thanks for taking my question. Congratulations. Dirk, to the extent that a lot of us here on Wall Street are looking forward to the corporate replacement cycle next year, can you just help me understand a little bit better what you've been doing sort of in the corporate client market that might better position yourselves there as that spigot gets turned back on?

<**A – Dirk Meyer**>**:** Sure. Our – when you say corporate client, you're probably referring to the kind of a classic corporate enterprise market, big business -

<**Q – John Pitzer**>**:** Exactly.

<**A – Dirk Meyer**>**:** – a thousand users and above. We've got two principal – I'll say, or maybe three access points into that market. One is clearly our Opteron business, which is and enterprise-class server offering. Next would be through enterprise deployments of what are otherwise more like commercial SMB-type platforms, which actually does occur more than you might think. A lot of enterprises actually don't buy all of the manageability features that are burdened on these enterprise-class platforms. So we do participate in bid – enterprise bid business with our OEMs on SMB platforms that we have. And finally would be our workstation graphics business, which is clearly an enterprise focus.

<**Q – John Pitzer**>**:** And suffice it to say, Dirk, that you think that, with some of the recent successes, you're better positioned for this round of PC refresh than you were for the prior?

<**A – Dirk Meyer**>**:** I would just say, well positioned. To the extent that the commercial IT sector starts to regain strength, that's going to help us.

<**Q – John Pitzer**>**:** And then, Bob, I think you said that the AMD design CapEx for the year's still staying at 100 million. Can you help me understand what GLOBALFOUNDRIES' budget is? And I guess, as you talk about SOI versus bulk, as you guys make your way to 32, just remind me the timeline. And is 100% of the GLOBALFOUNDRIES CapEx at 32 going just to support you guys? Or will they also be kind of trying to work on bulk silicon at 32 as well for potential customers down the road?

<**A – Robert Rivet**>**:** Let me dissect a few of the questions. First on the capital number, the GLOBALFOUNDRIES capital number for this year is approximately 550 million. AMD The Product Company is 100 million. So 650 AMD consolidated, but those are the two pieces of that.

The capital spend they're spending right now, I'll call it – think of it in a couple buckets. Bucket one is to serve AMD's needs on additional capacities in 45-nanometer tools, 32-nanometer tools, and technology development for 22-nanometer. So the tools associated with AMD's needs to service the microprocessor business.

The second bucket is, they're trying to get into the foundry business. And so, they're putting in bulk capabilities at 32-nanometer and below technology nodes, so that they can service other people in the industry in the foundry business. They'll talk a lot more about that, again, at the November 11 conference.

So those are the two buckets. And then the third bucket is just an early bucket, is breaking ground and building a building and those kind of things in New York. But those are really the three buckets of the capital spend this year, and probably the same story with the capital spend for next year.

<Q – John Pitzer>: And Bob -

<A – Robert Rivet>: The bucket's changing as time goes on.

<Q – John Pitzer>: And just, relative to the 32-nanometer ramp for the microprocessor business, that's still on schedule for first half next year?

<A – Dirk Meyer>: We'll be sampling customers in the first half and ramping production in the second half.

<Q – John Pitzer>: Perfect. Thanks, guys.

Operator: Thank you, sir. Our next question comes from Patrick Wang from Wedbush. Please go ahead.

<Q – Patrick Wang>: Hey guys. Just a couple questions. First, can you talk about how your 65-nanometer and 45-nanometer mix shifted last quarter and how that's expected to change in the next?

<A – Dirk Meyer>: Yeah -

<A – Robert Rivet>: Well we've – I'd kind of characterize it this way. We went from the majority of the shipments in the third quarter being 65-nanometer, to much more balance in this quarter, to driving to much more significant 45-nanometer from fourth quarter and beyond. And then 32-nanometer, as Dirk said, in the second half of 2010, from that perspective of the manufacturing run-rates that we'll put into the factories.

<Q – Patrick Wang>: Gotcha. And that's something that supposed to be a nice margin driver. Is there any way you can help us kind of maybe frame the impact there?

<A – Robert Rivet>: No, it's pretty hard, because it's – to be honest, it's fairly complex at the platform level and at the different CPU level. But clearly, 45-nanometer gives you both performance and a smaller die size, and if ASPs are constant, that's a better thing, but we actually like to get a pick-up of a little bit better ASP, new product, and a smaller die size.

<Q – Patrick Wang>: Got you, that's helpful. And then second, I guess maybe, Dirk, I was hoping you could talk a little bit more about graphics. Given that you feel that CPU grows faster than GPU next quarter, could you give us a feeler of what you think overall graphics demand is going to be over the next couple quarters? And then maybe follow up with perhaps how you shape up competitively, given what we know about your competition out there today? Thanks.

<A – Dirk Meyer>: Yeah. Well first of all, on the competitive front, we're feeling pretty good about the HD 5000 lineup. First of all, you can buy it today, which is a good step above what the competition recently announced. In terms of performance and features, it's absolutely killer. We think it's going to line up very well with the Windows 7 launch here this month. We're getting really enthusiastic response from our customers, as measured by OEM design-ins. So I think – very bullish on that.

The graphics market overall we're also feeling pretty good about. We're starting to get some anecdotal input from our customers that discrete GPU attach rates on OEM systems are actually increasing a little bit, even in notebooks, which may surprise some.

So, overall, I see a pretty robust market for graphics, one that we love to participate in, because it drives important technology across our platform.

<Q – Patrick Wang>: Okay, thanks so much, and congrats on a great quarter.

<A – Dirk Meyer>: Thank you.

<A – Robert Rivet>: Thank you.

Operator: Thank you, sir. Our next question comes from Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello>: Good afternoon, guys. Thanks so much for taking the question. Kind of a little bit of a strategic, longer-term oriented question, in that I'm trying to figure out how much of GLOBALFOUNDRIES' capacity do you need to be in the long run to continue to be able to dictate their product roadmap?

<A – Dirk Meyer>: Yeah, I understand the question. We are GLOBALFOUNDRIES' only customer today, and in even the most widely successful scenarios for GLOBALFOUNDRIES, we still are a big, important strategic customer for GLOBALFOUNDRIES, particularly given that we will procure technology and wafers at the leading edge. So part of the relationship here is that, by virtue of us driving so much volume at the leading edge, they're going to be highly motivated, and I tell you, they are highly motivated to tune their offering to the needs of our products.

<Q – James Covello>: For sure, but I mean ultimately, they're planning on being a leading global foundry along the lines of a TSM or something along those lines, and again, I just wonder, is there any percentage in your mind, three to five years out, that you think you need to represent of their capacity in order to continue to have the kind of close dialogue on the roadmap?

<A – Dirk Meyer>: No, I would say that, given the amount of silicon that we procure, I expect we're going to have their attention for a long time, not only because of the contractual obligation that they have to our company, but because of the size of the business we represent. We actually enjoy that sort of relationship with TSMC today, given the size of our business with TSMC.

<Q – James Covello>: Great, okay. Thanks so much. Good luck.

<A – Dirk Meyer>: Thank you.

<A – Robert Rivet>: Thank you.

Operator: Thank you. Our next question comes from Uche Orji with UBS. Please go ahead.

<Q – Uche Orji>: Thanks very much. Let me just start by asking a little bit of a clarification again on the Win 7 comments with regard to the inventory build. The flipside of that of course will also imply that the Vista-based PC inventory currently is being drained. So, if you look across the channel, and I know you are talking about consumption in Q4 and all that, but will you say – I also know you clarified it as no alarming buildup of inventory but, implied in your comment, it sounds like you're worried somehow by the impact in the channels. So, I am just trying to get a bit more comfort as to how the interaction between Win 7 inventory build and Vista inventory drain, kind of sums into to your view of inventory channel? So please.

<A – Dirk Meyer>: Yeah. Good question. Again, I'll reiterate, we haven't heard or gotten any of the signals of alarm from either our customers or the channel checks that we routinely run downstream of our customers relative to inventory being anything but in good shape. With respect to this OS transition, industry insiders vacillate between being worried about an inventory build on the one hand, versus consumption stall, where people are waiting to buy the new operating system. As you know, Microsoft has been making available free upgrade coupons on the Vista machines today, and that's been helpful in making sure that those machines continue to sell. So, I haven't heard anything that causes me alarm. Rather, we're simply looking at a global world economy that still is not all that rough – all that robust by many measures, and on that basis, we're a little reluctant to call a return to normal seasonality at this point.

<Q – Uche Orji>: Okay. A different question -

<A – Robert Rivet>: I would actually add one comment, and just – I like to do what I call my Warren Buffett, which is walk into stores and pretend I'm a buyer. And, I'm sure every city is different, but there's hard to find a computer currently in the stores in Austin, Texas. So, I think the OEMs have done a very good job of bleeding down the inventories in anticipation of the Windows 7 launch later this month. So, we feel – I feel real comfortable that the supply chain is as tight as can be and it's prepped for the launch of these new products. And again, what I think we both don't know, Dirk and I, is what is the consumer appetite to buy new products? Is it in line with what the OEMs are building or not? We won't know until we see some of that data.

<Q – Uche Orji>: Sure, that sounds very – that's helpful. A different question. OpEx, you brought it below the target of $500 million for this quarter. As revenue starts to improve and you'll see at some point when bonuses will start getting accrued, how sustainable is this level of OpEx? Before you even answer that, on an ongoing basis, can you just help me understand what we should model for OpEx for Q4?

<A – Robert Rivet>: I'd answer it this way. We'll use the November Analyst Conference to talk about 2010.

<Q – Uche Orji>: Okay.

<A – Robert Rivet>: But for the upcoming quarter, it will be in – approximately the shoe size of the $500 million.

<Q – Uche Orji>: Okay. And then, just one last question. Your ASPs are up, and we're in an environment where PC ASPs are down and most components have been up, DRAM is up, panels started to be weak a little bit recently. My sense is, somebody somewhere is getting squeezed, possibly the OEMs. But within that context, how sustainable do you think that the ASPs you have now for microprocessors will be, within the context of the declining ASP for the PC and other components being fairly strong?

<A – Dirk Meyer>: Yeah. It's a good question, and you really have to kind of pick apart the component pieces. The biggest opportunity that we have to preserve and increase ASPs is to sell our platform offerings into what I'll call a richer mix of PCs, that is, higher-priced PCs. If you look at the overall distribution of PCs – PC price points across the market, we still got an opportunity to be better represented in higher PC price points. So that's point one.

Your point was really around, how much of the [inaudible] cost can the microprocessor or the GPU get over time in the face of decreasing ASP prices, and hence, costs over time. That's certainly a factor, but I think that factor is outweighed by the fact that we're relatively underrepresented in – I'll call it mainstream and performance PC price points in the market.

<Q – Uche Orji>: All right. That's helpful. Do you think that you gained share in graphics this quarter? I know it's too early to tell, but do you think you gained share in GPU?

<A – Dirk Meyer>: I think it's too early to tell -

<Q – Uche Orji>: Okay.

<A – Dirk Meyer>: – to your point.

<Q – Uche Orji>: All right, great. Thank you very much.

Operator: Thank you, sir. Our next question comes from David Wu with GC Research. Please go ahead.

<Q – David Wu>: Yes, good afternoon. Just two point of clarification. The first one is, if you're going to stay on SOI for Fusion on your next generation, I guess we're talking about multi-chip packaging with GPU on CMOS and CPU on SOI. Would it affect your performance on a combined – a combo chip like that, versus pure silicon bulk CMOS?

That's the first one. And I have a question about this – the thin-and-light. I think the retailers are pushing back on the premium pricing that Intel is trying to get on those ultra low voltage products. And I was wondering whether your thin-and-light Congo platform is aimed at the same niche? Or is it a little lower on the stack, in terms of when you talk about thin-and-light. Are we talking about the same comparables?

<A – Dirk Meyer>: Good questions. So first, no, our first Fusion parts will be monolithic integration, single diode consisting of CPU and GPU technology. Question about our ultra thin-and-light offering. We think it's positioned at the right point in the market, squarely between netbooks on the low end and mainstream notebooks on the high end. And, to your point, from what we've seen so far, the Intel-based offerings are not appropriately priced or positioned. So we think we've got a good opportunity.

<Q – David Wu>: Okay. I assume that we're talking about 6 to $800 on the stuff that you talk about?

<A – Dirk Meyer>: We'll have offerings that are lower than that at the platform level.

<Q – David Wu>: Oh I see. Okay. Thank you.

<A – Dirk Meyer>: Sure.

Operator: Thank you, sir. Our next question comes from Kevin Cassidy with Thomas Weisel Partners. Please go ahead.

<Q – Kevin Cassidy>: Thanks for taking my question. Dirk, you had mentioned in your prepared remarks, you thought the IT market was positioned to improve. I wonder if you could expand on that a little bit?

<A – Dirk Meyer>: Sure. It's hard to put a number on it, but the tone of the conversations that we're having with CIOs and other IT decision makers around the industry has certainly changed in the last three months. Clearly, wallets are starting to free up even now a little bit, as people perhaps will actually spend the IT procurement budgets that they had at the beginning of the year.

And again, the tone of the conversation about what they're thinking in regards to overall IT spend in 2010 is certainly more bullish than it was. Yet to be realized yet, but where six months ago, people were thinking, maybe it's another down year in terms of their IT procurement. Not so. People seem to be thinking they might spend a little bit more money next year. So, time will tell.

<Q – Kevin Cassidy>: Okay. So you think there even could be a fourth quarter budget flush?

<A – Dirk Meyer>: Possible.

<Q – Kevin Cassidy>: All right. Thank you.

Operator: Thank you, sir. Our next question comes from Hans Mosesmann with Raymond James. Please go ahead.

<Q – Hans Mosesmann>: Thanks. Hey, Dirk, can you give us an update on 40-nanometer as it relates to graphics [inaudible] ramp with TSMC earlier in the year? Is that now behind you guys in the industry, you think?

<A – Dirk Meyer>: Yeah. Certainly TSMC has made good program with the 40-nanometer technology. At this point, our new HD 5000 family is wholly on 40-nanometer. And as is always the case with a hot new product early in the launch, we're hand to mouth on supply. I expect that situation to improve over the coming weeks and months.

<Q – Hans Mosesmann>: Great. And a follow-up, more of a – from a platform and strategic sense, that the Blue Team is about to engage in a – in the integration of a basically the northbridge and the microprocessor and the platform is going to change. Is there an opportunity for AMD during this transition, as they go through it, are there pros and cons of doing that kind of an approach, and when do you guys suspect you'll be doing the same?

<A – Dirk Meyer>: Well relative to the integration of the northbridge, we in effect did that when we introduced Opteron and Athlon 64, by virtue of integrating the memory controller. You may be referring to some of the upcoming products the other side has in regards to integrating GPUs in the CPU socket next year?

<Q – Hans Mosesmann>: Yeah, that's right.

<A – Dirk Meyer>: At the end of the day, customers don't buy integration, they buy features and performance. And I feel really good about our graphics technology as compared to anybody in the world, particularly the Blue Team that you're talking about. And I think the evolution towards – away from components and towards platforms, and the messaging consistent with that, is really in our long-term best interest, so I applaud it.

<Q – Hans Mosesmann>: Fair enough. Thank you.

<A – Ruth Cotter>: Operator? Next question, please.

Operator: Yes, ma'am.

<A – Ruth Cotter>: Operator, we're happy to take the next question. Thank you.

Operator: Sorry, I was having slight delay on my screen. Our next question comes from Alex Gauna from JMP Securities. Please go ahead.

<Q – Alex Gauna>: Thanks very much. I was wondering, you gave some clarification on how you see IT budget spend improving next year. Can you maybe talk about interest as it falls out around your 4-, 6-, 8-, and eventually 12-core, and maybe update us, to the extent you can, on the timing of some of these multi-core Magny-Cours releases?

<A – Dirk Meyer>: Sure. Headline is, no change from what we communicated back earlier this year. You'll see systems available from our OEM partners essentially very early in the year, Q1 timeframe. The interest from our customers as measured by design-ins I would say is good. The 12-core offering obviously has a lot of benefits in throughput, eliminated workflows of which there were many. The other area where I think we're going to get a lot of uptake is on the HPC part of the market, where bandwidth and flops in each socket is really important. And we're looking forward to updating you on some of the other elements around these platforms next month at the Analyst Conference.

<Q – Alex Gauna>: You mentioned HPC. I've had some of my own conversations with CIOs and I've sensed a lot of interest around virtualization in 12 cores. Is there any difference between some of your multi-core sockets in terms of virtualization interest?

<A – Dirk Meyer>: Well, I think to your point, that's another workload where our offerings will do very well.

<Q – Alex Gauna>: Okay. And you effectively ducked the question on market share. Am I reading that as, right now, you've had a very good quarter, Intel's had a very good quarter. To the best you're able to discern it, you would imagine your green competitor is also doing pretty well in this rising tide? Or is there something else in terms of mix going on that keeps you from speculating on share with all your 5800 success?

<A – Dirk Meyer>: Well, as I've said, with the new generation, really is going to be more impactful in Q4 than in Q3. And beyond that, rather than speculate, I'll just wait to look at the numbers.

<Q – Alex Gauna>: Okay. In terms of that impact in Q4, you also said you're expecting chip business to grow in excess of GPU. Is there are some older product lines that are falling down that are keeping that 5800 from driving outperformance?

<A – Dirk Meyer>: No, I think Bob is just reflecting on what is history, in terms of the CPU/GPU mix, and thinking out loud, as I agree, using history as a guide is reasonable. Clearly, we've got a lot of opportunity with the new family, but as I told you, we're also going to be a little bit hand-to-mouth on supply here in the early stages of Q4.

<Q – Alex Gauna>: Okay, thanks very much, and congratulations on the snap-back quarter.

<A – Dirk Meyer>: Thanks.

<A – Robert Rivet>: Thanks.

<A – Ruth Cotter>: Huey, we will take two more questions, please.

Operator: Yes, ma'am. Our next question comes from Craig Berger from FBR Capital. Please go ahead.

<Q – Craig Berger>: Hey, guys. Nice job, and thanks for taking my question. Can you just update us on your kind of Fusion plans, when – what might be the timing of that and any new developments on that front?

<A – Dirk Meyer>: Yes. First, no change from last public communications. We'll of course give a lot of in-depth information in the Analyst Conference next month. We'll be sampling Fusion technologies first half of next year and ramp them in the second half.

<Q – Craig Berger>: Can you talk a little bit about how much of the GLOBALFOUNDRIES joint venture do you guys own? What's your voting share? And what's the implication of either of those for a consolidation? I know you said it's other customers. And then also, as part of that, when does that STMicro start ramping? How big might they be next year?

<A – Dirk Meyer>: Our governance is 50%. We've got half the Board seats. Our equity ownership on a fully-diluted basis is sitting at about 32, 33%. Both of those factors, as well as, as Bob said, the share of third-party customer revenue from GLOBALFOUNDRIES altogether kind of define very loosely – a box that defines consolidating versus not.

And relative to STMicro, I'd like to defer that one until we have the Analyst Conference next month. Doug Grose will join us and provide that sort of color.

<Q – Craig Berger>: Last question. Until starting to ramp 32, you guys are getting deeper into 45, so it's about a one generation lag, maybe a little less, which seems to be wider than in recent history. Can you talk about kind of how you plan on closing the gap, or what the product or customer impacts might be there, as we look over the next few years? Thank you.

<A – Dirk Meyer>: Yeah. That's a good question, and it's a little – some of the numbers we throw around give, I think, the wrong impression. We actually started shipping 45-nanometer CPUs to our customers in Q4 of last year. And we started a pretty rapid ramp. Honestly, the economic crisis really delayed the rate at which we were able to transition our sales from 65 to 45, because obviously, we had a bunch of 65-nanometer inventory leaving last year that took us much longer to sell out into the market over the course of this year. So, the fact that we're still transitioning to 45 on an output basis is really misleading, relative to when we ramped.

Typically, we ramp and transition in two quarters. Because of the economy and the reason I said, it's taking us longer on an output basis to effect the transition. This time around, I'd expect, as I said, the ramp to start deep in the back half of next year, but for that ramp to be more typical – the transition to be more typical, like two quarters.

<Q – Craig Berger>: Thank you so much.

Operator: Thank you, sir. And our final question comes from Adam Benjamin with Jefferies. Please go ahead.

<Q – Adam Benjamin>: Thanks, guys. Just a couple follow-ups. Obviously on the Win 7, I think that's been an interest area of topic for a lot of people. First off, when did you guys transition over from Vista to Win 7 machines?

<A – Dirk Meyer>: Do you mean internal, in our IT house?

<Q – Adam Benjamin>: No, no. Just in terms of when you started shifting over in terms of shipping with machines that you're going to see for the October 22 release that will show up in stores with Win 7?

<A – Dirk Meyer>: Let me repeat. So you're asking when – in effect, when our OEM customers started to build machines that would be loaded with Win 7?

<Q – Adam Benjamin>: Correct.

<A – Dirk Meyer>: The longest lead time are typically the notebooks that are built in Asia and shipped on boats, so those builds probably started six weeks ago.

<Q – Adam Benjamin>: Okay. And I'm just trying to reconcile – I mean, you guys are trying to say, "Look, don't worry about it, we are guiding a little bit more conservatively because we think we may have built ahead for Win 7, as has been speculated by many", but you are looking for the sell-through. So I'm just trying to reconcile those comments. If you felt better about it, you obviously would have guided better. So, I'm just trying to better understand what you're thinking there in terms of actual Win 7 here.

<A – Dirk Meyer>: Well, again, we're guiding a little bit less bullish than typical seasonality because the economy's still got a bit of a ways to go to get back on its feet, number one. And number two, I personally – I don't see any much reason to signal anything stronger than we said. I'd rather beat our numbers.

<Q – Adam Benjamin>: Gotcha. And then just last question. Just in terms of – not necessarily your parts, but other parts out there, there's been talk of increasing lead times and potential cancellations and double ordering. In terms of what you're seeing, have you seen any constraints in stretching lead times out there for the PC market?

<A – Dirk Meyer>: Yes, phrasing your question, you're asking about areas where the supply chain is tight on components or lead times?

<Q – Adam Benjamin>: Exactly, where components – the lead times have stretched and potential double ordering has occurred.

<A – Dirk Meyer>: Yeah. I haven't seen any direct examples of double ordering, double booking yet. It's a good question. No question that, in our supply chain and using as an example across the foundry and outsourced assembly and test area, capacity utilization has increased dramatically over the past 90 days, and we are seeing lead time stretch out a little bit, and that's something our supply chain team is working every day.

<Q – Adam Benjamin>: Got you. That's all I have. Thanks a lot, guys.

<A – Dirk Meyer>: Thank you.

<A – Robert Rivet>: Thank you.

Ruth Cotter, Director of Investor Relations

That concludes AMD's third quarter earnings call. We'd like to thank everybody for participating today, and look forward to you participating in our Financial Analyst Day on the 11th of November. Thank you.

Operator: Ladies and gentlemen, this does conclude today's program. Thank you for your participation and have a wonderful day. You may now all disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey, and I'll be your Conference Operator for today. At this time, I would like to welcome everyone to AMD's Second Quarter 2009 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations

Thank you, and welcome to AMD's second quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO; and Bob Rivet, our Chief Financial Officer and Chief Operations and Administrative Officer. This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The replay number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1373624. The telephone replay will be available for the next 10 days starting later this evening.

Please note, we are providing non-GAAP financial measures for AMD consolidated and AMD Product Company today. Reconciliation to the most directly comparable GAAP financial measures are provided in the tables in the press release. Management believes these financial measures make it easier for investors to compare current and historical period operating results. Management also believes it's important for investors to have visibility into AMD's financial results, excluding the Foundry segment and intersegment eliminations, and to better understand AMD's financial results absent the requirement to consolidate the financial results of GLOBALFOUNDRIES.

Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions and expectations; speak only as of the current date; and involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast, especially in light of the current state of the economy. We encourage you to look at our fillings with the SEC where we review the current risk factors setting forth information that could cause actual results to differ materially from our expectations. You'll detail discussions about such risk factors in our most recent SEC filing, AMD's quarterly earnings report on Form 10-Q for the quarter ended March 28, 2009.

Before this afternoon's prepared remarks, for scheduling purposes, I'd like to call your attention to two items. Firstly, our Q3 2009 earnings quiet time will begin at the close of business on Friday, September the 11th. Secondly, our financial Analyst Day is scheduled for November 11. The event will be held at our corporate headquarters in Sunnyvale, California. We hope to see you there, and we will be sending out additional details over coming weeks.

And with that, I'd like to hand the call over to Dirk Meyer, President and CEO. Dirk?

Dirk Meyer, President and Chief Executive Officer

Thank you, Ruth. And thank you everyone for joining us today on the call. In the second quarter, despite softness in the global economy, end user PC demand stabilized. But the characteristics of the economy are playing out quite differently across customers, channels and particularly geographies. Therefore we think it makes sense to evaluate the situation over a slightly longer window than just a quarter.

So in looking at the first half of 2009, I'm pleased with how we're managing what's in our control. We have successfully transformed our company, significantly reducing our cash requirements for capital while cutting operating costs and enhancing our platform roadmaps.

Our second quarter topline performance was steady, flat with respect to the prior period. And as I mentioned on the last call, end customers continue to search for maximum value for their dollar, a good opportunity for us given the AMD value proposition.

Gross margin in the quarter was below target due to capacity under utilization, lower industrywide ASPs and our sell down of 65-nanometer inventory. But with a strong flow of new products and a leaner cost structure coupled with the assumption of modest seasonal growth, we are positioned for stronger financial performance in the second half of this year.

We continued our pattern of solid execution in the past quarter. In June, we began shipping our new Six-Core AMD Opteron processor months ahead of schedule. Top-tier customers including Dell, HP, IBM, Cray and Sun announced servers based on the great power, performance per watt and easy upgradeability of the platform. We will see our first full quarter of revenue impact here in the third quarter.

At Computex, we introduced the first 40-nanometer desktop graphics processor and the first one-gigahertz graphics processor. We also were the first to showcase working silicon end drivers for Microsoft's DX11 technology featured in the upcoming Windows 7 release. DX11 fully showcases the superior AMD visual experience, and we expect Win 7 to cause an unprecedented adoption rate for this important new technology.

We are steadily growing our footprint in the professional workstation market as Dell, HP and Lenovo expanded their ATI FirePro-based offerings. The unique combination of our low power AMD Neo CPUs and ATI Radeon GPUs is attracting customers interested in building affordable, full featured, high-def capable ultra thin notebooks and all in one desktop systems.

In addition, we refreshed our Dragon platform for desktops, with the Phenom II X4 955 Black Edition processor, a part that really showcases the stability of our high-end processors in extreme overclocking conditions.

We closed our first full quarter of distinct operation as AMD the Product Company and GLOBALFOUNDRIES. GLOBALFOUNDRIES is really off to a good start, building a strong team and engaging with prospective customers. Sound execution continues to be excellent, and I'm pleased to report that our two companies are working together smoothly and effectively.

In that context, GLOBALFOUNDRIES is poised to break ground this week in upstate New York on what will be the most technologically advanced manufacturing facility in the world. The project will create over 6,400 new high quality jobs, all of them here in the United States.

Going forward, we are positioned well to see improvements in gross margin. I am pleased with our ability to control spending while improving the productivity of our go-to-market and product development activities. And I am particularly happy with our engineering execution, where we continue to meet or beat all of our major milestones, including those for our next generation programs.

Over to you Bob.

Robert J. Rivet, Chief Financial Officer, Chief Operations and Administrative Officer

Thanks Dirk. In a difficult operating environment, with limited visibility, AMD's second quarter revenue and cash balance performance improved from the first quarter. It appears that end user demand has stabilized, and we are pleased with our current inventory position. And while industry dynamics in the first and second quarter were quite different, when we look at our 2009 first half performance, we think we held our own in both the businesses.

Second quarter revenues was $1.184 billion and flat sequentially. Revenue was down 13% from the same period a year ago. Comparing the first half of 2009 to the same period a year ago, revenue was down 17%. Second quarter net loss for AMD the Product Company was $158 million. After backing out the benefit from the sale of inventory written down in the fourth quarter and charges mainly associated with ARC, the non-GAAP net loss was $244 million in the quarter.

Second quarter operating loss was $125 million. Excluding the unusual items I just outlined, the non-GAAP operating loss was 205 million. Adjusted EBITDA for the quarter was a positive $14 million. We reduced our operating expenses by 29 million from the first quarter. We continue to drive toward our breakeven cost structure based on the $1.3 billion revenue model. We are now within 28 million of the $500 million operating expense target we set earlier this year.

Gross margin for AMD the Product Company was 36%. This includes a nine percentage point benefit from the sale of inventory written down in the fourth quarter of last year. The non-GAAP gross margin was 27%. The combination of across the board ASP decline and fab utilization continues to put pressure on gross margin. In addition, we shipped a large volume of 65-nanometer parts in the quarter and sold down aging inventory.

Let me switch to the business segments. Computing Solution revenue was $910 million in the second quarter, down 3% compared to the first quarter. We saw a strong sequential growth in Asia, while sales in the Americas were flat and declined across Europe. Microprocessor units were flat. Overall ASPs were down quarter-over-quarter, mainly driven by notebooks. Operating loss for the Computing Solutions group was $72 million.

In the Graphics segment, revenue for the quarter was $251 million, up 13% sequentially and flat year-over-year. Much of the strength in the Graphics business came from the Asia Pacific and greater China regions. Units were up, with significant growth coming from mobile. ASPs declined across the board. The Graphics segment reported an operating loss of $12 million.

Now turning to AMD the Product Company balance sheet. Our cash and marketable security balance at the end of the quarter was $1.6 billion, a slight increase over the first quarter due to reduced cash expense and a full quarter impact of our Asset Smart strategy. We used $15 million in the quarter to repurchase debt. Depreciation and amortization was $103 million, and capital expenditures were only $15 million for the quarter.

Now let me turn to the outlook. The following statements are forward-looking, and actual results could differ materially from current expectations. In light of continuing uncertainty in the macroeconomic environment, AMD expects revenue to be up slightly. We expect gross margin to improve from the current levels driven by improved factory utilization, increased 45-nanometer CPU shipments and 40-nanometer GPU shipments, and improved product mix from the introduction of our Tigris notebook platform, our new performance-leading DX11 ready GPU family, as well as a full quarter impact of shipping the Six-Core AMD Opteron server processors.

We lowered our capital expenditures for 2009, as we continue to evaluate capital needs for the year. CapEx for AMD the Product Company will be about $100 million, down from our prior plan of $150 million for the year; and about $690 million for GLOBALFOUNDRIES, down from the prior year guidance of $760 million. Warrants to purchase 35 million shares of AMD common stocks will become exercisable by West Coast Hitech, an affiliate of Mubadala Development Company, this Friday upon the public ground breaking of GLOBALFOUNDRIES Fab 2 in upstate New York. For modeling purposes, the fully diluted share count for the third quarter including the warrants, is expected to be approximately 705 million shares.

In closing, we enter the second half with an increasingly competitive product line, strengthening financial performance and the hope of an improved economic environment, one in which we know we can succeed with our new leaner business model.

At this point, I'll turn it back to Ruth for some Q&A.

Ruth Cotter, Investor Relations

Thanks, Bob. Operator, we're happy if you could poll the audience for questions please.

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Cotter. [Operator Instructions]. Our first question comes from Uche Orji. Please go ahead from UBS.

<Q – Uche Orji>: Thank you very much. Let me just start off by asking you about the ASP and the gross margins. In the quarter that just ended, I mean given that almost 10% of the revenues came from sale of already written down products. Can you just help us quantify the ASP decline, and how it will improve next quarter, similarly for gross margins? Can you tell us ex-the impact of the inventory of written down product, just give us an idea? I mean you have a sense of the revenue, you know all the drivers, give us a sense of how the gross margin should trend for next quarter?

<A – Dirk Meyer>: Yeah. I'll give you the big movers, and Bob can maybe chime in.

<Q – Uche Orji>: Sure.

<A – Dirk Meyer>: Three big elements that give us an opportunity to improve margins next quarter are: one, capacity utilization; two, an improvement in unit cost as a result of selling more 45-nanometer product. And three would be mix and the positive improvement that a richer mix would have on ASPs. I actually think the two items I listed are going to be – we plan to be the bigger movers of margin improvement. And Bob maybe you can provide some color on the just closed quarter.

<A – Robert Rivet>: Yeah. I think Dirk summarized it quite well. Clearly those were the big impacts in the quarter. Again, that inventory that we sold, that we reserved in the fourth quarter, again we took a cautious position in the fourth quarter and reserved a lot of inventory that we built up at that point in time. While the accounting says we actually have to show you and display how much we moved in the given quarter, that was still very good product in that period. Our plan is we'll replenish that product. We've built new inventory, so it's not a – we don't have the product to sell in the go-forward quarters.

<Q – Uche Orji>: So, let me just pin you down, Bob, to some specifics of this. The utilization rate goes from what level in Q2 to what level in Q3? And just for me to know whether that implies 200 basis points extra gross margin? And then the mix in 45-nanometer, any specifics as to what the differential is between 45-nanometer product margin and 65-nanometer product margins, so we can just quantify it a little bit better?

<A – Robert Rivet>: Well, okay. I'm not going to answer that level of specificity, of how much is associated what – the move in utilization will move – was a fairly dramatic move. I'll call it from a factory utilization rates of more than 10 percentage points, quarter-on-quarter of utilization improvement. So we've – that'll definitely be a pick up.

<Q – Uche Orji>: Okay.

<A – Robert Rivet>: And then if you think about 45-nanometer product, again it's very product specific, depends on the additional functionality that was put into the die at the next technology node, but roughly your die cost is about half going from 65 to 45-nanometer. The bulk of what we shipped in the second quarter was 65-nanometer version product, versus on a go-forward basis, that will clearly drift to be dominated by 45-nanometer product.

<Q – Uche Orji>: Okay, that's helpful. And just one another question. In terms of what you're seeing in the graphics market, you talk about ASPs being down. If we're looking to next quarter, do you still expect ASPs to continue to decline in graphics? And give us a sense of when you think that might stabilize or how that will trend relative to the decline we saw in Q2? And also if you can by extension, also talk about what progress you're seeing workstation market? When should we expect that to translate reasonably into some revenue for AMD? Thank you.

<A – Dirk Meyer>: Sure. I'll do the last one first. On the workstation side, we've got cards – new SKUs I'll say, showing up on the current generation of platforms from Dell, HP and Lenovo, which just became available really in Q2. So we're at the very beginning the stages of the ramp, and as you know, it takes some period of time for us to penetrate substantially in enterprise market such as workstation. So I think you're seeing the beginning of what will become a multi-quarter growth story. So slow ramp, but we intend to participate meaningfully in that business over time.

On the GPU side more generally, we saw a lot of I'll say competition and price competition at the bottom end of the market. I don't expect that dynamic to substantially change in Q3. What I do expect to be an opportunity for AMD in the second half of the year, is our introduction of DX11 compatible products, in effect a new product stack. We expect to be out ahead of our competition, and we think that will have a positive effect on our mix and hence our ASP in the back half of the year.

<Q – Uche Orji>: Great. Thank you very much.

Operator: Thank you, sir. Our next question comes form David Wu from Global Crown. Your question please.

<Q – David Wu>: Yes, I hope to get an idea, Bob, when you answered a question about the mix, are you saying that the 45-nanometer would be the dominant part of the shipment mix in Q3? And that the existing written-down inventory 65-nanometer ports have essentially been eliminated by the end of Q2?

<A – Robert Rivet>: No. We will still be shipping 65-nanometer in Q3. I would expect we will cross over to be dominated by 45-nanometer in Q4. The crossover takes place in Q3. But a significant portion of the shipments in Q3 will be 45-nanometer, probably not 60% but more in the 50, 40 to 50 kind of zone. So a significant piece versus it was immaterial in the second quarter.

<Q – David Wu>: Got you. So if you were to look at the diodes of major diodes to get the gross margin improvement, number one is factory utilization absorption -

<A – Robert Rivet>: Yes.

<Q – David Wu>: And number two is essentially that mix you talked about, right?

<A – Robert Rivet>: Correct. It's a balancing act between the two. It's – I don't want to be specific and put my hat on one topic. It's really a lot of knobs we continue to try to turn to make some progress to get back to the 40% target we need to run the business at.

<Q – David Wu>: The other thing I was wondering is if your utilization rate could be up as much as 10 percentage points between Q2 and Q3, are we talking about building inventory of the newer 45-nanometer port as we exit Q3, 4, or Q4 -?

<A – Robert Rivet>: Yes. Our view is, as Dirk said, I mean we'll adjust accordingly. But right now our belief is, we're at a stabilization period. We anticipate the second half, and this is what our OEMs are telling us, will be better than the first half. And fourth quarter will be better than the third. So we need to start building some inventory in anticipation of the stronger fourth quarter. We'll dial that up or down accordingly as we get through the quarter. But that's – but your assessment's correct, third quarter is a period of time where you try to build some inventory to go into four.

<Q – David Wu>: Okay.

<A – Robert Rivet>: And that would be a majority of 45-nanometer.

<Q – David Wu>: Okay. Bob last question is this: The handheld this $23 million now; the part that is not sold to Qualcomm, I guess is going to stay with you. Can you give us idea how big that number will be for the rest of this year?

<A – Robert Rivet>: It will stay in that current zip code. It's really on an end of life, supporting the existing customers that were designed-in from that product. We're not putting any new engineering to continue to elongate the product line, but it'll be in that $20 million per quarter zip code for awhile.

<Q – David Wu>: Oh, I see. And the last one is I assume that we are looking for third quarter $500 million OpEx target, right?

<A – Robert Rivet>: We're working our damndest to get close to it. Yes.

<Q – David Wu>: Okay. Thank you.

Operator: Thank you, sir. Our next question comes from JoAnne Feeney from FTN Equity. Your question, please.

<Q – JoAnne Feeney>: Yes, thank you. I was hoping we could talk a little bit more about the Graphics side of the business. So if I understood correctly, it sounds like the 40-nanometer GPUs will have both higher ASPs and higher margins than the processors you were selling in the second quarter, is that correct?

<A – Dirk Meyer>: Yeah, JoAnne, to be precise we'll – the new DX11 stack I referenced will be in 40-nanometer. And clearly that will give us an opportunity to kind of regain the high ground even more substantially, and hence improve our mix in ASP and hence margins.

<Q – JoAnne Feeney>: Okay. Can you give us a sense of what you anticipate in terms of the size of the ramp? I've been – we've been hearing from some other component suppliers, the video card makers that there's a rather steep ramp coming in the third quarter, tripling their business. Is that the kind of range you guys are looking at?

<A – Dirk Meyer>: Is that a 40-nanometer question or a DX11 question?

<Q – JoAnne Feeney>: That's a – well, those are the same for you guys, aren't they?

<A – Dirk Meyer>: No, we actually introduced a 40-nanometer DX10.1 part here this quarter.

<Q – JoAnne Feeney>: I think I'm referring to just the DX11 parts?

<A – Dirk Meyer>: Yeah. So I expect that to be a very quick ramp in the desktop AIB channel, as we refer to it. And expect DX11 to start showing up in notebooks more like in the first half of next year.

<Q – JoAnne Feeney>: Okay. So then the 40-nanometer 10.1 part then, is that what we're seeing in the third and the fourth quarter of this year?

<A – Dirk Meyer>: Yes.

<Q – JoAnne Feeney>: Okay. And would those then come with those higher margins?

<A – Dirk Meyer>: Through cost improvements, yeah. It's less of an upsell, as opposed to a unit cost improvement going from 55 to 40.

<Q – JoAnne Feeney>: Okay. And so perhaps you could just refine us a bit more, what's the split of your adoption by the PC OEMs versus the retail add-in board vendors, for these new 40-nanometer products? And how is your – how are your margins on one or the other? How's your visibility on one or the other? What kind of ramp are you looking at for the third and the fourth quarters there?

<A – Dirk Meyer>: Yeah. Good question. First of all, it's a lot easier for us to get an understanding of the traction to expect on the OEM side, because we're awarded design wins in advance and therefore can anticipate the business going forward. There's a lag from when we see the design win realized, to when the machines show up in the market from six to nine months depending upon the form factor you're talking about versus the AIB channel, what you referred to as retail, I'll just more generalize it and say AIB, because of course some of that goes to system builders or white box guys in effect.

There the ramp, the adoption of early technology is very quick. But we don't get orders well in advance of delivery date. So it's harder to predict. I mean the one thing we're pretty very confident on, is the product looks great. I think DX11 is going to be a good selling point. So we expect to enjoy good success in the back half of the year.

<Q – JoAnne Feeney>: And it sounds like then that runs into the first quarter of '10, so do you, Bob, do you see a path here towards breakeven, given the ramp that you're anticipating on the Graphics side plus the new systems coming out in server and notebook?

<A – Robert Rivet>: Yes, yes. I mean we're still, we've not given up on our goal to be breakeven, cash flow positive in the back half of the year et cetera. I'll be very disappointed we don't exit the year at a 40% gross margin. So, we're working down that path through combination of all the things we've kind of highlighted to kind of do that.

<Q – JoAnne Feeney>: And so one last question, if I could. So it sounds like you guys have an atypical foundry supplier here on the CPU side in that you're going to benefit as utilization rates ramp up again. So they're going to pass those cost benefits on to you guys directly it sounds like?

<A – Dirk Meyer>: Yeah, I mean, JoAnne I guess the way I would think about it is, while we're operating as two companies today, clearly at the instant we became two companies, there's a set of manufacturing capacity in GLOBALFOUNDRIES that we're accountable for. And we pay for it. So that's what we look like today. Out in time that relationship will evolve to one that's much more like a typical foundry relationship in terms of how the economics work.

<Q – JoAnne Feeney>: Okay.

<A – Dirk Meyer>: That help?

<Q – JoAnne Feeney>: Yeah, that helps. So it sounds like, yeah, for the time being you can benefit from the return of utilization over there. And then in the future, as they add new customers, you'll revert to a more traditional foundry pricing relationship?

<A – Robert Rivet>: Correct.

<A – Dirk Meyer>: Right. Correct.

<Q – JoAnne Feeney>: Okay.

<A – Robert Rivet>: And just one other point, JoAnne, just to kind of give you again – I know our information is relatively new from being transparent between GLOBALFOUNDRIES and AMD. To kind of give you a flavor to everyone on the phone call, I mean the foundry revenue actually went down quarter-on-quarter, and that's kind of reflecting we didn't buy a lot of material. We didn't run a lot of material. That translates into underutilization. We anticipate changing that trend and buying more wafers out of GLOBALFOUNDRIES, which clearly improves the underutilization part of the equation. But you can see that on the selected corporate data sheet that was in our earnings release.

<Q – JoAnne Feeney>: Okay. Thanks very much guys.

Operator: Thank you, ma'am. Our next question comes from Doug Freedman from Broadpoint. Please go ahead.

<Q – Doug Freedman>: Great. Thanks for taking my questions. If we could look at your commentary as far as the growth in the third quarter and focus a little bit on what is your normal seasonal pattern for 3Q? If I look back over the last four years we've had 9% 18, 26 and 31%. Would you like to give us some sort of idea of what normal seasonal is going to be off at this level?

<A – Dirk Meyer>: Well, if – first I'll tell you what we think of is normal when we kind of try to characterize history, on the CPU and GPU business both, we kind think is normal seasonal growth Q2 to Q3 being low to mid teens. And clearly with variation above and below that. And maybe Doug what you're asking about is, okay, given that context explain the guidance a little bit?

<Q – Doug Freedman>: Yeah.

<A – Dirk Meyer>: And there I would say that while we do, as I said in the opening remarks, expect a return to sequential growth, I think it's too early to say given the overall weakness in the macro-economy that we're going to return to normal seasonal growth. And therefore the guidance reflects is lower than that.

<Q – Doug Freedman>: Can you talk about what factors you may have under your control to sort of drive that revenue? Are there important ramps in the quarter that you're looking to take place, and what are going to be some of the gives and takes on the revenue line next quarter?

<A – Dirk Meyer>: Specific to AMD, sure. One will be the full quarter availability of Istanbul and the opportunity that we have to at the very least maintain the momentum we have in 4-socket servers, while at the same time enjoying the benefit of some of the build outs that we think are going to start to happen again in the back half of this year around big cloud installations, where Istanbul – the low power versions of Istanbul are particularly attractive. That's number one.

Number two, we've got two new notebook platforms being introduced in the market here in Q3. One is Tigris, which is the mainstream notebook platform. The other would be our second generation of ultrathin affordable platform. Both of those will start showing up from our OEMs at the end of Q3 here. So that's an opportunity.

Finally, I think we for the past couple of quarters relatively underserved the market in terms of Quad-Core desktop mix, and I think we've got an opportunity to do continually better there, that is Phenom II Quad-Core alongside our discrete graphics strength. And then finally, of course, the DX11 launches than I referenced earlier.

<Q – Doug Freedman>: All right, great. If I could move on and focus a little bit on the GPU business or just in general the Company's royalty strength. Can you comment, Bob, what impact royalties had on in the quarter and what impact they may have going forward, both from a revenue contribution and a margin contribution?

<**A – Robert Rivet**>**:** Yeah. So let me – I'll not do them exactly in order. The contribution to the bottom line is close to 100%. So it's from prior activity and basically you collect the check, and it falls through. It's not exactly 100%, but it's pretty damn close from that perspective.

Second is, no surprise, it's very much tied – gaming royalties is tied to the patterns of people buying gaming boxes and systems. Second quarter is not a big buying quarter. So revenue actually declined in the gaming business from second – from first to second.

Traditional patterns would be gaming starts to accelerate in the third and clearly in the fourth, as people get more excited about buying game systems for the holiday season, back-to-school, et cetera. So we anticipate gaming royalty to improve from a low point of the second quarter.

<**Q – Doug Freedman**>**:** All right. Did that – did the results in Q2 meet your expectations or was that an area of weakness in the quarter?

<**A – Robert Rivet**>**:** No, that was actually quite close. That was not our challenge. Our challenge was much more of – just what was the mix of product. Had to basically sell a lot more units to get the revenue to the topline, gaming wasn't the issue.

<**Q – Doug Freedman**>**:** All right. And then lastly, Dirk, if you could just go back and talk about if you've acquired any new customers in the quarter and how you feel like your customer engagements have been going?

<**A – Dirk Meyer**>**:** Yeah, Doug, good question. We can never be specific on OEMs, but the one thing I will say is, over the past couple of quarters I would say that we're starting to see our customer base again show renewed interest and engaging more deeply with AMD on the strength of a couple of things.

One is, I think clearly our engineering execution across all of our product lines has been very solid over the past 12 months. I think that the capability that we've developed in Graphics and the prospect of delivering really balanced cost effective, increasingly power-efficient platforms is really starting to resonate with our customers. And that's a positive thing.

And then ultimately, and I'll say this is a much longer-term opportunity, I think clearly, the progress that we've made with regulatory agencies around the world is going to help us over the coming quarters and years. So I'd say increasing momentum.

<**Q – Doug Freedman**>**:** My last question. Same sort of concept on the new customers. I know it's a requirement for GLOBALFOUNDRIES for the deconsolidation of those numbers for them to acquire new customers. Can you advise how their progress is, and if there's any sort of a forecast or a timeframe, in which we might see that deconsolidation?

<**A – Dirk Meyer**>**:** Yeah. I can't be specific on the deconsolidation issue, but I can give you some color commentary. I would say first that the first few months of GLOBALFOUNDRIES' life has seen them kind of reaffirm in their mind and our mind, the value potential that they have as a new independent foundry. And I expect they'll be announcing their first new customer beyond AMD within roughly the next 30 days.

<**Q – Doug Freedman**>**:** Great, thank you.

Operator: Thank you. I'm showing our next question comes from Jim Covello from Goldman Sachs. Please go ahead.

<Q – Jim Covello>: Great. Thank you very, very much for taking my questions. Just two questions both around GLOBALFOUNDRIES. One, kind of picking up on the last question, about new customer activity of GLOBALFOUNDRIES. What kind of role is AMD playing, if any, in helping GLOBALFOUNDRIES secure new customers? Or is it really just the designs that they're – that you're helping them with?

<A – Robert Rivet>: Yeah, this is Bob. Pretty much, we stay out of that part of the process. I mean we do anything pretty much they ask us from a, I'll call it, if they need the help, they need to understand how do we do it. But pretty much it's an independent sales team they're trying to create, and a customer engagement-type process to go acquire third-party customers.

<Q – Jim Covello>: So it's not necessarily situation where you might lend them an engineer to solve a customer problem that they might be presented with or anything along those lines?

<A – Robert Rivet>: No.

<Q – Jim Covello>: Okay. And then relative to the capital call situation with GLOBALFOUNDRIES, I would suspect that they would have – there would be a capital call around that entity this year. And the assumption is still that you guys would continue not to contribute zero to that and let the ownership stake be diluted, is that right?

<A – Robert Rivet>: That's correct. Through this first half of the year, there was no capital calls. There will be a capital call in the back half of the year. And yes, that is our current view from an AMD perspective is we will not participate in that capital call.

<Q – Jim Covello>: Okay. Can you say what that capital call might be, just so we can get the sense of the ownership stake pro forma for that?

<A – Robert Rivet>: No, not that specific. But I will mention one thing is, as we launched that company we targeted that they should maintain around $1 billion of cash. You can kind of see in the current quarter results, they're slightly below that. So that kind of gives you at least a framework.

<Q – Jim Covello>: Terrific, thank you so much.

<A – Dirk Meyer>: Thank you.

<A – Robert Rivet>: Thank you.

Operator: Thank you, Jim. Our next question comes from Stacy Rasgon from Sanford Bernstein. Please go ahead.

<Q – Stacy Rasgon>: Hey, guys. Thanks for taking my question. I had a question on the gross margins paid by AMD to GLOBALFOUNDRIES. Looks like they went up fairly significantly in the quarter. At the same time the cost base was also going up due to underutilization. I was wondering if you could give us some clarity on what that gross margin profile that you will be paying to GLOBALFOUNDRIES looks like going forward? Will that continue to be increasing?

<A – Robert Rivet>: Again, we're not going to give that level of color. It's based on the contractual arrangement we have with GLOBALFOUNDRIES.

<Q – Stacy Rasgon>: I mean, but it's – I'm not even talking about just the dollar amount. I understand that the dollar amount went up in some sense probably because of the underutilization of a higher cost base. But I mean, just the percentage basis, and what is that based on? Could you give me some feeling for just how to model this in general going forward?

<A – Robert Rivet>: As we've discussed before, and it's publicly disclosed, it's a cost plus arrangement.

<Q – Stacy Rasgon>: Okay.

<A – Robert Rivet>: It's the cost of producing wafers, and we would pay that plus some more.

<Q – Stacy Rasgon>: So, why did the margin go up in the quarter?

<A – Robert Rivet>: I don't – to be honest, I'm not sure I understand how you can come to that conclusion that margins went up.

<Q – Stacy Rasgon>: No, no gross margins that you paid, as far as I can tell went up in the quarter. Do you have any – can you give me any sense of why? Was it just based on the agreement, or was there something else, in terms of mix or anything else?

<A – Robert Rivet>: No comment. I'm not sure I understand your question.

<Q – Stacy Rasgon>: Okay, okay. Also regarding the foundry company OpEx, I note that both the R&D and the SG&A came down a fair amount this quarter versus last quarter. Am I right in assuming that both of those ought to be increasing going forward, number one as the process development ramps up? Number two, as third-party business comes on? And number three, as you're just ramping up a sales force to start attracting some of that third-party business?

<A – Robert Rivet>: I'll call it, yes. I mean in general, think of it in two directions. One, they need to create an independent company with all the appropriate functions, sales force, libraries, increased portfolio of technologies to service the foundry industry. But they also have to deal with the economic reality, which is the world is pretty soft.

<Q – Stacy Rasgon>: Sure.

<A – Robert Rivet>: Our demand is down, and so they got to figure out the right timeline to go build out all those capabilities.

<Q – Stacy Rasgon>: So does that imply that the – I guess, the ramp of capacity for third-party that you guys showed at your Analyst Day in November is going to get pushed out?

<A – Robert Rivet>: Sure. Yes. Which is reflected in the CapEx reduction that we just talked about from 750 million to sub 700 million.

<Q – Stacy Rasgon>: Got it. And so will that correspondingly push out the date where a deconsolidation activity can probably happen?

<A – Robert Rivet>: That's a to be determined, can't figure it – there's not enough information to make that determination; that's based upon having meaningful third-party revenue.

<Q – Stacy Rasgon>: Okay. Got it. One more question around the deconsolidation. I understand under – it's my understanding under the current deal licensing agreement with Intel, the foundry needs to qualify as a subsidiary. And I know there's disagreement right now on whether or not it qualifies or not. But I'm just wondering, assuming that it eventually does get deconsolidated, under the current terms of the agreement, would the venture still have to qualify as a subsidiary? And in that case, would the shareholders still be exposed to any profits or losses from that entity through a minority interest line, if not, that are directly consolidated into your financials?

<A – Dirk Meyer>: A high level, sure, we would still account for our interest in GLOBALFOUNDRIES through a minority interest line.

<Q – Stacy Rasgon>: I guess, what I'm asking is -

<A – Dirk Meyer>: A non-cash line item.

<Q – Stacy Rasgon>: Yeah, I guess what I'm asking is, would it still be your intent to maintain a significant ownership stake in the venture even after it's deconsolidated? Maybe is another way to ask the question.

<A – Robert Rivet>: To your question – sorry, we had a little phone issue.

<Q – Stacy Rasgon>: No, no worries.

<A – Robert Rivet>: To me, that's going to be a to be determined decision of how – what's our ownership stake on a long-term basis in GLOBALFOUNDRIES. As we've discussed in the near-term basis is we will continue to most likely not participate in the capital call. It's structured that it's at our option. But what's that going to be long-term, say five years from now, too early to make that determination. Just like any investment of whether you stay in it or double-down stay in it or get out.

<Q – Stacy Rasgon>: Yeah. So can you give us any idea of any specific milestones we ought to be looking for, for deconsolidation? I mean, is it, that on Class A equity ownership needs to drop below 50% so you're no longer exposed to more than 50% of the losses? Or is it a certain amount of third-party revenue that has to ramp? I mean, what are the types of things that we ought to be looking for going forward to have comfort that an activity like that might be more imminent?

<A – Robert Rivet>: I mean, to me it's a real simple one. And to just go to the high level, don't get lost in the weeds, it's really that GLOBALFOUNDRIES is becoming a successful company in the foundry business, and they get third-party revenue non-AMD. That's really – and that at some point in time, when that gets big enough the mechanics will allow us to deconsolidate – to not consolidate. But that's the singular thing to really pay attention to is to see how many third-party customers come to the fold and then how those people turn into a revenue stream.

<Q – Stacy Rasgon>: Got it, got it. But then again, just so I'm clear, even after deconsolidation likely still some exposure through a minority interest, even if it is non-cash, it's still going to be in accounting hit, correct?

<A – Robert Rivet>: Sure. If we still have an ownership we would have to account for our percentage of that ownership.

<Q – Stacy Rasgon>: Okay, great. Thanks, guys, I appreciate it.

<A – Robert Rivet>: Like we did in Spansion, so it's no different than the Spansion-type investment.

<Q – Stacy Rasgon>: Yeah, got it. Okay, thank you very much.

<A – Dirk Meyer>: Thank you.

Operator: Thank you, sir. Our next question comes from John Pitzer from Credit Suisse. Please go ahead.

<Q – John Pitzer>: Yeah, thanks guys, good afternoon. Hey, Bob, just a clarification, did you say that utilization reach went down in the June quarter?

<A – Robert Rivet>: They went up a little bit from first but not too much. I mean they're relatively flat quarter-on-quarter. We actually didn't turn wafer starts on – I'll call it any material amount of difference until June.

<Q – John Pitzer>: Can you just help me understand was there anything specific in your business, because for most semi-companies that own fabs they cut really hard in the March quarter, which made June fairly easy in comparison. Just help me understand what was going on with your business and why you didn't feel it necessary to cut more aggressively in March?

<A – Robert Rivet>: Our timing was maybe potentially different. We had inventory that we thought made more sense to burn off, that we built in the second half of last year, than I'll call it building more inventory.

<Q – John Pitzer>: And then anyway to quantify how much more written off inventory will run through the topline, if we move into the September quarter?

<A – Robert Rivet>: There's approximately only about $20 million left to go. So there's very little left of the reserve we took in the fourth quarter, which to remind everyone was about $225 million. So we've either scrapped or have turn around and sold that material. So there's only a little bit left.

<Q – John Pitzer>: And then my last set of questions, just around average selling prices within the CPU business, was the decline in the June quarter more a mix of what was going on in the business or was there like-for-like selling pressure? And I guess if you guys are talking about mix being a positive factor going into the third quarter for gross margin, is the implication there that we should actually see ASPs flatten, to go up sequentially?

<A – Dirk Meyer>: Certainly that's where we're trying to drive the business to. If you look at Q1 to Q2 as Bob said in his opening remarks, we saw decreasing ASPs kind of across the product line, but that was particularly acute in notebook.

<Q – John Pitzer>: Great. Thanks, guys.

Operator: Thank you, sir. Our next question comes from Patrick Wang from Wedbush. Your question, please.

<Q – Patrick Wang>: Great. Thanks so much for the question. I guess, Dirk or Bob, could you talk about if there's anything in particular that happened to drive the greater mix of 65-nanometer parts than you'd expected last quarter?

<A – Dirk Meyer>: Well, the mix of what we sold 65 versus 45 wasn't so much different than we thought. As Bob said, we entered Q2 knowing our inventory position and therefore motivated to sell what we had on the shelf. I guess the thing that's always a little bit harder to forecast in advance is exactly how our sales will line up across the various price points in the market and where the opportunities will be in the market as they show themselves.

<Q – Patrick Wang>: I see. Was there a particular focus in, I guess for Asia sales for the 65-nanometer parts or was it, I guess, pretty broad based graphically?

<A – Dirk Meyer>: Broad based.

<Q – Patrick Wang>: Okay, got you. And then I guess as we look to see the mix away from the product mix to shift away from 65-nanometers, I mean that's going to expect to benefit gross margins. When do you think those tailwinds will go away? I mean I guess when does 65-nanometer become not meaningful enough to really start moving margins?

<A – Dirk Meyer>: You mean by what point will we have enjoyed whatever improvement we'll get by going from 65 to 45?

<Q – Patrick Wang>: Right.

<A – Dirk Meyer>: Sometime in Q4.

<Q – Patrick Wang>: Okay. Got you.

<A – Robert Rivet>: Third quarter I'd say is transition. I mean we still have, most of what we've been building is 45-nanometer. We still have 65-nanometer in inventory. Clearly we'd like to move 65-nanometer first, because it has a less long shelf life, if you know what I mean. So it's in that kind of a thought process.

<Q – Patrick Wang>: Okay. No, that's helpful. And then I guess, Bob, how should we think about OpEx going forward? I guess, say you arrive at the $500 million target in the next quarter or two, I mean should we expect that to walk – I guess back up slowly with the resumption of revenues or, how do we think about that?

<A – Robert Rivet>: I mean our kind of thinking kind of goes like this is, we're going to get to 500 million and kind of stay at that level except for I'll call it the program spend in marketing which is associated with higher revenue levels or lower revenue levels, depending on what happens in any given quarter.

As Nigel talked about at the Analyst Day, we're trying to make that very variable, so that if revenues go up $100 million, you would see increase in marketing expense. If revenues went down 100 million you would see a decrease in marketing expense. But the baseline of 100 at 1.3 billion is roughly the same, for I'll call it for the foreseeable future until we get confidence that the world has turned around and before we take the fixed cost structure up.

<Q – Patrick Wang>: Got you. Okay. And then I guess, either one of you could try help me answer this one, but can give us a sense of how you view the opportunity with Istanbul now that we're going to have a full quarter in the third quarter? We've seen all the kind of performance benefits, power benefits. How do we kind of monitor the success of that and how do you think about that?

<A – Dirk Meyer>: Yeah. I'll repeat what I said earlier but with a different tone. First of all, we've clearly got an opportunity with Istanbul to provide a nice incremental benefit to the 4-socket platforms that our customers have out there in the market, where we've got a very strong position today.

And then across the 2-socket space, which is big, the bulk of the market and also fragmented. One of the places where that product, that Istanbul product really shines is in the lower power bands of the product line, that is our so called HE and EE parts, where those things are particularly well suited. And we're particularly targeting at cloud installations – cloud build-outs which we think is going to start to pick up again in the back half of the year and be one of the few, at least I hope potential bright spots in the general enterprise space.

<Q – Patrick Wang>: Okay, got you. That's helpful. And then last one, I guess, if you could talk about bigger picture, if there's any good news that you can talk about in terms of end demand and maybe how you're feeling about back-to-school on Windows 7? Thank you.

<A – Dirk Meyer>: Yeah, on Windows 7 first. Awfully hard to predict. Obviously good product, well executed, I'm enthusiastic particularly about the DX11 technology that's being dragged along at the same time. So I'm hopeful that's going to motivate people to buy a little bit richer mix of graphics technology in their systems.

I think one of the wild cards is a degree to which the consumer channel stall a little bit, waiting for Win 7 machines to show up on shelf. We're not modeling that as a big factor. And a lot of those machines are going to ship in advance of Win 7 availability with upgrade coupons. So I'm hopeful that that won't stall the channel.

We're not modeling for our own purposes Win 7 being a huge contributor to overall unit demand. But as I said earlier, I hope at the very least, there's some ability for us and the industry really to upsell the richer, more richly configured machines, particularly around the GPU.

Outside of that, in terms of general commentary, I can't really do anything but reflect again on what I said earlier in response to a question, and that is I do think we're returning a pattern of sequential growth here. But we're expecting that to be relatively more muted than a typical seasonality, again, because the economy is generally pretty weak around the world.

Huge geographic variability, of course, A-Pac and China in particular, are on the strong end. I'll say North America, nominal and Europe on the weak end.

<Q – Patrick Wang>: Great, thanks so much, and good luck.

<A – Dirk Meyer>: Thank you.

<A – Robert Rivet>: Thank you.

Operator: Thank you, sir. Our next question comes from Hans Mosesmann from Raymond James. Your question.

<Q – Hans Mosesmann>: Thanks for taking my questions. I'll be brief. Question regarding 40-nanometer at TSMC, there's been rumbling, that they've had a tough time with that node, and perhaps you guys have as well. To the degree that you had some challenges there, have they been resolved and where are we in that process?

<A – Dirk Meyer>: Yeah, we're not expecting any issues with TSMC's 40-nanometer technology to, I'll say, block our opportunities in the market, as we walk into the back half of the year.

<Q – Hans Mosesmann>: So there's no issue going forward regarding the ramp?

<A – Dirk Meyer>: Yeah, going forward, we don't see any issues.

<Q – Hans Mosesmann>: Okay. And a more strategic question, a lot of investors are very keen on trying to understand the netbook dynamic as it merges with smartphones, and there's operating systems wars that are going on and everybody has some kind of solution. And you guys are oddly out of that discussion, at least at the moment, and it strikes me that you have a lot of technology that is applicable. What is the strategic direction, if any, that you have in that space as the netbook and smartphone world converge?

<A – Dirk Meyer>: Yeah, good question. First, we're aggressively working on more power efficient and lower cost or components built, purpose built for lower price points in the marketplace, like those associated with netbooks.

I continue and we continue to see kind of a gap between a netbook on the one hand and smartphones on the other. We're clearly targeting devices with reasonably useful keyboards and

10-inch kind of screen sizes. And the continuum of PC-like devices above that independent of what operating system happens to be loaded on those machines.

The smartphone space, little bit of a different story. As you know, we sold our handset division, or at least some of the technology assets a couple of quarters ago. And while our technology is applicable to some of those form factors, that's clearly not a market focus for us at this time. We're clearly focused on, I'll say, 10-inch screen size and above.

<Q – Hans Mosesmann>: Fair enough. Thank you.

<A – Ruth Cotter>: Operator, we'll take two more questions, please.

Operator: Yes, ma'am. Our next question comes from Tim Luke from Barclays Capital. Please go ahead.

<Q – Tim Luke>: Thanks so much. Bob, just to clarify, you were saying that you are targeting a gross margin for the fourth quarter of 40%, or you think you can exit the quarter with a – at a run rate of 40% or something, can you just clarify that? And the same with maybe your comment on operating profitability?

<A – Robert Rivet>: Yes, what I said is I'll be very disappointed if we don't achieve 40% at the end of the year.

<Q – Tim Luke>: So that means for the quarter you'll get to 40%, or what does that mean?

<A – Robert Rivet>: I'd love to say that's for the whole quarter.

<Q – Tim Luke>: Okay.

<A – Robert Rivet>: That's really the goal. That's what we're still driving to.

<Q – Tim Luke>: And the operating profit goal?

<A – Robert Rivet>: Well, breakeven at 1.3 billion, you can do the math off that.

<Q – Tim Luke>: Okay. Bob, just off the – in the quarter, were the servers down more than the broader 3% for the computing area sequentially? And you spoke about ASP pressure in notebooks, any further color there...servers?

<A – Robert Rivet>: Well, as – let me circle back and just answer it this way. We saw a unit decline primarily in the notebook space. So, I'll call it, we did pretty well in total units, with server, desktop, mobile being the weakest of the three of those pieces. We actually made progress in the server space. ASPs were definitely a dynamic situation in the quarter of I'll call lower price points for a lot of the different areas. So that's kind of the dynamic of the quarter.

Again, we didn't have much – the Six-Core Istanbul product in the quarter. That just came up at the tail-end. We will get full quarter of that starting now in the third to change that dynamic.

<Q – Tim Luke>: When you think about up slightly in sort of your phrases that's a sub 5%, is that what we should think, or up to that level, or just if you have a framework for that?

<A – Robert Rivet>: Yeah I mean I kind of think of low to mid single-digit kind of growth would be up slightly is my definition, so that's my decode.

<Q – Tim Luke>: Very helpful. And two last quick things. Just, Dirk, you were alluding to a new customers in 30 days for GLOBALFOUNDRIES. That would be presumably in the logic arena or any color there? And lastly, Dirk, if you'd just frame your legal issues and ongoing discussion with Intel, one of the focuses is the big trial in March in Delaware? Do have any other thoughts for us on that, and how much maybe the annual run rate of spending might be on legal currently, and how we should think about that beyond the trial? Thanks.

<A – Dirk Meyer>: Yeah, Tim, good question. I don't think we've provided any specificity on the legal bills. And I guess I don't want to start on that front. You're right. You're right on the trial date. And your first question, could you repeat -

<Q – Tim Luke>: Just – you said you were going to have your first non-AMD customer for GLOBALFOUNDRIES.

<A – Dirk Meyer>: Yeah, that's would be in a logic space. That's the focus for GLOBALFOUNDRIES.

<Q – Tim Luke>: Okay. Thank you, guys.

<A – Robert Rivet>: [inaudible] technology obviously, too.

<A – Dirk Meyer>: Right.

<Q – Tim Luke>: Thank you very much.

<A – Robert Rivet>: Thank you.

<A – Dirk Meyer>: Thanks, Tim.

<A – Robert Rivet>: Thanks, Tim.

Operator: Thank you, Tim. And our final question for today comes from Ross Seymore from Deutsche Bank. Your question please.

<Q – Ross Seymore>: Thanks for sneaking me in guys. I'll make it really quick. The gross margin guidance where you said it should be up sequentially, is that off of the base that is inclusive of the roughly eight point benefit, writing off inventory or exclusive of that? Upper 30s gross margin base or kind of upper 20s?

<A – Robert Rivet>: Don't want to give that level of specificity, but I'd be disappointed if there wasn't a three in the first position.

<Q – Ross Seymore>: Okay. And then a question transitioning quickly over to the gross, or to the GPU side of things. The operating profit dropped again to a loss there. Can you just walk through some of the dynamics that could allow that to get better. I know you've talked about DirectX 11 those sorts of things. Is there anything other than kind of mixing up that can help, is there cost cuts, anything along those lines?

<A – Dirk Meyer>: That's a question on operating margin, right?

<Q – Ross Seymore>: Yes, more operating than gross.

<A – Dirk Meyer>: Well, I mean two things; volume and mix. So, going into the back half of the year, we ought to be able to move more quantities in total, more quantity in total and also improve the mix and the strength of new product introductions.

<Q – Ross Seymore>: Apples-to-apples, do you still expect pricing pressure? It seems like it's pretty competitive between you and NVIDIA, and that doesn't seem to be lessening?

<A – Dirk Meyer>: Yeah, I don't expect a substantial change where we compete, I'll say line-on-line. I think the new dynamic in the back half of the year is we're going to be able to offer things that they won't be able to provide an answer to, which will be helpful.

<Q – Ross Seymore>: Perfect. Thank you for sneaking me in.

<A – Robert Rivet>: Thank you.

<A – Dirk Meyer>: Thank you.

Ruth Cotter, Investor Relations

I'd like to thank everybody for participating in today's call. And that concludes AMD's second quarter earnings conference call. Thank you.

Operator: Ladies and gentlemen, this does conclude today's program. Thank you for your questions and for your participation. You may now all disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey and I will be your conference operator for today. At this time, I would like to welcome everyone to AMD's first quarter 2009 earnings conference call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Ma'am, please go ahead.

Ruth Cotter, Investor Relations Manager

Thank you and welcome to AMD's first quarter earnings conference call. Our participants today are Dirk Meyer, our President and CEO; and Bob Rivet, our Chief Operations and Administrative Officer and Chief Financial Officer.

This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The replay number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1343745. The telephone replay will be available for the next 10 days starting later this evening.

As you know, on March 2 we closed our Asset Smart Transaction, resulting in the formation of GLOBALFOUNDRIES, a joint venture between AMD and the Advanced Technology Investment Company of Abu Dhabi. As a result of this transaction, AMD now consolidates GLOBALFOUNDRIES for financial reporting purposes. Therefore, references to AMD on this earnings conference call include consolidated operating results which are reported for GAAP purposes. AMD Product Company refers to AMD excluding the operating results of our new Foundry segment and intersegment eliminations.

The Foundry segment includes the operating results attributable to front-end wafer manufacturing operations and related activity as of the beginning of the first quarter of 2009, which includes the operating results of GLOBALFOUNDRIES from March 2, 2009 through March 28, 2009. Intersegment eliminations consist of revenues, cost of sales, and profits on inventory between AMD Product Company and the Foundry segment.

While the operating results of GLOBALFOUNDRIES are consolidated in our financials, we also provide results for non-GAAP financial measures for AMD Product Company such as a statement of operations and select balance sheet items. In addition, for AMD Product Company we are providing non-GAAP financial measures such as net income or loss, operating income or loss, and gross margin which excludes certain adjustments set forth in the tables in today's earnings press release. AMD is providing these financial measures because it believes it's important for investors to have visibility into AMD's financial results excluding the Foundry segment, intersegment eliminations, and these adjustments.

So before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that these statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast, especially in light of the current state of the economy.

We encourage you to review our fillings with SEC where we discuss in detail the current risk factors that for information that could cause actual results to differ materially from our expectations. You will find detailed discussions in our 10-K filing for the year ended December 27, 2008.

Now with that, I'd like to turn the call over to Dirk Meyer.

Dirk Meyer, President and Chief Executive Officer

Thank you, Ruth, and thanks for joining us everyone. The global economic contraction continued in the first quarter. And while end user IT demand continued to be sluggish, it appears that the severe inventory corrections of the prior quarter have stabilized and should play out completely in the coming quarter.

Against a backdrop of soft demand, our execution was solid across our major goals for the quarter. First, we completed the launch of GLOBALFOUNDRIES, altering the financial structure of AMD while introducing one of the most exciting new companies in the recent history of the semiconductor industry. As a result of the transaction, we were able to immediately improve our balance sheet while ensuring ongoing access to world-class manufacturing capacity. Meanwhile, early customer interest in the new Foundry Company continues to be quite strong.

Second, as I outlined here last time, we completed a number of difficult yet important actions to bring our cost structure in line with our top line targets while preserving our core investments. I'm particularly pleased with our capacity to reduce discretionary spending while maintaining our product development and go-to-market effectiveness.

Third, we continued to meet or exceed all of our major engineering and roadmap milestones in the quarter. In our Graphics business, we will lead the industry to 40-nanometer technology. In Microprocessors, we are pleased with the execution of our 45-nanometer microprocessor roadmap and we are executing next-generation programs according to plan.

On the product side, we believe the economy has triggered a rather important change in the buying psychology of today's end user. Whether at work, home, or play, people have become much more discerning about paying only for what they really need and getting the best experience for their dollar. In this environment, the AMD value proposition is well tuned to today's value conscious consumer and business decision maker. In short, AMD-based systems are designed to deliver maximum value across all price points.

For example, we enabled the industry to create a truly affordable ultrathin notebook. Our new Yukon platform allows an uncompromised combination of high-end graphics and small form factor at mainstream price points. As evidence, the HP Pavilion dv2 is resetting expectations of what is possible in size in an $800 system price envelope.

Looking ahead, our upcoming Congo platform will extend the performance range of affordable ultrathin computing with the incorporation of dual-core CPUs and our 7-Series Chipsets. Our popular Dragon platform featuring the AMD Phenom II quad-core processor is now available on systems from over 40 AMD partners worldwide including Dell, Alienware, and HP.

Continuing our market leadership in graphics, AMD announced the expansion of our award-winning Radeon HD 4000 series into notebooks with the 4860 and 4830, the world's first 40-nanometer graphics processors. And as promised, we expanded our participation in the lucrative workstation graphics segment with the launch of the FirePro 2450 and V7750.

And in the context of a soft enterprise demand environment, we are seeing solid OEM support for our new quad-core Opteron processors. The new designs are well positioned to deliver maximum value in both high density and highly scalable systems.

Our seamlessly upgradable six-core Istanbul processors are earning strong early reviews from our customers. And I am pleased to announce that because of our strong engineering execution, we are pulling in revenue shipments of Istanbul into May with system availability in June. For more details on this announcement and updates on our server platform plans, please join our webcast tomorrow.

One quarter ago, I outlined a plan to reduce our breakeven while protecting our core assets of people and intellectual property. And I am pleased to report that we are executing well on these commitments. Most important, we are showing that we can be an even more agile and responsive company, one with the ability to succeed today and when the market makes a turn for the better.

With that, I'll turn it over to Bob.

Robert J. Rivet, Executive Vice President and Chief Operations and Administrative Officer

Thank you, Dirk. First quarter revenues were $1.177 billion, flat sequentially. The first quarter of 2009 was, as expected, a challenging market environment. However, our enhanced product portfolio and strong market position allowed us to capitalize on a widespread flight to value across price point segments. At the same time, industry-wide supply chain stabilized; desktop first, followed by notebook.

First quarter non-GAAP net loss for AMD Product Company was $97 million. After backing out unusual benefits and charges, the adjusted non-GAAP net loss was 189 million.

First quarter operating loss was $159 million. Excluding the unusual items outlined in our press release, the adjusted operating loss was $124 million. Overall, both results represent a significant bottom line improvement from the fourth quarter.

Gross margin for AMD Product Company was 40%. This includes a five percentage point benefit from the sale of inventory written down in the fourth quarter of last year. Therefore, the adjusted gross margin was 35%. Gross margin was impacted by lower microprocessor ASPs and underutilization of our manufacturing assets.

Now let's switch to the business segments. Computing Solutions revenue was $938 million in the first quarter, up 7% compared to the fourth quarter. Microprocessor units were up sequentially, driven by higher volume in the Client segment. Overall ASPs were down quarter over quarter. Operating loss for the Computing Solutions Group was $36 million, a significant improvement over the fourth quarter.

In the Graphics segment, revenue for the quarter was $222 million, down 18% sequentially and down 15% from the first quarter of 2008. Units and ASP were down quarter over quarter. ASPs were up year over year as a result of richer mix of the HD 4000 family of products. And the Graphics segment broke even at the operating level.

Now turning to the AMD Product balance sheet, cash and marketable securities balance at the end of the first quarter was $1.6 billion. Depreciation and amortization was $105 million. Capital expenditures were only $17 million for the quarter as we continue to manage and scale our business according to current market conditions. And adjusted EBITDA was $99 million.

Long-term debt outstanding as of the first quarter was $3.7 billion as we transferred approximately $1 billion of debt to GLOBALFOUNDRIES. In addition, we continued to repurchase convertible bonds in the period.

Let's turn to the outlook. The following statements are forward-looking and actual results could differ materially from current expectations. Considering current macroeconomic conditions, limited visibility, and historical seasonal patterns, AMD the Product Company expects revenue to be down from the second quarter of 2009 – for the second quarter of 2009.

We continue to drive toward our Product Company breakeven model of $1.3 billion and we are on plan to approach the cost structure during the second quarter. As a reminder, the breakeven model was built on a gross margin goal of 40% or more, R&D spending of about 300 million per quarter, SG&A spending of $200 million, and depreciation and amortization of approximately $100 million per quarter.

As reported in our 10-K, capital expenditures for 2009 will be about $150 million for AMD Product Company and about $760 million for GLOBALFOUNDRIES. Please keep in mind that both targets continue to be evaluated and will be adjusted as necessary to levels appropriate for market conditions.

Due to the GLOBALFOUNDRIES transaction, we now have approximately 665 million shares outstanding today. You can use this number for your second quarter EPS calculation.

In closing, we are executing well on every major element of our strategy, from launching GLOBALFOUNDRIES, to reducing our cost structure, to delivering a growing portfolio of platforms tuned to today's increasingly value conscious end user mindset.

As Dirk mentioned in his opening comments, we enter 2009 a very different company than the one you were following as recently as a year ago. AMD the Product Company is a much nimbler operation, right-sized to respond to today's economic uncertainty as well as the dynamic demands of our world-class global customer base.

And with that, I'll turn it back to Ruth.

Ruth Cotter, Investor Relations Manager

Huey, we'd like to welcome calls from our audience now, please.

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Cotter. [Operator Instructions] Our first question comes from JoAnne Feeney from FTN Equity. Please go ahead.

<Q – JoAnne Feeney>: Hi folks and congrats on a good quarter in a tough environment. I guess I'd like to try to get some clarity on the gross margin situation, both for last quarter and going forward. So you were targeting 40% and came a little bit short of that, and I'm just wondering whether the underutilization in the first quarter was passed on to you guys and whether you see a recovery here in the second quarter and whether you might return to that 40% target going forward.

<A – Robert Rivet>: Hi, JoAnne, this is Bob; good question, thank you. Clearly in the first quarter, we built a lot of inventory with backup. We built a fair amount of inventory in the second half of the year in anticipation of a much stronger year than the fourth quarter signaled to us. We began dropping our factory run rates pretty significantly in the Christmas time period to late in the fourth quarter. That continued in the first quarter.

We're trying to deplete inventory. As you can see on the balance sheet, we did a pretty good job in the three-month period of time. So I expect utilization rates like the supply chain will improve a little bit in the second and third quarter, mostly third and fourth. It depends on the visibility of what we see in the second quarter of is it a strong second half or a casual second half or whatever. So utilization is a big piece of it.

We did sell lot of 65-nanometer material also in the quarter. The majority of our starts today are 45-nanometer. So we're still going to get some pickup benefit from 45-nanometer shipments, I'll call it starting in the second quarter. So a combination of both of those areas will help the cost part of the equation and continue to play in more price bands as we continue to roll out all the different versions of product, whether it's in server, mobile desktop, or graphics.

<Q – JoAnne Feeney>: So are you suggesting then, Bob, that because of the shift over from 65 to 45 in your mix that your ASPs might actually improve next quarter despite the pressures we're starting to see in GPU pricing and CPU pricing?

<A – Robert Rivet>: Pretty hard to call whether they will improve. We would like them to improve, hard to say if they will or not. So we're definitely working on what we control, which is all the cost structure part of the equation, continue to work with the OEMs in being merchandised across all the SKUs. And we believe we deliver a real powerful combination of CPU and graphics to the marketplace.

<Q – JoAnne Feeney>: And then if I could, just one follow-up. I'm wondering if you could comment on your cash flow projections, a lot of data to digest here in the release. Could you comment on whether you still think you'll be able to achieve positive cash flow for the year?

<A – Robert Rivet>: We made that bold statement in the fourth quarter and the beginning of the first. I guess the best proxy is EBITDA for the quarter for AMD the Product Company being at about $100 million. I'm confident we'll be cash flow positive in the second half of the year. Whether that recovers the cash flow negative of the first half year is to be determined. So we're going to be close.

<Q – JoAnne Feeney>: Okay, thanks.

Operator: Thank you, ma'am. Next we have Uche Orji from UBS. Please go ahead.

<Q – Uche Orji>: Two questions. Let me start by asking you about revenue. Just if I look into Q2, is it fair to assume that you are going to be ceding market share to Intel? And with ASPs still declining and Intel coming out with the CULV, I just want to know what could drive your revenue growth. And I have a follow-up on gross margins, please.

<**A – Dirk Meyer**>**:** Dirk here. First of all, I don't think you should consider our Q2 forecast as being any stated intention to lose share. Rather, we're simply communicating that: one, the economy is still weak, making it very difficult to forecast end user demand levels, and we're heading into what is typically a seasonally weak quarter. So you put all that together and the outlook is murky at best, and that results in our forecasts. It's not a statement about the intention to give up share.

You mentioned CULV, an interesting topic. Really we view that as a response to our Yukon offering, which as you know is exploiting an opportunity in the marketplace to bring PC performance at an affordable price to ultrathin notebooks. And we're happy with the momentum that we have with HP and we're happy with the design win momentum that we have around Congo. So hopefully I answer those two questions, and you had a follow-up.

<**Q – Uche Orji**>**:** Sure, you did. Just on gross margins, with the benefits we've had from the inventory write-down, obsolete inventory that was written down and sold, I'm just wondering what will help. I'm a little bit surprised it's still at 37% first of all, and then I'm just wondering what will help to get it to 40%, especially now that you have to pay for wafers from GLOBALFOUNDRY.

<**A – Dirk Meyer**>**:** I can tell you the factors without being specific and giving you timeframes. One as Bob described, we still have a situation where our manufacturing assets all in are under-loaded and we're therefore bearing expense that's unabsorbed I'll say. Number two, as the mix of what we sell in the marketplace shifts more to 45-nanometer, that helps our unit cost tremendously. And the final point is mix, and there we've got two opportunities. One, we are launching new platforms in the quarter. For example, our new mobile platform will come out, which will provide better capability both in the dimensions of performance and battery life.

And finally, as I often say on this call, we always have an opportunity to sell up the stack. And versus the competition, that's an untapped potential for us.

<**Q – Uche Orji**>**:** Thank you very much.

Operator: Thank you, sir. Our next question comes from Kevin Cassidy from Thomas Weisel Partners. Please go ahead.

<**Q – Kevin Cassidy**>**:** Thank you. I wonder if you could give a little more detail about what was happening in the server market through the first quarter. Can you say what your split was in multi-socket servers versus dual socket servers et cetera?

<**A – Robert Rivet**>**:** Yes, good question. We don't provide that granularity. I guess what I'll say overall is to say that the enterprise server market wasn't tremendously exciting in the quarter. We'll see how Q2 unfolds. We're not anticipating a dramatic turnaround in that space. And then unfortunately, can't give you a mix breakout.

<**Q – Kevin Cassidy**>**:** How about as a follow-up, maybe if you could just maybe speak to Cisco's introduction of a server. Do you expect they will be a customer eventually?

<**A – Dirk Meyer**>**:** I look forward to that opportunity absolutely.

<**Q – Kevin Cassidy**>**:** Okay, thank you.

Operator: Thank you, sir. Our next question comes from Doug Freedman from Broadpoint AmTech. Please go ahead.

<Q – Doug Freedman>: Great, thanks guys. Can you offer any color on what you're seeing in the computing market space where you mentioned that your ASPs were down. Can you give us some magnitude of what's going on there, whether there is a shift; notebook, desktop, any clarity would be helpful.

<A – Dirk Meyer>: Yes, Dirk here. A bunch of moving parts, so first of all on the desktop side, ASPs were flat to actually up a little bit. On the notebook side, ASPs were down mostly driven I'll say by mix shift in the marketplace towards lower end machines. In addition as Bob said, we walked into the quarter with a pretty big inventory position, so we clearly found opportunities I'll say to move inventory, which was also part of what drove the quarter-to-quarter ASP decrease. And finally, stand back and look at it; our server business was down a little bit quarter on quarter while both the desktop and notebook businesses were up quarter on quarter, which affects the overall ASP and moves it down.

<Q – Doug Freedman>: Okay, great.

<A – Dirk Meyer>: Does that make sense?

<Q – Doug Freedman>: Yes, it does, excellent; that was the clarity I was looking for. If you could comment a little bit, you mentioned 45 nanometer products and the fact that you've still been selling 65. When – can you give us a crossover period when you expect 45 to be the majority of shipments? Is it possible we see that by the end of the June quarter?

<A – Dirk Meyer>: Yes, I expect we'll hit that point in the current quarter.

<Q – Doug Freedman>: Okay, and then if I could, a lot of legal issues in the quarter. Are there any specific dates that you guys have on your calendar that we should be making sure that we're paying attention to? I know that you really can't comment on ongoing legal issues, but maybe you can give us an idea...

<A – Dirk Meyer>: Yes, you're right. I can't...

<Q – Doug Freedman>: ...what's at least on the calendar.

<A – Dirk Meyer>: No, I understand. I can't comment on the specifics nor can I give you a specific milepost in the form of a date.

<Q – Doug Freedman>: All right, and I guess let me – Bob, you mentioned the share count there as 655 is the new share count for Q2. Is that a basic share?

<A – Robert Rivet>: Yes, 655 basic share count, right.

<Q – Doug Freedman>: And could you give us an idea what the fully diluted would look like?

<A – Robert Rivet>: I don't have that number at my fingertips. We'll have to get back to you on it.

<Q – Doug Freedman>: All right, great. Thanks guys.

<A – Robert Rivet>: It's north of 700 though. I just don't know the specific number. But I'll have Ruth get back to you on that.

Operator: Thank you, sir. Our next question comes from David Wong with Wachovia. Please go ahead.

<Q – David Wong>: Thank you very much. The sequential growth that you saw in the March quarter was very impressive. Were there any special sales that helped boost this number?

<A – Dirk Meyer>: Did you say were there any special – I'm sorry, David?

<Q – David Wong>: Yes, were there any once-only deals or any particularly big transactions that helped push up the number or was this just general across the board strength that you saw? It might...

<A – Dirk Meyer>: It was general strength across the client businesses.

<Q – David Wong>: But that momentum doesn't – I mean that is significantly better than seasonal for March. We're not seeing an ongoing momentum into the June quarter. We're seeing something normal seasonal into June then?

<A – Dirk Meyer>: Honestly, I would say that – I'd characterize it like this. We've seen the inventory drain that was occurring across the IT supply chain slow down in Q1, and we're starting to see I'll say normal inventory replenishment. I don't expect that to be a major effect in Q2, and therefore calling Q2 relates really to calling end user demand for IT products, which in the current environment is awfully difficult to do. And it's that thought process that guides our guidance on Q2.

<Q – David Wong>: Great, thanks very much.

Operator: Thank you, sir. Our next question comes from David Wu with Global Crown Research. Please go ahead.

<Q – David Wu>: Hi, good afternoon. I apologize, I just got on, but I was curious about two things. The first one is there seems to be a dichotomy between your Q1 and Q2 relative to the competition. And I assume that if I were to look at what is in the press release, I assume that this is entirely due to the fact that you had some very good cost inventory to sell in Q1, which boosted Q1 and Q2 back to seasonality. Did I get that roughly right?

<A – Dirk Meyer>: I would say no in the sense that we didn't do anything truly extraordinary in terms of pricing that resulted in us draining inventory. I mean we were responding to opportunities in the market, as we always do. As I told you, we saw inventory levels start to come back into balance in the past quarter, which explains the Q4 to Q1 comparison.

<Q – David Wu>: Yes.

<A – Dirk Meyer>: And frankly, Q2 outlook is just awfully hard to call. I've heard some say that we've hit bottom. I don't know how anybody could say that we've hit bottom given the continued uncertainty that we have in the macroeconomic climate. And as a result of that, I would say we're simply being cautious on our outlook.

<Q – David Wu>: I see.

<A – Robert Rivet>: Dirk, I would add also, if you break it into supply and demand: supply, we have plenty of supply, plenty of capability to run more material. So we're running fairly underutilized today, which is reflected in our gross margin today; so supply is not our issue. It's really demand, which is what Dirk just said. Where is the demand and when will it materialize, and then we can execute the manufacturing plan to give them the right supply.

<Q – David Wu>: Okay. Maybe you could help me in one more thing, which is in terms of the three segments, desktop, notebooks and server, what is the relative level of demand for these three classes of products?

<A – Dirk Meyer>: When you say relative level of demand, relative to what? Do you...

<Q – David Wu>: Let's put it this way. If the mean is an average; for example Q1, you achieved sequentially flat revenue. And I was wondering relative to that flat comparison with Q4 if any of these three categories were up or down relative to that average number. That's what I was trying to drive at.

<A – Robert Rivet>: I'd answer it this way, which would be, as Dirk already outlined, server was definitely a weak spot. The enterprise spending has been clamped down pretty hard. So server was actually a decline quarter on quarter. Strongest growth was in notebooks and then desktops were reasonable, but still grew positive quarter on quarter.

<Q – David Wu>: I see.

<A – Robert Rivet>: And those added up to the positives quarter on quarter for microprocessors.

<Q – David Wu>: I see, okay. And can you tell at this point how the second quarter demand looks for those three categories again?

<A – Robert Rivet>: That's where again we're – second quarter, I'll just say it again. Second quarter is seasonally typically a down quarter from first.

<Q – David Wu>: Yes.

<A – Robert Rivet>: And we still believe there are still some supply chain issues to work through and the visibility of end users' purchases is still unclear. So we're just being cautious at this point that we think potentially we'll be down.

<Q – David Wu>: Okay, thank you.

<A – Dirk Meyer>: Thank you.

Operator: Thank you, sir. Our next question comes from Venk Nathamuni from JPMorgan; your question please.

<Q – Venk Nathamuni>: Yes, thanks for taking my questions. Could you comment in general about your relative strength between the graphics and the CPU business? I know for the current quarter, graphics was much worse than CPU, but do you see that trend continuing through the rest of the year or for graphics to get better over time?

<A – Dirk Meyer>: No, I would say I don't see that trend happening for the rest of the year. One of the factors I think that caused the GPU and CPU results for us to differ a little bit quarter on quarter were that our exposure to graphics on notebook is really an exposure both to AMD and Intel platforms. And one thing we talked about last time on the call was that the notebook supply chain was taking quite a bit longer to recover versus the desktop supply chain, and we certainly saw that in our notebook GPU business. We think that process has largely corrected itself. And looking forward, I expect the overall market for CPUs and GPUs to track in similar fashion. But again, our Graphics business is exposed to both AMD and CPU platform.

<Q – Venk Nathamuni>: Okay, that's helpful, thanks. And then you already talked about achieving breakeven cost per comparable at 1.3 billion in revenue and that you're likely to get there in the June quarter. Do you see a need for continuing OpEx reductions going forward or do you think that's the level at which you will be comfortable and then see how the revenue plays out in the next few quarters?

<A – Robert Rivet>: Right now, we think the 1.3 model is the right model to chase. We've worked on this pretty hard through the balance of – end of the year and the beginning of the first – in the first quarter. So right now, we're holding to that.

<Q – Venk Nathamuni>: Okay, great. Thank you.

<A – Ruth Cotter>: Next question operator?

Operator: Yes, ma'am; our next question comes from Mark Lipacis with Morgan Stanley. Please go ahead.

<Q – Sundeep Bajikar>: Hi, good afternoon. This is Sundeep Bajikar for Mark Lipacis. I have two questions, the first one on GLOBALFOUNDRIES. When should we expect GLOBALFOUNDRIES to actually have a fully qualified bulk CMOS process? Is it still planned for 2010 or is it later?

<A – Dirk Meyer>: No change to the plan that we've talked about in the Analyst Conference, which was as you said, qualified bulk process available to third-party customers in 2010.

<Q – Sundeep Bajikar>: Okay, thanks. Second question, can you tell us how we should think about the AMD Fusion Render Cloud noted in your press release. Would it disrupt your client side, discrete GPU business in the long term?

<A – Dirk Meyer>: It's hard to predict because you used the word disruptive. The whole phenomenon of cloud computing; that is applications being hosted in a data center is both interesting and potentially disruptive for the market. And what we talked about with the Fusion Rendering Cloud is the idea that media intensive applications and graphics intensive applications could also be hosted on the cloud. Exactly how that technology results in changes in our business is awfully hard to predict because as you said it's potentially disruptive.

<Q – Sundeep Bajikar>: Okay, that's helpful. Thank you.

Operator: Thank you, sir. Our next question comes from Ross Seymore with Deutsche Bank. Please go ahead.

<Q – Ross Seymore>: Thanks and congrats on the strong revenue numbers. I think this was asked before a little bit, but I just want to make sure I had the answer right. For your second quarter guidance for revenues to be "down," do you expect there to be a delta between what your CPU business does sequentially versus your GPU?

<A – Robert Rivet>: It's interesting. If you look at historical seasonality patterns, the CPU pattern is potentially less growth, more negative than the GPU pattern, so they're slightly different just based on the timing of when people buy those different components to go build systems. But our forecast comprehends that from that perspective. It's still the visibility issue and what's going on in the end market demand to buy IT technology.

<Q – Ross Seymore>: Okay. And then as far as the first quarter business upside, especially on the CPU side of things, geographically could you give us any color on where the stronger and weaker geographies might have been, if there was a big delta?

<A – Dirk Meyer>: Sure, if I were to consider North America and Western Europe to be in the center of the distribution, I would say that China was a little bit stronger. We saw kind of life return to the PC market in China after Chinese New Year. The Middle East I would say was also stronger than the average; and meanwhile Eastern Europe and Russia a little bit weaker.

<Q – Ross Seymore>: Okay, then the final question. As you mentioned that you guys expect to have a lead going to the 40-nanometer on the GPU side of things, from a qualitative perspective, do you expect to use that shrink more so to lower your costs or add functionality?

<A – Dirk Meyer>: As you know, the technology has actually been used for both those purposes. So we'll deliver I'll say equal performance and capability at lower costs, and that will be the story in part of the product line as well as in the back half of the year introduce products that have more performance and more features.

<Q – Ross Seymore>: Generally, how do you think the die size comparison at 40-nanometer might be versus your primary competitor versus where it was at the prior node?

<A – Dirk Meyer>: The way we approach the business is to look at price points in the marketplace, to engineer our cost consistent with those price points, and to drive more performance and features over time in the price points. So the game is at the high end more performance, better features; and at the bottom end as an example, better performance, same cost.

<Q – Ross Seymore>: Great, thank you.

<A – Dirk Meyer>: Rather than opening up still lower price points because typically below the bottom end of the discrete GPU stack, you start talking integrated graphics.

<Q – Ross Seymore>: Got you, thank you.

Operator: Thank you, sir. Our next question comes from Patrick Wang from Wedbush Morgan. Please go ahead.

<Q – Patrick Wang>: Thanks so much, just a quick question. I was hoping you guys could discuss your visibility now and perhaps maybe how you feel about channel inventory at this point.

<A – Ruth Cotter>: Sorry, Patrick, it was difficult to hear your question. Could you come off speaker please? Can you repeat your question please, Patrick?

Operator: I think he may have disconnected.

<A – Ruth Cotter>: We'll take another question. Maybe he'll queue again. Thank you.

Operator: No problem. Our next question comes from Tim Luke from Barclays Capital. Please go ahead.

<Q – Tim Luke>: I almost disconnect myself. I was wondering, guys, seeing the GPU's down 18%, did you feel that you would have ceded some share in the first quarter there? And I was just wondering how you see it going forward in terms of the share dynamic. And maybe just more broadly – I think you touched on this before, when you think about seasonal guide, are there areas that you would expect to be somewhat stronger than others? Should we for example expect server to be a bit softer seasonally than notebook and desktop? Where do you see it leading?

<A – Dirk Meyer>: Yes, first on graphics, no, we don't at this point see our sequential decline as being driven by share loss. Rather, it was predominantly driven by OEM notebook builds coming down so as to drain inventory from the system. Over half of our sequential decline was driven by notebook graphics.

<Q – Tim Luke>: And graphics would be seasonal in the second quarter, seasonally lower?

<A – Dirk Meyer>: Interesting, it depends on to what degree we start seeing inventory replenishment. I am not smart enough to know whether the system has too little inventory walking into Q2. But that is a factor as OEMs start building notebooks for the back-to-school season. And as Bob said, the seasonality of GPUs is a little bit different than CPUs. Q2 is typically a little stronger for GPUs than CPUs.

You asked to comment – for me to comment a little bit on the share expectations overall with GPUs, and there we feel very good. We feel great about the product roadmap. We are out in the marketplace today, just introduced a new product on the high end. We talked about our new 40-nanometer products. We still got feature advantages in the form of DX10.1 and GDDR5 technology, which makes products distinctive. And we plan to lead the market with DX11 solutions coincident with Microsoft Windows 7 release in the back half of the year. So we feel very good about the GPU situation.

<Q – Tim Luke>: And the segments, the seasonality, any...

<A – Dirk Meyer>: It's hard to talk about seasonality. What I will say is the enterprise side of the commercial market is clearly still weak. Wallets are closed. Our big exposure there is really the server business. As you probably know, our commercial client business is largely an SMB play. And then of course, we're heavily exposed to the consumer market.

<Q – Tim Luke>: Forgive me, Bob, if you got asked before, but could you just give some framework for where you think the key sensitivities are on the gross margin as you move out through the year and what you're monitoring there? And also, when you expect the Yukon to start shipping? Thanks.

<A – Dirk Meyer>: Yes, we'll start shipping Yukon at the end of this quarter.

<Q – Tim Luke>: Okay.

<A – Dirk Meyer>: Sorry, Yukon shipped and not ASP. I thought you were asking about Congo. So Yukon is shipping now at HP and others.

<A – Robert Rivet>: You can buy that platform from HP today.

<A – Dirk Meyer>: Right. And we'll have Congo designs into which we'll be shipping in the back half of this quarter.

<A – Robert Rivet>: To your question, Tim, on gross margin, I think of it this way is on the top line, it's clearly the ASP. What does the mix end up to be in server, mobile, desktop, graphics. And even in graphics, it's a split between how much is the AIB channel versus directly to an OEM. It feels like based on our current lineup and all of the continued refresh is new introductions that we continue to have a deeper spread across all the SKUs that you could play in. So definitely, we could play more in the higher ASP points. So that's on the ASP side of the equation.

Now on the cost side of the equation, it's simple. It's two big levers: factory utilization, which today is very low. Clearly, as I said, we've got plenty of supply. We just need to run the factories a little bit harder if we see the demand. And then shipping the 45-nanometer and 40-nanometer stuff, whether that's a CPU statement or a GPU statement; those are the two big levers on the cost side of the equation.

<Q – Tim Luke>: Thank you very much guys. Good luck.

Operator: Thank you. And Patrick has queued back up. Sir, your line is open.

<Q – Patrick Wang>: Great, thanks. Sorry about that, my apologies. These short cell phones just aren't that great. First, can you discuss your visibility out there and I guess perhaps how you feel about channel inventory?

<A – Dirk Meyer>: We actually feel good about channel inventories. Clearly, we've got the best insight into our own component distribution channels and graphics adding board partner channels where we feel like where we need to be. It's a little harder for us to know definitively what is the inventory situation beyond our OEM customers. But first order from what we hear, there's nothing terribly alarming there either.

<Q – Patrick Wang>: Got you. And then in terms of visibility here, is your visibility any better today than it was I guess maybe a month or two ago?

<A – Dirk Meyer>: Could you repeat? We lost you right at the end.

<Q – Patrick Wang>: Sorry, just curious about visibility here, if your visibility is any better today than it was perhaps a month or two ago.

<A – Dirk Meyer>: I would say visibility not substantially better, but the climate is certainly a little bit easier to deal with in the sense that in Q4, we were dealing with simultaneously an economic contraction driving a reduction in end user demand and a very strong, very quick reduction in inventory levels that our customers were driving across their ecosystem. At this point, the latter situation has largely stabilized and we're left with simply the macroeconomic climate and our relative inability to predict that and thus the effect on end user demand for IT.

<Q – Patrick Wang>: Got you, okay. You guys have done a great job in graphics here. Can you talk about some of the industry trends you're seeing out there and perhaps how you see mix and margins trending over the course of the year?

<A – Dirk Meyer>: Yes, good question. And one of things that we get asked a lot about is, are we seeing any change in discrete graphics attach rates on either desktop or notebook. And I'll say the first order answer is no, not much change, which is interesting given some of the backdrop of decreasing system price points and so on. So on notebook is an example, we're still seeing I'll say consistent attach on GPUs; and likewise desktop, nothing notable in terms of changes in the market planning.

<Q – Patrick Wang>: Okay, so you're not particularly seeing a shift towards the lower end, lower cost add-in boards and away from the mid-range?

<A – Dirk Meyer>: Not really, no. And it has been true for quite some that the growth in the PC market, discrete graphics has been largely a constant, right, in terms of size, right, and that much of the unit growth has been at price points where integrated graphics plays. But we're not seeing any big shift in the size of the discrete GPU market. And who knows with Windows 7 being released in the back half for this year and all the benefits that come along with that in the form of DX11, improved graphics quality, compute offload, and so on, we might see a spike in interest for a richer graphics experience. And certainly that's one of the thing we're trying to drive as a company.

<Q – Patrick Wang>: Okay, great. And then last question here, and I might have missed this earlier. But can you talk about your server ASPs last quarter and also maybe how you feel the competitive landscape looks in the back half for the year, particularly with Istanbul out there in terms of pricing and positioning?

<A – Dirk Meyer>: Again, I lost you in the back half for your question, I'm sorry.

<Q – Patrick Wang>: The first part of the question was you just talked about how server ASPs trended last quarter. And then also if you could talk about the competitive landscape in servers in the back half this year, especially when you've got Istanbul out there and the other guys out there with couple of new chips?

<A – Dirk Meyer>: Yes, so first server ASPs were actually up quarter on quarter; that is sequentially. And what I would characterize the rest of the year as is one of technology leapfrog. Intel came out there and announced availability of Nehalem. Of course that's going to take quarters to ramp across the marketplace. Meanwhile as I said in my introductory remarks, Shanghai, the quad-core Opteron part, plays extremely well and offers great value, particularly in highly scalable systems and high density; i.e. cloud computing installations, so that will be our two market focus areas.

Also as I said in the opening remarks, we pulled in substantially our shipments of Istanbul and will provide more detail tomorrow on other accelerated plans for server platforms. So I expect the market will be competitive. The overarching question is what will be the end user demand situation in enterprise.

<Q – Patrick Wang>: Thanks so much.

Operator: Thank you sir. Our next question comes from Craig Berger from FBR Capital Markets; your question please.

<Q – Craig Berger>: Hey, guys, thanks for taking my question. How do we think about the gain/loss on the Foundry operations in the second quarter?

<A – Robert Rivet>: It will be in a loss. I guess I would frame it this way. It will be in a loss position, as Doug outlined in the Analyst Day, as it continues to try to build out the requirements to become a separate company: to hire a sales force, buy or build the right technologies to sell to somebody else besides AMD. So it will incur losses, not of the magnitude probably of the current quarter because there was the one-time issue on taxes in the current quarter. That's not a repeatable type event, but we anticipate for 2009, GLOBALFOUNDRIES will lose money.

<Q – Craig Berger>: Okay, but improving losses you think? I mean does business improve?

<A – Robert Rivet>: I'm not going to that level of detail.

<Q – Craig Berger>: Okay, and the 500 in quarterly OpEx, do we hit that in the second quarter?

<A – Robert Rivet>: We will be very close to that number, yes.

<Q – Craig Berger>: And did you guys talk at all about your graphics transition to 40-nanometer?

<A – Dirk Meyer>: What we did and what we said is we launched notebook GPUs in Q1. We'll launch another product here soon, and follow that up with I'll say a wave of DX11 compatible products in the back half of the year on 40-nanometer.

<Q – Craig Berger>: Perfect, thanks guys.

<A – Ruth Cotter>: Operator, we'll take two more calls, please.

Operator: Sure. Our next question comes from Cody Acree from Stifel Nicolaus. Please go ahead.

<Q – Cody Acree>: Thanks for getting me in here guys. Just a couple of quick ones; looking at next quarter, if you had to rank the three primary issues, the inventory burn, the seasonality, and the lack of visibility, how would those stretch out as far as impact on your guidance?

<A – Dirk Meyer>: Could you repeat the question? We had a hard time hearing.

<Q – Cody Acree>: Yes, sorry about that. If you had to rank the three areas that are impacting your second quarter guidance, the inventory burn, the seasonality, and then of course the just the questionable visibility, how would you rank order those and give a magnitude of impact.

<A – Dirk Meyer>: I would say that the inventory correction is largely behind us, and what we're left with is just uncertainty about end user demand, with seasonal patterns and the overarching economic question playing off against each other.

<Q – Cody Acree>: And can you give any details to – I know this is a number that we haven't really talked yet, but just typical GPU seasonality, typical CPU seasonality for Q2?

<A – Robert Rivet>: Sure. I'll start with GPUs to give you a flavor, and I'll give it to you in this framework of the maximum we've seen over the last say five years, the minimum or the best case/worst case, and then what's the average. Just to give you a flavor, it does bounce around. But on the maximum, so I'll call it the best case scenario, we're talking double digits, plus 10, pushing 15% between both mobile and desktop, and both of them have slightly different. And then you go to I'll call it worst case scenario. That number is actually approaching 9%. So they've got a pretty big spread there; and no surprise, the average approaches close to zero. So that's in that ballpark.

If you go to CPUs, you get a different answer. It has been changing over time from that perspective. Give me one second. The range is again a plus 12-ish to a minus 10-ish to a couple down on the average. So it is – which gets back to our guidance. You can see, you can drive trucks through some of those numbers of whether it's a positive 10 or a minus 10. So it's hard to figure out in a normal pattern what the average – what happens in the second quarter and then you add into it the current economic environment and it really becomes a little bit foggy.

<Q – Cody Acree>: All right, great, thanks guys.

Operator: Thank you, sir. And our final question for today comes from Srini Pajjuri from CLSA. Please go ahead.

<Q – Srini Pajjuri>: Hey, Bob, just a question on gross margins. You said the factory utilization is impacting the gross margin both on a consolidated basis as well as for the Product Company. I'm just wondering; I was under the impression that the Product Company is more or less a fabless company. And I'm just wondering how the fixed cost is allocated between these two entities.

<A – Robert Rivet>: Think of it this way. I mean we're in that early stage where the manufacturing assets that are in place are to build microprocessors because we're the only customer. And what we cut, I'll call it in the initial stages of the deal is responsibility to manage cost and to manage the loading and therefore also pay for that cost. So that's why I say that utilization does affect us. It's not the extreme that we have with an OSAT or I'll call it a typical foundry that a GPU has. So it's a more tightly coupled relationship since we put in all that capacity and we're the only customer and we work our way through that and manage the costs collectively with GLOBALFOUNDRIES and also pay for the cost.

<Q – Srini Pajjuri>: Okay. Great, thank you.

<A – Robert Rivet>: But utilization definitely impacts us and we're running pretty low rates and definitely we'd like to improve it.

<Q – Srini Pajjuri>: Okay, great. Thanks.

Ruth Cotter, Investor Relations Manager

This concludes our call. We'd like to thank everybody for participating today and encourage you to tune into our webcast tomorrow for our server event. It will be available on amd.com on the Investor Relations homepage, and we look forward to speaking with you next quarter. Thank you.

Operator: Thank you. Ladies and gentlemen, this does conclude today's program. Thank you for your participation and have a wonderful day. You may now all disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Matt and I will be your conference operator for today. At this time I would like to welcome everyone to AMD's Fourth Quarter 2008 Earnings Conference Call. [Operator instructions] As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations

Thank you Matt. And welcome to everyone to AMD's Fourth Quarter 2008 Earnings Conference Call. Our participants today are Dirk Meyer, our President and CEO, and Bob Rivet, our Chief Operations and Administrative Officer and Chief Financial Officer. This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The number is 888-266-2081. Outside of the United States, the number is 703-925-2533. The access code for both is 1313309. The telephone replay will be available for the next ten days starting later this evening.

I would like to take this opportunity to call to your attention our first quarter 2009 earnings quiet time which will begin at the close of business on Friday, March 13. Now before we begin today's call, I would like to caution everyone that we will be making forward looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast, especially in light of the turbulent economic conditions under which the entire world's economy is presently suffering.

We encourage you to review our fillings with SEC where we discuss in detail the risk factors, setting forth information that could cause actual to differ materially from our expectations. You will find these detailed discussions in our 10-Q fillings for the quarter ended September 27, 2008.

Now with that I would like to turn the call over to our President and CEO Dirk Meyer.

Dirk Meyer, President and Chief Executive Officer

Thank you, Ruth, and thanks for joining us everyone. The fourth quarter of 2008 is going to be remembered for the severe stresses placed on the global economy and on our industry. The global economic environment led to a softening in end user demand for PCs and servers in what is usually the year's strongest quarter.

In addition, we saw the beginning of a severe inventory correction across the IT supply chain, particularly acute in notebooks and one that is continuing into this quarter. The effect on the economy is going to continue to dampen end-user demand, the degree to which is uncertain. This combination makes the future particularly murky.

With that backdrop, we have established a clear set of priorities. We want to preserve and generate cash, we want to protect our core investments, we want to manage our P&L by reducing our breakeven point in line with the new economic environment and do all of these things while continuing to serve our customers.

Consistent with these priorities, we are focusing on completing our Asset Smart transaction in February. And with the exception of the shareholder vote scheduled for February 10, all major closing conditions have been met. In particular, we have received clearance from the Committee on Foreign Investment for the US. or CFIUS. The transfer of development incentives from the Empire State Development Board and New York Authorities Control Board has been approved. We are documenting the agreement with the holders of the Dresden debt to transfer the obligation from AMD to The Foundry Company. And the SEC has cleared the proxy for distribution to shareholders.

In addition we completed the sale of our DTV business to Broadcom for $142 million in cash. And as detailed in Tuesday's announcement, we sold certain handheld division assets to Qualcomm for approximately $65 million in cash.

We have accelerated our program to reduce our cost structure. We will take the AMD product company head count down by another 9%, primarily in manufacturing, SG&A and through the handheld division transaction. We have put in place a temporary comprehensive salary reduction program and we are reducing our manufacturing output to keep inventories down while completing our transition to 45-nanometer technology and developing 32-nanometer technology consistent with our plans. These actions will allow us to protect our core investments, specifically our product roadmap and the great people who innovate and bring them to life.

For our customers, we expanded our performance graphics product line with the ATI Mobility Radeon 4000 for notebooks and the Radeon HD 4830, which delivers exceptional PC game performance for the mainstream market.

We shipped our new 45-nanometer Quad-Core AMD Opteron or Shanghai processors ahead of schedule and systems based on this new family are winning performance test benchmarks across the most relevant server workloads, offering superior virtualization, energy efficiency and platform stability.

We announced the availability of our new Yukon platform for ultrathin notebooks and to the first customer offering based on Yukon, the HP Pavilion dv2 was named Best Notebook of CES by Laptop Magazine.

We launched the Dragon platform for desktop PCs, featuring the new AMD Phenom II X4 processor. HP, Dell and others plan to offer systems based on the Dragon platform in the current quarter.

Measured against the elements of our plan that are within our control, we are performing well and our unique graphics, video and platform value propositions are helping our customers deliver more differentiated offerings, crucial in this kind of market environment. The reality of today's global economy requires that we redouble our focus on cash management and on expense control and react swiftly in response to our customers' changing needs. We will do so while protecting the assets and roadmap that make us well positioned for success.

And with that, I'll turn it over to Bob.

Robert J. Rivet, Executive Vice President and Chief Operations and Administrative Officer

Thank you, Dirk. Good afternoon everyone. I would like to remind everyone that for the purposes of my remarks this afternoon, I will refer to continuing operations unless stated otherwise. In addition, a reconciliation of GAAP to non-GAAP financial results is available on our press release.

Fourth quarter revenues were $1.162 billion, down 28% sequentially, excluding third quarter process technology license revenue. Fourth quarter net loss was $1.424 billion or $2.34 a share. Losses from continuing operations were $1.414 billion or $2.32 a share. This includes the negative impact of $996 million in net charges, of which 75 million were cash related.

Items to note include $714 million of charges related to impairment of goodwill and acquired intangible assets and amortization of acquired intangible assets, an incremental write-down of inventory of $227 million, restructuring charges of $50 million, Foundry Company formation costs of $23 million, an impairment of our Spansion investment of $20 million and a gain of $30 million on buyback of our convertible debt.

Fourth quarter operating loss was $1.274 billion, but on a non-GAAP basis was $260 million compared with 24 million last quarter.

Gross margin in the quarter was 23%. This includes a 20 percentage point negative impact associated with the incremental inventory write-down of $227 million. We took this reserve due to the weak mid-term outlook.

Let's switch to the businesses. Computing Solution revenue was $873 million in the fourth quarter, down 27% compared to the third quarter, excluding the process technology license revenue. Microprocessor units were down across the board. Overall ASPs were slightly down, driven by a drop in client ASPs. However, server ASPs were up significantly with the introduction and ramp of our 45-nanometer Quad-Core Opteron processors.

Operating loss for the Computing Solution group was $431 million, significantly affected by the inventory write-down associated with this business.

In the Graphics segment, revenue for the quarter was $270 million, down 30% sequentially. ASPs were up as a result of our stronger product line, but demand in this segment was down significantly. Operating loss for the Graphics segment was $10 million.

Now let me turn to the balance sheet. Our cash and marketable security balance at the end of the quarter was $1.1 billion, down 245 million from the prior quarter. Capital expenditures were $112 million for the quarter and $621 million for the year. As economic conditions deteriorated through the quarter, we adjusted spending, coming in well below CapEx guidance of 800 million for 2008.

Now let me turn to the outlook. The following statements are forward-looking and actual results could differ materially from current expectations. In light of current macroeconomic conditions, very limited visibility and continued inventory corrections in the supply chain, AMD expects first quarter 2009 revenue to decrease from the fourth quarter of 2008. At our November Analyst Day, we told you that we were driving toward a $1.5 billion quarterly breakeven point for AMD, the product company.

Now given the environment, we are reducing our breakeven target to approximately $1.3 billion based on the programs Dirk mentioned earlier. We are heading down this path this current quarter and our goal is to be there in the second quarter. From a modeling perspective, we are maintaining our gross margin goal of 40% or more, so no change from what we told you before.

R&D is going to be about $300 million a quarter, down from the 325 million we outlined in November. This reduction does not compromise our roadmap. SG&A is expected to run around $200 million, down from the $240 million previously guided. Depreciation and amortization will be approximately $100 million per quarter. Capital expenditures have been reduced to about $45 million per quarter, roughly half of what we discussed at Analyst Day.

Now that's the foundation of AMD, the product company based on the expected February close of the Asset Smart transaction. Based on lowering the breakeven point, we will record a restructuring charge in the first quarter and we will communicate the magnitude later in the quarter. In this environment, we are laser focused on the priorities Dirk mentioned at the onset: preserving cash, preserving and generating cash, while protecting our core investments and managing our P&L and of course while we continue to serve our customers' needs.

At this point, I'll turn it back to Ruth for Q&A.

Ruth Cotter, Investor Relations

Thanks Bob. And operator, we would like you to poll our audience for questions now please.

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Cotter. [Operator Instructions] Our first question is from Tim Luke from Barclays Capital. Your question please.

<Q – Tim Luke>: Thanks so much. A couple of quick things. Bob, just in framing the environment, seasonally last year in the first quarter you were down around 15%. While you're just saying that you expect the revenue to be lower, given that it was down 33 this quarter, do you feel that's likely to be more or less than the seasonality that you may have seen last year? And just in terms of the way you're likely to report going forward, if you close the transaction in February, how should we think about you reporting the first calendar quarter of '09? Will you provide fully consolidated numbers or the separate elements? And just also on the OpEx, it looked like the R&D and SG&A actually went up a little bit sequentially in the calendar fourth quarter. Do you have a feel for how we should be modeling that for the combined entity just at the beginning of the year?

<A – Robert Rivet>: Sure, Tim. Since you had so many questions there, if I miss one, I'd circle back. But first on, your first question was on the forecast of us just forecasting down. We're not going to give any further guidance than that. As Dirk mentioned and I mentioned, the current environment is pretty murky, visibility is pretty low. Seasonality clearly didn't hold in fourth quarter, so who knows for first quarter. Just kind of leave it at that at this point in time.

Reporting was your next question. We will report AMD, the product company, Foundry Co., The Foundry Company and AMD consolidated results starting in the first quarter. So we will give you the granularity of those three pieces starting with the next reporting cycle.

And then your last question – excuse me, and then I think your last question was on operating expense kind of guidance. The best way to think about it is, again, AMD, the product company is a $1.3 billion breakeven target. We will get there by the second quarter; we will make significant progress in the first quarter from that perspective. So we won't get there fully just based on the timelines of executing some people reductions and salary cuts and other activities we are doing, but we'll make significant progress in the first quarter.

<Q – Tim Luke>: If I may then just look to the consolidated company. The gross margin this time, actually in the chart it appears to be about 43%. What are some of the variables that we should be thinking about and how do you think we should frame expectations for the first quarter?

<A – Robert Rivet>: Well, I'll kind of walk through pluses and minuses. Obviously the minus is volume, what is the volume forecast change quarter-to-quarter. So that's obviously, I think it's a negative because we're forecasting it down. Offsetting that is our lineup. Our lineup is significantly better than it was in the fourth quarter, particularly in the microprocessor front. So we got products moving in the right direction. Most of what we'll be shipping will be in the 45 nanometer variety. Therefore we enjoy the cost reduction of that part.

So there is pluses and minuses. Factory utilization will be crummy just based upon the kind of the demand environment we're currently staring at, which is why of course we and everyone else are taking actions. Does that help a little bit?

<Q – Tim Luke>: Thanks very much guys.

Operator: Our next question is from Uche Orji from UBS. Your question, please.

<Q – Uche Orji>: Thank you very much. I have two questions. First is on channel inventory. Just I understand the challenge in – with the visibility in the market but do you have any sense as to where we are now in terms of the inventory destocking in the channel? And any sense at all when you think your production might be coming in, in line with consumption?

<**A – Dirk Meyer**>**:** Yes. The question varies depending upon the product line. First of all, if you look at our desktop products through the component distribution channel, there we saw the channel react pretty quickly to the economic environment early in the fourth quarter. And we actually left Q4 with inventories pretty appropriate to sell through in that channel. So that channel responded pretty quickly. The other extreme, of course, would be notebooks where our OEM customers often have these machines built in Asia and ship the machines on boats, so the supply chain is long.

There that the channel takes quite a bit longer to respond and bring down inventory and we see that process still continuing into this quarter. It's awful tough to predict when overall our customers' inventory levels are going to be appropriate given where demand is, but that's a process that I don't expect to be fully complete in Q1.

<**Q – Uche Orji**>**:** And any comment on graphics? If I look at your graphics number, how much of your result's related to NVIDIA? Was the result of share gains, it was lower channel inventory overhang and also if you can make any comments as to what you see in terms of channel inventory for graphics, similar to what you said for desktops and notebooks? That'll be helpful.

<**A – Dirk Meyer**>**:** Sure. Well first, it's hard to know based on third-party reports where we ended up in terms of GPU share in Q4, though I expect given the extent to which we have a differentiated offering both in terms of performance power, efficiency and features, we did gain share in Q4. The same commentary, I would say, applies to GPUs in terms of channel inventory of CPUs namely our add-in board channel can react a bit faster versus certainly the part of our GPU business that's associated with notebooks. So, in terms of color commentary very similar to what I described on the CPU side.

<**Q – Uche Orji**>**:** Great, thank you.

Operator: Our next question is from John Dryden from Charter Equity. Your question, please.

<**Q – John Dryden**>**:** Hi thanks for taking my questions. Bob, could you the give operating cash flow for the quarter and an update on the free cash flow outlook that you provided Analyst Day for positive for 2009? And secondly, with the shareholder meeting on February 10, once approved, what's the timeline for the 700 million input from ATIC and the 100 million plus input coming from Mubadala?

<**A – Robert Rivet**>**:** Okay. Your first question was on the current cash flow. Think of it this way, obviously cash balance is down 245. We paid off about $95 million worth of debt. We invested about $112 million in new capital. Therefore cash flow from operations was slightly negative in that equation. So, we did burn cash, that's definitely part of the reason we are taking very aggressive actions in the first quarter.

If you think about it with the forecast on a go forward basis, again with the breakeven model of $1.3 billion, depreciation of $100 million a quarter, CapEx at about $45 million a quarter, I think you can do the math and determine that that's actually making a little bit of free cash flow, that's our model. First quarter will be a little bit on the negative side, because we won't get actually to the breakeven mode. But that's the kind of the plan as we kind of move through time.

And again the timing, F-Co. timing will be, shareholder meeting is scheduled for February 10. We are expecting we'll close this transaction within 24 to 48 hours after the shareholder vote, it is affirmed as a yes. And that will bring $700 million into AMD, the product company, $1.4 billion into Foundry Co. and another 100 plus on the equity sale of the AMD shares to Mubadala. And that will all happen again I'll say 24 to 48 hours after we get shareholder approval.

<**Q – John Dryden**>**:** Thanks for taking my questions.

<A – Robert Rivet>: Sure.

Operator: Our next question is from David Wu from Global Crown Capital, your question please.

<Q – David Wu>: Yes. Can you give a little bit more color on the – your Puma platform has been doing pretty well in terms of design wins and ramps. And I was wondering whether from your comments that it looks like notebooks is going to be weaker than desktop in Q1? And do you expect overall the rate of decline in your computing side to be slowing down in Q1 in view of the fact that your desktop inventory seems to be clean? That's the first question.

The second one I was wondering is this wonderful letter that your friend across the street sent you on yesterday about needing to set up a meeting for discussion on this cross-licensing thing. Is there anything that would lead you to be a show stopper in terms of this transaction in a meeting of that sort? And the last question I have is really that of graphics. The graphics and the CPU, both MPU side, if both undergo inventory correction, should I infer from the comments that you gave that, in fact, the graphics is further along in the inventory correction by OEMs and channel partners than the MPU side?

<A – Dirk Meyer>: Good questions. First, on your question regarding the Puma platform and how to think about dicing dissecting the two businesses into notebook versus desktop. First of all, notebook is still going to enjoy a higher growth rate in terms of end-user consumption throughout next year versus desktop, consistent with what we've seen in the past couple of years. It's extremely hard to know what those growth rates are going to be or in fact whether they're going to be positive or negative over the course of the year. The notebook supply chain, as I said, is much longer than desktop. Therefore the inventory correction takes longer. And therefore our notebook sales are going to take longer to come into balance with where end-user system consumption is. Okay, and it's awfully hard at this point to put numbers on anything that I said there, which is why our guidance is what it is.

Second, you asked about the letter we received from Intel. As we said when we announced the Foundry Company transaction back in October, we constructed that transaction consistent with the terms and conditions of all of our IP license agreements. That was true then and it's true now. So we have complete confidence that this agreement is consistent with all of our IP terms and conditions. And Intel's letter is in no way a condition for closing the deal, and the deal is going to close on February 10. Finally – assuming we get the shareholder approval, as we expect to.

Finally, you asked about commentary about comparing GPU to MPU inventory correction and whether GPU is ahead of other, I wouldn't say so. GPUs are down on notebook motherboards and have the same channel correction delay I'll say, as CPUs do. So first order I can't characterize the situation that way.

<Q – David Wu>: Thank you.

Operator: Our next question is from Chris Danely from JPMorgan. Your question, please.

<Q – Chris Danely>: Thanks guys. You guys talked about the Yukon product offering going into thin and light notebooks. Can you just give us AMD's plan and what your thoughts are on the netbook market?

<A – Dirk Meyer>: Sure. The way I think about this market as it unfolds, is the distinction that we use today in terms of using words that are different between netbook and notebook I think is going to go away over time. I mean I think what you're really going to see over time is a continuum of price points in the marketplace and a continuum of form factors in the marketplace. So really, this distinction between what is a netbook versus a notebook is going to go away.

Having said that, what we identified in the market today is an opportunity that we've exploited and are going to exploit pretty well. And that is the fact that given the way netbooks are configured to date, consumers who want a notebook at those kind of price points have to make a compromise and as a result don't enjoy a full PC experience, particularly around the graphics and media capability of the machine. And likewise, people who wanted a really nice thin and light machine had to pay a lot of money, typically well over $1,000 up to $1,500. And our Yukon platform offers, really, a full PC experience at really low price points. And the market is really reacting positively to that value proposition.

<Q – Chris Danely>: Okay and Dirk, would you care to put a, give us a guess of the relative growth rates of your CPU versus GPU business this year?

<A – Dirk Meyer>: Well, I don't think we want to provide a forecast with that kind of granularity, particularly given the murkiness in the marketplace.

<Q – Chris Danely>: No problem, I'll try one last question. What exactly is the exit strategy for the Foundry Co.?

<A – Dirk Meyer>: Tell me what you mean by exit strategy.

<Q – Chris Danely>: How do you get it off your P&L?

<A – Dirk Meyer>: What are the conditions for not consolidating, is that your question?

<Q – Chris Danely>: Well it still flows through your P&L, so I think all of us are looking.

<A – Dirk Meyer>: Yeah, I understand. So you are asking about how we are going to account for it over time. Bob, why don't you take that?

<A – Robert Rivet>: Sure. In the early stages, obviously, as we're the only – we're the anchor tenant and the only customer, through typical accounting regulations we'll have consolidation. As Foundry Co. executes its game plan and brings on third party revenue, we will have the ability at some point in time in the future to not consolidate. And then as time goes on and capital calls are required to fund that business to make the large capital investments to build out different clusters, we will, as we've said in the past, most likely not participate in those capital calls and our ownership will decline as time goes on. Through a combination of all those things, it will become just an investment by AMD and then eventually it just kind of winds its way out as time goes on.

<Q – Chris Danely>: Okay, thanks a lot.

<A – Dirk Meyer>: Thank you.

Operator: Our next question is from Doug Freedman from Broadpoint AmTech. Your question please.

<Q – Doug Freedman>: Hi guys, thanks for taking my question. Can you offer some color into what's going on as far as the ASPs in the CPU segment? You had a nice performance there on GPUs where ASPs actually increased. But I know that you've introduced a bunch of new products and Quad-Core is in there. I would have thought we would have seen some improvement in mix. Can you comment on that at all?

<A – Dirk Meyer>: Sure. As Bob said first on the server side of the business, we did see a pretty good increase in ASPs quarter-on-quarter while across the client businesses we saw, I'll say, a small decrease in ASPs quarter-to-quarter largely due to mix. And really this was a matter of us choosing to pursue some opportunities for single-core design wins with the few of our OEMs that really – and that solely was responsible for the ASP decrease quarter-to-quarter. Overall, I would say the pricing environment was consistent Q3 to Q4.

<Q – Doug Freedman>: Can you comment at all as far as what you are seeing in the marketplace from a – is there a demand shift or any noticeable movement in the marketplace towards less powerful processors at all? Any commentary you can offer there or any expected impact maybe from the new operating systems that are possibly due out later in the year?

<A – Dirk Meyer>: When you say less powerful, do you mean more powerful than like notebook or?

<Q – Doug Freedman>: More single-core versus dual-core or quad-core.

<A – Dirk Meyer>: Well, first, consistent with the way this processor business has unfolded over the years, we sell more capability into ever lower price points. So as an example, quarter-on-quarter, we had a higher mix of quad-core and dual-core processors. In addition consistent with what's been happening in the PC industry for a while, system level ASPs have been coming down year-to-year-to-year and we saw that certainly in Q4 and we expect that to continue a bit in the future.

<Q – Doug Freedman>: All right. Great, thank you.

<A – Dirk Meyer>: You bet.

Operator: Our next question is from Ross Seymore from Deutsche Bank. Your question please.

<Q – Ross Seymore>: Hi guys. It seems like the Foundry Company is going to stay consolidated for quite some time. So can you give us a little bit of color on how we should think about that breakeven target from a consolidated perspective and then maybe even the OpEx in the first quarter from a consolidated perspective?

<A – Robert Rivet>: I would like you to actually think about it differently from that perspective because the Foundry Company is not going to be a cash flow implication to AMD, the product company. I would really like to get you to start thinking about it just from an AMD, the product company standpoint, which is why the guidance and the discussion we've had since we've announced the transaction has been in that kind of vein. So don't want to go down that path. Clearly, that's a discussion that will have to take place with Foundry Company because that's a – and Doug outlined a little bit of his goals and expectations for spending and capital expenditures at the Analyst Day. So not ready to go into that kind of detail and trying to get people focused on AMD, the product company.

<Q – Ross Seymore>: Maybe switching gears a little bit, you took that 200-odd million charge for the inventory in the fourth quarter. What do you expect from an inventory charge if anything in the March quarter?

<A – Robert Rivet>: Well I am expecting hopefully just normal type things based on our current modeling of what we expect as we move out over time based on the inventory. But it's the appropriate time to be cautious because the outlook is so murky, so don't expect us to have that magnitude of charge again.

<Q – Ross Seymore>: Okay. And then the final question on the asset sales to both Broadcom and Qualcomm. Can you tell us when those are hitting the balance sheet if the Broadcom one didn't already from a cash perspective?

<A – **Robert Rivet**>: Sure. The DTV sale did impact the fourth quarter, so we received the bulk of that cash in the fourth quarter. The handheld transaction just took place of course this week and that cash will take place in the first quarter.

<Q – **Ross Seymore**>: Great. Thank you.

<A – **Robert Rivet**>: Sure.

Operator: Our next question is from David Wong from Wachovia. Your question please.

<Q – **David Wong**>: Thank you very much. What percentage of server sales you expect will be from Shanghai in the March quarter? And in line with that, what percentage of your server sales are quad-core today versus dual-core?

<A – **Dirk Meyer**>: Could you repeat the second question?

<Q – **David Wong**>: Quad-core versus dual-core for servers, what proportion?

<A – **Dirk Meyer**>: Okay. Well, first of all, in the current quarter, we expect the Shanghai sales will be less than 50%, but a couple of tens of percent of the overall Opteron mix. And your next question was what percentage of our server sales are quad-core?

<Q – **David Wong**>: Yes.

<A – **Dirk Meyer**>: Roughly three-fourths.

<Q – **David Wong**>: Thank you very much.

<A – **Dirk Meyer**>: Sure.

Operator: Our next question is from Glen Yeung from Citi. Your question please.

<Q – **Glen Yeung**>: The first question is on ASPs, just going back to some of the responses you've already given. Is it your sense that in this market there is no point in trying to actively lower pricing? Is there just no demand or price elasticity in the market today?

<A – **Dirk Meyer**>: I guess what I'll say is we manage pricing to optimize our gross margin dollars effectively no matter what is the environment. We've seen over time that the degree to which end user PC demand can be influenced by microprocessor component pricing is pretty limited. So take those two statements together and there is your answer.

<Q – **Glen Yeung**>: Okay. And then I also wanted to ask about servers in particular, recognizing that you've got – you're still growing – well quad-core is already a pretty high proportion, but I wonder you saw an ASP increase in the fourth quarter. If ASP can actually increase in the first quarter and whether or not there is any potential that server kind of bucks the trend in Q1 relative to desktop and notebook.

<A – **Dirk Meyer**>: By bucking the trend, what trend are you referring to?

<Q – **Glen Yeung**>: Well I hesitate to say the word up, but up.

<A – **Dirk Meyer**>: What I will say is the dynamics of that business are different. The product cycles are kind of driven by new technology introductions. Given all of that and given that we've got such a good position right now in Shanghai where, as I said in my opening remarks, we offer superior performance across the majority of relevant workloads, I do think that in Q1, our server

business is going to be the strong suit relative to the other two. But in terms of predicting absolute numbers or absolute growth quarter-to-quarter, we can't do that.

<Q – Glen Yeung>: That's fair enough. And then on inventories for Q1, just to clarify, I am not sure if you actually said this or not, but you expect inventories in Q1 to fall again, your inventory?

<A – Dirk Meyer>: Bob?

<A – Robert Rivet>: Yeah. We have lowered our manufacturing rates quite a bit and expect inventory will be flat to down. Just depends on end market demand, definitely slowing everything down pretty significantly.

<Q – Glen Yeung>: Bob, is your sense that you've got utilization rates to a point now where you are under shipping the end market by a relatively wide margin?

<A – Robert Rivet>: If you – let's go back a little bit in time. If you look at the fourth quarter data, clearly, the PCN market sales was significantly different than the microprocessor sales. So there was a massive inventory correction that took place in the fourth quarter. What I think we're all trying to understand is, is it done, is it halfway done, is it a quarter done, is it three quarters of the way done, whatever that impact is. We clearly don't feel like it's done in the notebook space. So kind of managing our way through that from that perspective, hoping over time obviously those two numbers will come into balance which is end market and actually selling the microprocessors that service that market. But right now, it's out of balance as the supply chain is trying to get corrected with inventory.

<Q – Glen Yeung>: So Bob, what – sorry.

<A – Dirk Meyer>: Well I was just going to put a point on that by saying we think our CPU sales will – out of AMD – will be less than end user consumption, so hence the channels are going to drain in Q1. And likewise, as Bob told you, our own inventory is going to drain in Q1. So yeah, we're clearly manufacturing below our shipment level in Q1.

<Q – Glen Yeung>: Okay. So last question is then you make the point that you may be better balanced in desktop than you are in notebook, and I think Intel said the same thing on their call. What's the clue that tells you that that is true? Is it that order trends in the desktop products seem to have stabilized or cancellations seem to have diminished?

<A – Dirk Meyer>: We can see the inventory levels of our master distributors. So visibility on inventory levels along with sales out at the top of our distribution channel gives us a pretty good idea on what's happening downstream on desktops.

<A – Robert Rivet>: And then the pull rates from OEMs on desktop actually started at low rates, but actually started on a consistent basis right as the year started.

<Q – Glen Yeung>: That's interesting.

<A – Robert Rivet>: So gives us a pretty good flavor from both angles, that not much in the system. If the system has demand, it needs to be serviced.

<Q – Glen Yeung>: That's very helpful. Thanks a lot.

Operator: The next question is from Adam Benjamin from Jefferies. Your question please.

<Q – Adam Benjamin>: Yeah, thanks guys. Just trying to figure out some of the commentary regarding the breakeven at 1.3 billion. If you do some math on that, it would seem to equate to roughly down 10% in the March quarter. I know you're not giving specific guidance, but it would require roughly a 30% sequential improvement in June to get there in the breakeven quarter as you're talking about. So your biggest competitor is talking about down 15% and not really even giving guidance. So I just wanted to throw those numbers out there and see if those are in the ballpark and can you walk us through the dynamics of how – the mechanics of how you're going to get there?

<A – Robert Rivet>: Yes. I think you're confusing a couple of things. We are not giving guidance number one. So we're not giving guidance for first quarter, we're not giving guidance for second quarter. The guidance I am trying to give you is our cost structure of what's our cost going to look like from a modeling perspective, how much money are we going to spend. And therefore you can interpret what revenue we need to make to break even. Whether we get there or not will be when the dust settles, we'll figure that out. But we're trying to drive from a much higher rate than 1.3 billion to get down to 1.3 billion as quickly as possible. We think that is doable by the second quarter and we're working like hell to get revenue to match that number, but we're not going to say we're going to be there or not at this point in time. So we think that's the appropriate thing to do to run our business, preserve cash, hold our roadmap intact and service our customers.

<Q – Adam Benjamin>: Okay. But you are kind of saying you are working hard to get there on the revenue side to 1.3. You may not get there and you don't want to guide to that. But maybe help us understand the dynamics of how you're thinking about it, how you would get there in terms of the moving parts?

<A – Dirk Meyer>: Dirk here, and let me, I'll probably say the same thing as Bob but with different words. When we talk about the $1.3 billion breakeven model, what we're talking about is where we're setting the cost structure of the company with the goal being given the severely limited visibility that we have in the business to preserve and generate cash on the one hand, while preserving our long-term investments, particularly in the product roadmap. And those two priorities land us at an operating expense level that Bob defined in his opening remarks. Those remarks are not intended to forecast where revenue is going to be over the course of the next two quarters, so different conversation.

<Q – Adam Benjamin>: Okay. That's all I have. Thanks for the clarification.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from Patrick Wang from Wedbush Morgan, your question please.

<Q – Patrick Wang>: Yes. Thanks for the questions here. First off, can you talk a little bit about the ramp you guys have done at 45-nanometer. I think before you said that's greater than 50% shipping exiting Q1 here?

<A – Ruth Cotter>: Patrick, I am sorry, but we can't hear you.

<Q – Patrick Wang>: Hello?

<A – Ruth Cotter>: Yes. Could you just speak a little louder?

<Q – Patrick Wang>: Sorry about that.

<A – Ruth Cotter>: Thanks.

<Q – Patrick Wang>: I'm a little shy, sorry. Anyways, the first question is just the ramp of 45-nanometer. I know you guys had talked about greater than 50% shipments exiting Q1 here. I just wanted to see how that tracked so far.

<A – Robert Rivet>: Yes. I mean we are in the fourth quarter, and roughly half of the material was 45-nanometer from a starts perspective. Obviously that material comes out in the first quarter. So we are moving quickly to – by the second quarter the majority of what we'll be shipping will be 45-nanometer. Clearly the breakpoint across and over from shipments has been the first quarter kind of timeframe.

<Q – Patrick Wang>: Okay. So there's no pullback in terms of the ramp of 45 at this point?

<A – Robert Rivet>: No, no.

<Q – Patrick Wang>: Okay. Great. And then second, I just wanted to know some of the -

<A – Robert Rivet>: We just need a demand pickup, that's all.

<A – Dirk Meyer>: And further to the extent we have taken down our utilization it would be on the 65-nanometer equipment.

<Q – Patrick Wang>: Got you. Got you. Okay. That's helpful. Second, just in terms of moving parts for gross margins, can you help us think about some of the moving pieces behind gross margins as we go into the first quarter? I know you had said 40% but, or greater than 40.

<A – Robert Rivet>: Sure. Again, I'll kind of – there's kind of positives and negatives. On the positive side is really just the discussion we just had. 45-nanometer continues to be a bigger piece of the equation; that yields a better cost structure, therefore a better gross margin. Our product offering with the introduction of 45-nanometer microprocessors, both in the server variety and the desktop variety continues, to be a full quarter offering in the first quarter. That's the good news. We play in higher up in the stack, different areas to play in. So that's good news from that standpoint.

The offsetting pieces or the negatives are utilization of the factories are definitely lower. And demand is down, so that's part of it. And then finally, a piece that needs to be considered after the Foundry Co. transaction is we'll pay a markup for that material. But again, that's later in the quarter and we'll disclose that information from that perspective.

<Q – Patrick Wang>: Okay. So is it fair to say that if we look at the shape of margins going forward here that it could be choppy especially with the transition to Foundry Co.?

<A – Robert Rivet>: Yes. I mean like I said we'll give you the pieces starting in the first quarter, even though it will be partial -partial AMD, 100% and partial – less than 100% – from that perspective. And we still believe 40% or more is a very reasonable target as we move through time for AMD, the product company.

<Q – Patrick Wang>: Okay. And then also another question on Yukon. I know that you guys have touched on this little bit earlier today, but any traction here you can talk about? Any milestones that we should be looking forward to?

<A – Dirk Meyer>: Well, first, we had – of course HP announced with us at CES the availability of the Pavilion dv2 platform. That will start shipping here in the current quarter. The milestones you want to look for are more design wins which our customers will announce at the appropriate time.

<Q – Patrick Wang>: Okay, great. And then just the last question here. If we think about enterprise and consumer trends out there, can you just provide us a little bit more color in terms of what you're seeing there, who is weaker than what and some of the trends you're seeing?

<A – Dirk Meyer>: Yes. As seen through our server business certainly, we started perceiving the softening in enterprise purchases earlier in 2008, frankly so before the Q4 meltdown. During that time consumer spending and hence consumer PC consumption was still healthy and growing. Interestingly, Q3 to Q4, PC end-user demand really didn't decrease very much Q3 to Q4. Of course the fact that it decreased at all is noteworthy, usually consumption increases by greater than 10% Q3 to Q4.

Going into 2009, it's awfully tough to forecast where consumption is going to go across either the market segment which is why we're so reluctant to create a forecast. And I think the real wildcard is going to be to what degree the current economic climate has an effect on consumer spending patterns and how that affects whatever it is affects PC consumption. It's just too early to tell.

<Q – Patrick Wang>: Okay. Thanks so much, guys.

<A – Dirk Meyer>: Thank you.

Operator: Our next question is from JoAnne Feeney from FTN Midwest. Your question, please.

<Q – JoAnne Feeney>: Yes thanks. I was hoping perhaps you guys could clarify the operational impact of splitting off Foundry in terms of the cash use, especially where it concerns operating expenses. Is it the case that basically Foundry operations will be funded out of the Foundry balance sheet at this point, going forward once the deal is closed?

<A – Robert Rivet>: Yes.

<Q – JoAnne Feeney>: Okay so that won't be -

<A – Robert Rivet>: Think about it this way. The CapEx, the operating costs of the factory, the process development type costs and the SG&A to run Foundry Co. will be borne by Foundry Co. from a cash perspective.

<Q – JoAnne Feeney>: And could you remind us what -

<A – Robert Rivet>: Obviously, we'll buy material so there will be cash coming from us to pay for the material we buy. But if there is a shortage of cash, based on that scenario what we pay for material, that will be borne by the Foundry Co. balance sheet and funded accordingly, by Foundry Co.

<Q – JoAnne Feeney>: Okay. And then could you remind us what's the starting cash balance for Foundry Co.?

<A – Robert Rivet>: 1.4 billion.

<Q – JoAnne Feeney>: Okay. And then now that AMD product company won't be required to put up money for the CapEx, what level, Bob, are you folks now comfortable with cash balance is for AMD, the product company?

<A – Robert Rivet>: And this is – kind of from my perspective of – probably I am not going to revise that forecast for AMD, the product company just yet, based upon this murky environment. So it's going to stay in that 800 million to $1 billion kind of range, probably could drift down. But I'm just going to be cautious based upon what's happened in the fourth quarter and the kind of outlook we have. So post the transaction, I will have excess cash over the comfort zone.

<Q – JoAnne Feeney>: Okay.

<A – Robert Rivet>: Which is nice to have in this environment.

<Q – JoAnne Feeney>: Sure. And then one on the gross margin side. You have a wafer agreement with Foundry Co. that I understand to include a pricing arrangement. Based on that wafer agreement, do you – are you comfortable with an outlook of a 40%-ish gross margin, is that where your comfort level comes from, or do you need to see ASPs rise?

<A – Robert Rivet>: No, I mean based upon the Foundry agreement that we know, which as we have told people, it's a cost plus arrangement which we're very happy with on microprocessors, that drives – even with that markup that's generated in that arrangement, that drives a 40% or more gross margin for AMD, the product company.

<Q – JoAnne Feeney>: And are you less exposed because of that agreement to the consequences of a dropping capacity utilization than you would be under the sort of pre Asset Smart arrangement?

<A – Robert Rivet>: It's, I will call it on, think of it this way. On day one, it's better than it is today by a significant margin. But it's not as good as I'll call it of being completely fabless company. As time moves on, it moves more and more to the fabless company model. So it's kind of better than today, day one, and then continues to I'll call it the Foundry model as you move through time.

<Q – JoAnne Feeney>: Okay. Well, that's it for me. Thanks a lot.

<A – Robert Rivet>: Thank you.

Operator: Our next question is from John Pitzer from Credit Suisse. Your question please.

<Q – John Pitzer>: Good afternoon guys. A couple of questions. Dirk, first, just given the new administration in Washington, is there any other boxes you have to check relative to the agreement or is that just all smooth sailing from here and are already taken into consideration?

<A – Dirk Meyer>: No new box, no new closing condition as a result of the change in administration.

<Q – John Pitzer>: And then Bob, I know that you want us to think about AMD, the design company differently from The Foundry Company. But in large part as we try to figure out the success of the design company, the Foundry's investments in 45 and 32-nanometer technology kind of matters. I'm kind of hoping you can give us some sort of sense against that backdrop what the overall CapEx of the Foundry Company is targeted for in 2009.

<A – Robert Rivet>: I'd circle back to the number that Doug Grose talked about at our Analyst Day, which was an approximately $1 billion of CapEx for next year for The Foundry Company.

<Q – John Pitzer>: And then I guess my last question, Bob, just relative to that 40% gross margin target, you said the comfort level has to do with the wafer agreement with The Foundry Company. I guess I am a little bit concerned given where utilization rates are going to bottom and given your inventory levels, Intel's inventory levels, NVIDIA's inventory levels that pricing is never the first casualty in a downturn; it's the second. So I guess at what point does pricing start to impact that 40% comfort level? How much of a move do we need to see before you start to get nervous about that statement on 40% gross margins?

<A – Robert Rivet>: It's a dynamic equation of your product offering where you sit in the stack, where the demand is, meets the service from the stack, where you are in the technology node migration. I mean there is a lot of moving parts, what negotiations you have with your vendors on either raw silicon, buying wafers, assembly testing. So to me it's – I am not sure I know exactly how to answer your question. Just give you a sense, that's the world we live in. ASPs are always declining. You've got to give more technology for the ASPs. You've got to continue to reduce our costs. We'll just have to continue to manage that and feel comfortable based upon where we are at, what we see in the marketplace that a 40% gross margin seems doable. And the current quarter's results kind of share – kind of if you look at it over a period of time even in 2008, even though quote, maybe we haven't been always in the best position from a product offering, we've been in that 40% kind of zone.

<Q – John Pitzer>: And then Bob, the last question I have for you is just given the market downturn here, any change on how you might use third party foundries like TSMC relative to some of the graphics parts or is it still sort of a situation where you want to pursue a strategy of having multiple foundry options?

<A – Robert Rivet>: Well, over time, our goal is to have multiple options to build GPUs. In the near term, in 2009, to be honest, the majority, almost 100% of our volume will be coming from third party foundries, not counting Foundry Co. because they are just not prepared to pick up bulk technology in the early stages of 2009.

<Q – John Pitzer>: Perfect. Thanks guys.

<A – Robert Rivet>: So over time as we get into 2010, '11 and beyond, we clearly would like some balance in our ecosystem.

<Q – John Pitzer>: Great. Appreciate it.

<A – Ruth Cotter>: Operator, we'll take two more questions, please.

Operator: Our next question is from Kevin Cassidy from Thomas Weisel Partners. Your question please.

<Q – Kevin Cassidy>: Thank you for taking my question. I just wanted to ask about the Intel licensing agreement. What is the terms for that? Is it up for renewal?

<A – Dirk Meyer>: Terms meaning?

<Q – Kevin Cassidy>: Well most licensing agreements have a certain timeframe.

<A – Dirk Meyer>: Yes. Hang on just a minute. Well first of all, the term, our license to Intel patents are perpetual, meaning the patents to which we are licensed and their license are licensed forever. The agreement does expire and we expect we'll renegotiate it as we did earlier in this decade. But the licenses persist.

<Q – Kevin Cassidy>: Okay. And do you know when will you extend it?

<A – Dirk Meyer>: I expect we will enter into those negotiations sometime in the next couple of quarters roughly.

<Q – Kevin Cassidy>: Okay. Thank you.

Operator: And our final question is from Eric Reubel from MTR Securities. Your question please.

<Q – Eric Reubel>: Hi, thanks for taking my question guys. On the convertible bond repurchase, what was the principal amount that was purchased in the quarter and how much cash did you use?

<A – Robert Rivet>: We took – we retired $60 million worth of debt, used $20 million worth of cash.

<Q – Eric Reubel>: Great. And on the expected cash restructuring charges in Q1 and possibly Q2, could you give me some guidance on, guidance here to take some more costs out, what I could expect for cash restructuring in the first two quarters of next year?

<A – Robert Rivet>: We'll you give that granularity later. We're still trying to tally all that up.

<Q – Eric Reubel>: And then one last quick one on the guidance for the new design co. at depreciation and amortization, 100 million. Does that also include the $30 million that you've been charging per quarter for goodwill amortization or is that – would that be incremental?

<A – Robert Rivet>: No, this is depreciation to run AMD, the product company doesn't include amortization of intangibles.

<Q – Eric Reubel>: Okay, great. Thank you.

Ruth Cotter, Investor Relations

Great. Well we would like to thank everybody for joining our fourth quarter earnings call today and those of you on the webcast and wish you all a very good evening. Thank you.

Operator: Ladies and gentlemen, thank you participating in today's conference. This concludes the program. You may now disconnect. Good day.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Huey and I'll be your conference operator for today. At this time, I would like to welcome everyone to AMD's third quarter 2008 earnings conference call. All lines have been placed in a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question and answer session. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations

Thank you and welcome to AMD's third quarter earnings conference call. This afternoon, our call will be hosted by Dirk Meyer, our President and CEO; and Bob Rivet, our Executive Vice President and CFO. This is a live call and will be replayed via webcast on amd.com. There will also be a telephone replay. The number is 888-266-2081. For those of you outside of the United States, the replay number is 703-925-2533. The access code for both calls is 1284873. In addition, this telephone replay will be available for the next 10 days starting later this afternoon.

I would like to draw your attention to our Q4 2008 quiet time, which will begin at the close of business on Friday, December 12. I would also like to remind you that we will be hosting our annual Financial Analysts Day on November 13 at our Sunnyvale offices and, in addition, refer you to our calendar of activities on the IR section of amd.com for details of additional events we'll be participating in throughout the year.

Today's call will be webcast live and archived on amd.com. Before we begin today's call, I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations; speak only as of the current date; and involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast, particularly in light of the turbulent economic conditions under which the entire world economy is presently suffering. Therefore, we encourage you to review our filings with the SEC, where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from expectations. You'll find detailed discussions in our most recent SEC filing, AMD's quarterly earnings report on Form 10-Q for the quarter ended June 28, 2008.

Now with that, I'd like to turn the call over to Bob Rivet.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thank you, Ruth. Good afternoon, everyone. I'm pleased to report that AMD had a well-executed third quarter in the context of a challenging economic environment. We reached our goal of achieving operating profitability in the quarter. We launched and shipped the new family of industry-leading Radeon HD 4000 graphics products and capitalized on the growing demand for our quad-core AMD Opteron processor family, as well as our new AMD Turion Ultra notebook platform. In short, we continue to progress toward delivering consistent profitability, based on a tightened focus and strong execution across our business.

We are particularly excited with last week's announcement of our Asset Smart strategy, a bold plan to unlock the value of our manufacturing assets, while assuring AMD access to leading-edge manufacturing processes without the obligation to make the capital investments required to maintain a world-class manufacturing operation.

Before I begin my financial overview, I'd like to remind you that a reconciliation of GAAP to non-GAAP financial results is available in this afternoon's press release. Included in the results of continuing operation is $191 million of process technology license revenue captured in our Computing Solutions segment, which had a positive effect on revenue, gross margin, and profits.

Revenue for the quarter was $1.776 billion, up 32% sequentially and up 14% year-over-year. Income from continuing operations was $41 million or $0.07 per share. We also reported a loss from discontinued operations of $108 million, or $0.18 per share

Third quarter operating income, excluding arc and restructuring charges, was $170 million, compared with a $276 million loss last quarter. Last quarter, a gain on the sale of 200 millimeter equipment was also excluded from the operating loss.

Gross margin in the quarter was 51%, including a 6 percentage point positive impact associated with the process technology license revenue. Therefore, non-GAAP gross margin was a solid 45%, compared with a 37% non-GAAP gross margin in the prior quarter. This increase was due to unit growth volumes and improvement in our product mix.

Now let me switch to the business segments. Computing Solution revenue was $1.39 billion in the third quarter, up 26% from the prior quarter and up 8% compared to the same period a year ago. Highlights of the quarter included server revenue up 9% sequentially, bolstered by a solid 50% unit increase in quad-core shipments over the prior quarter. Our quad-core AMD Opteron processors set several new benchmark records in the quarter, including the top x86 Web performance scores for both dual and quad-core processor system, as well as an x86 record score for Java-based server applications.

Notebook processor units and revenues were up from the prior quarter, driven by growing customer demand for our AMD Turion X2 Ultra notebook platform. Samsung, NEC, Toshiba, MSI, and Acers all introduced new SKUs in the quarter, offering the unique graphics and power efficiency of the AMD-on-AMD platform.

Desktop unit and revenues and were up sequentially on flat ASPs, driven by growing AMD Phenom processor sales and growing customer demand for AMD business-class solutions. As a result of these gains, as well as the process technology licensing revenue, operating income for the Computing Solutions Group was $143 million in the quarter.

In the Graphics segment, revenue for the quarter was $385 million, up 55% sequentially and up 40% year-over-year. We refreshed our Graphics product line in the quarter with the introduction of 10 new leadership Radeon 4000 series products that span from the enthusiast to the value segment, including the ATI Radeon HD 4870 X2, the fastest graphics card in the world. These timely introduced leadership products returned the Graphic segment to profitability, resulting in operating income from the Graphic segment of $47 million.

Now let me turn to the balance sheet. Our cash and marketable security balance at the end of the quarter was $1.34 billion, down from $1.57 billion in the prior quarter. We are confident in our near- and long-term liquidity based on our Asset Smart plans and the anticipated proceeds from the sale of our discontinued operations.

Turning to the outlook. The following statements are forward-looking, and actual results could differ materially from current expectations in a highly uncertain economic environment. Third quarter

2008 revenue from continuing operations was $1.585 billion, not including process technology license revenue. We expect fourth quarter revenue from continuing operations to be roughly flat to that number. Amortization of acquired intangibles is expected to be approximately $30 million. Depreciation and amortization expected to be approximately $280 million.

In summary, we made solid progress in the third quarter, gaining momentum on the strength of impressive new products in each of our core businesses, while taking actions across the company toward lowering our breakeven point. We will remain on track to achieve our target of $1.5 billion breakeven in the first quarter of next year, the result of continued restructuring activities as well as our Asset Smart transaction.

We are executing our strategy of tightening our focus on our unique combination of world-class processing graphic technologies. And while we see opportunities for improvement across our businesses, we are pleased with our progress on the execution side, achieving clear leadership in our Graphics business while delivering unique platform capabilities across our Computing Solutions businesses, with the favorable impact of 45-nanometer technology just beginning to take effect.

I'll stop here, and at this point I'll turn it over to Dirk.

Dirk Meyer, President and Chief Executive Officer

Thanks, Bob. Thanks for joining us, everybody. As Bob highlighted, this past quarter was a good one for us in a number of ways – certainly not satisfactory, we won't be satisfied until we deliver consistent profitability – but one I would characterize as directionally correct. We are on a path to becoming the company we aspire to be, and we will be.

But we are satisfied with our Asset Smart announcement. In fact, we're thrilled. As many of you indicated in our meetings last week, the Asset Smart transaction is nothing short of transformational, for AMD and for the whole semiconductor industry. It assures this company of a long-term source of world-class manufacturing capacity, while unlocking the untapped potential and value of our phenomenal Dresden team to the rest of the industry. It's good for us, good for our customers, good for the great people of Dresden and in Upstate New York. And it's good for competition, which means it will be good for consumers around the world.

I want to thank our employees for their tireless work in bringing this company back to operating profitability at a time when we were working on the most strategic transaction in the history of our company. And we all look forward to the transaction closing at the end of the year.

This is a company that is putting itself in a position to win. We have taken the leadership crown in the Graphics business. We deliver the platforms with the best balance of CPU, graphics, and video technologies. And with Shanghai, which is shipping now and will launch in a few weeks, we have the best server platform in the business, period.

Over to you, Ruth, for Q&A.

Ruth Cotter, Investor Relations

Thank you, Dirk; thank you, Bob. Now with that, we'll be happy to take your questions. And in order to allow more of you to participate in our QA session today, we ask that each person limit themselves to two questions only. Our operator, Huey will introduce each of you and prompt your question and then ask if you have a follow-up. Huey, we're now ready for our first question, please.

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Cotter. [Operator Instructions] And our first question comes from Uche Orji from UBS. Your line is open. Pardon me, Mr. Orji, your line is open.

<Q – Uche Orji>: Yeah, I'm here. Can you hear me?

<A – Robert Rivet>: Yes. Hi, Uche.

<Q – Uche Orji>: Yes. Well, let me start by saying congratulations. It's been a long time anyone said that to you guys. This is a good set of numbers. But let me just start by asking about these license agreements. What does it cover? What is the term? What is the tenor of the agreement, just for us to get a proper handle what it means. And also if you can explain how that reconciles with the agreements you also have with IBM? Is this helping you to kind of offset that? So any more light you can shed around this would be helpful. That's my first question.

<A – Robert Rivet>: Sure. This is Bob. Thanks for the question, and thanks for the compliment. Yeah, this technology revenue is actually associated with the sale last quarter of our 200 millimeter tools. In addition to selling the tools, we actually sold some process technology to the same vendor. So it's a – kind of a unique one-off event. There will be a little bit of dribbling of more in the future, but the bulk of it was recorded in the current quarter. So, it is not associated with the IBM – an offset to the IBM technology payments.

<A – Dirk Meyer>: Yeah, and it further relates to a technology node that we had developed before we entered into the process technology relationship with IBM.

<Q – Uche Orji>: All right, that's helpful. Just on the – let me ask another question on Graphics. Fantastic performance there, but question here is what is your sense of how much share gain you had this quarter? And what is the outlook for Graphics? Given that in a tough macro environment, it looks like attach rate seems to go down. So looking forward, what is your sense as to how this business will perform going forward? And how sustainable do you think all the elements of share gain that you have had will be? Similarly also, if you can expand that to the rest of your processor business. The guidance for Q4 is for flat. How do you reconcile that with what is the most technology within the current macro? So first on Graphics, and also the processor side?

<A – Dirk Meyer>: Yeah, well – Dirk here. Why don't I answer them in the other order? Q4 is typically a seasonally strong quarter. In CPUs, it's typically up about 8, 10%; Graphics, a little bit less than that. Clearly, we're not planning on losing share in either of our big businesses quarter-to-quarter. Rather, we're just being cautious based on the macroeconomic environment. So that's the second question.

The first question on Graphics – clearly, we gained share quarter-to-quarter. It's pretty difficult to put a number on it at this point. We clearly gained share in notebook, consistent with the design wins that we've talked about in the past, on the new notebook platforms that came out in Q3. And we expect to be able to see continued share momentum in Q4, since those new notebook platforms really didn't ship until end of Q3. So that's point one.

Clearly on the desktop side, we also gained GPU share on the strength of the products. Some of these products were introduced deep into the quarter, and in fact some of the products like the 730 and 710 were only introduced in September. So we feel like we ought to get continued momentum there. But again, we're being cautious based on the environment.

<Q – Uche Orji>: Helpful, thank you very much.

Operator: Thank you, sir. Our next question comes from Tim Luke from Barclays Capital. Your line is open.

<Q – Tim Luke>: Thank you so much. Just to clarify first, your units were up in both notebooks and service in the third quarter. Is that right?

<A – Robert Rivet>: That's right, Tim.

<Q – Tim Luke>: And the ASPs?

<A – Robert Rivet>: ASPs were roughly flat quarter-to-quarter for the total portfolio. Some pluses and minus between the pieces, but effectively flat.

<Q – Tim Luke>: Is it a better thing, then, in looking for flat revenue for the calendar fourth quarter that the Graphics business would be expected to show some sequential growth within that? Or how should we think about the different segments for the fourth quarter?

<A – Robert Rivet>: We're just being cautious at this point. I mean, with what's going on in the banking, financial markets, what we're seeing in pull rates in the first part of October, we're just being cautious. As Dirk said, though, we expect to continue to gain share in the GPU space and continue to gain share in the CPU space. But it's little bit hard to call exactly what the numbers are going to finally land at.

<Q – Tim Luke>: From a macro perspective, Bob, can you give any kind of color then in terms of how you've seen in corporate versus consumer under different regions in terms of the general climate in October? Thanks.

<A – Dirk Meyer>: Yeah. Tim, it's Dirk here, why don't I take a swing at that?

<Q – Tim Luke>: Thank you.

<A – Dirk Meyer>: First of all, on the consumer side I would say we clearly saw September as softer than a typical September. Certainly in the U.S., certainly in Western Europe, and even a little bit in China, where the consumer market in China on the PC side seemed not to wake up as quickly as we expected after the Olympics. Rest of the world, kind of typical, I would say. On the enterprise side – frankly, the enterprise business from our perspective hasn't been particularly strong all year. So I wouldn't say that Q3 was really distinctive as compared to Q2.

<Q – Tim Luke>: Thanks very much, guys.

<A – Robert Rivet>: Thanks, Tim.

Operator: Thank you, sir. Our next question comes from Glen Yeung from Citi. Your line is open.

<Q – Glen Yeung>: Thank you. If I look at your operating margins in computing and then X out the gains that you had from the licensing revenues, it looks like the profitability actually went down there. And I wonder if you could just talk a little bit about what drove that? Because it sounds like servers did pretty well for you; I would imagine that's good margins. So, if I had to guess, I'm going to assume that mix had an issue – or played a role in this impact. I wonder if you can just clarify if that's true.

<A – Robert Rivet>: This is Bob. If you take out the technology and try to do it from that perspective, mix is always a challenge. We're introducing new products. It's a combination of all those things above that just kind of move things around. But in total, we're feeling pretty good about the progress we've made in server, notebook, desktop, et cetera.

<Q – Glen Yeung>: Yeah, absolutely. The -

<A – Dirk Meyer>: Dirk here. The other thing to remember is that last quarter we also had a tool sale.

<A – Robert Rivet>: That's right.

<A – Dirk Meyer>: So you've got to actually -

<Q – Glen Yeung>: Oh, okay.

<A – Dirk Meyer>: – back out both numbers to do an apples-to-apples comparison.

<A – Robert Rivet>: Yeah. Ends up the numbers are roughly the same. It was 193 million in the second quarter. It was 191 million in the third quarter.

<Q – Glen Yeung>: Okay. That's good to know, thank you. And the other question I had was on GPU. A great quarter obviously in terms of sales. And the fall-through was spectacular. I think you dropped 62% of your sales growth through to the operating and income line. When you look at that, is that a sustainable metric in terms of your ability to drop through profitability going forward? Or was there anything unusually positive that helped that number?

<A – Robert Rivet>: Well – this is Bob. In the current quarter, as we introduced each of the new products, they were significantly better than the competitors' offing, and so we could actually maintain our price points throughout the whole quarter, which is typically not normal in that business. So that's part of the reason the magic of volume with the right products will yield the right kind of margin improvement. On a go-forward basis, we anticipate prices will continue to be competitive. We'll still do pretty well, but probably tougher to maintain that kind of fall-through on incremental sales.

<Q – Glen Yeung>: Sure. Well, good job. I appreciate it, thanks.

<A – Robert Rivet>: Thank you.

Operator: Thank you, sir. Our next question comes from Chris Danely from JP Morgan. Your line is open.

<Q – Chris Danely>: Thanks, guys. Can you just talk about how you expect gross margins and operating expenses to trend, Q4 but especially into next year as we head into the teeth of the recession?

<A – Robert Rivet>: Sure. Well, to be honest, I don't want to get into a next-year discussion since we're going to meet in 30 days with an analysts conference. So I'll hold the '09 discussion till then. But give you kind of couple of things to think about for fourth quarter – and clearly, that's part of the thought process as you get into '09, but I won't get any more detail at it – is we're just starting 45-nanometer, as Dirk commented. We're shipping Shanghai, which is 45-nanometer server product, as we speak. So, 45-nanometer is ramping.

Not only will we have better products at 45-nanometer, we'll also have the cost advantage at 45-nanometer. So things are moving in the right direction of what we control from a cost perspective. The market is the part we're struggling with, of how to handicap. So I kind of view it that on the two positives is new products – new products typically give you better ASPs, better unit expansion into the marketplace, cost control with 45-nanometer shrink, cost controls to continue to lower the breakeven point on operating expenses, market condition of what's the market going to – what are we going to sell into? That's the part we really do struggle with exactly what that is for the fourth quarter, which is why we guided flat.

<Q – Chris Danely>: Okay. And so I guess to paraphrase, especially on OpEx, flattish?

<A – Robert Rivet>: Flattish to slightly down.

<Q – Chris Danely>: Great. And then for my second question, what exactly is the exit strategy for the foundry business? In other words, how are we going to get this off of your consolidated P&L?

<A – Robert Rivet>: Well, as we said last week, but I'll kind of – for everyone's sake – kind of repeat it again, the deal we have struck will let us, at our option, when a capital call is required for the foundry business, allow us to either pay our fair share of that capital call or turn in more shares in ownership of the company, from that perspective. And as we've kind of alluded to, we'll make that determination at each point in time when the capital call arises.

But – so you can think of it a way, there's a natural way to get out of it if we want to, which is not participate in the capital call with cash, turn over shares.

<Q – Chris Danely>: And is it safe to say this is not a near-term thing that's going to happen, it's more – a little bit farther out?

<A – Robert Rivet>: Correct, yes.

<Q – Chris Danely>: Great. Thanks, guys.

<A – Robert Rivet>: Thank you.

Operator: Thank you, sir. Our next question comes from David Wong from Wachovia. Your line is open.

<Q – David Wong>: Thanks very much. Shanghai, when would we expect to see server systems containing Shanghai processors begin to ship? And what about desktop systems with 45-nanometer processors?

<A – Dirk Meyer>: Yeah, Dirk here. We're shipping Shanghai server components to data OEMs, and you'll see OEM systems in the market this quarter. We'll be shipping the desktop marrying to that product this quarter, and you'll see OEM systems in the market early next quarter.

<Q – David Wong>: Great. And if I understand correctly, Shanghai still has the status quo architecture, that Barcelona uses, doesn't it? When do you expect to introduce products with your next generation core?

<A – Dirk Meyer>: Yeah. I think because we have an analysts meeting in a month, we'd like to suspend longer-term roadmap discussions until that meeting.

<Q – David Wong>: Great, thanks.

<A – Robert Rivet>: Thank you.

Operator: Thank you, sir. Our next question comes from Srini Pajjuri from Merrill Lynch. Your line is open.

<Q – Srini Pajjuri>: Thank you. Bob, just a clarification. You said OpEx will be down next quarter, and if I just do the rough math on your 1.5 billion breakeven target, I think the OpEx needs to come down by at least 50 to $100 million. So just wondering where you see those opportunities? And you obviously sounded pretty confident about getting there in Q1; just trying to understand where that'll come from?

<A – Robert Rivet>: Think about it this way. We will execute the transaction for Asset Smart. Included in that transaction will be, I'll call it a change in our G&A perspective. We will also use that transaction to continue to sharpen our pencil and reduce our cost structure in the operating expense category, R&D, sales and marketing, G&A. So that continuation of that process will continue in the fourth quarter, so that we can start the year at the $1.5 billion breakeven point from a design co-perspective.

<Q – Srini Pajjuri>: Okay. But do you expect that – the expenses to have any revenues associated with them?

<A – Robert Rivet>: No. I mean, to me it's – we're not trying to cut revenue-generating things. We're trying to cut, I'll call it just pure cost-oriented things that we don't think we will need on a go-forward state.

<Q – Srini Pajjuri>: Okay. And then my final question is, your comment about quad-core's growing 50%, but yet your servers are only up 9%. I'm trying to understand what I'm missing here. Is the pricing gotten that much worse, or is there something I'm missing here? Thank you.

<A – Dirk Meyer>: Dirk here, good question. What you're seeing there is the typical insertion of more capability and features into existing price points. So in other words, last quarter, two quarters ago, we were shipping a dual-core, and now we're shipping quad-core, consistent with the semiconductor industry practice.

<Q – Srini Pajjuri>: Thank you.

Operator: Thank you, sir. Our next question comes from Jim Covello from Goldman Sachs. Your line is open.

<Q – Jim Covello>: Great, guys. Good evening. Thanks so much for taking the question. Couple things. Can you talk about kind of the inventory management in relation to the flattish kind of outlook? So inventory's up 7% or so, the outlook kind of flattish. Are you comfortable with inventories that level? You feel like you have to bring it down next quarter?

<A – Robert Rivet>: Well, as you could imagine with the typical cycle times, we – in the third quarter we had to start making the signals for the fourth quarter, with the anticipation that fourth quarter was going to be strong. I'll call it, before the hurricane started, per se. As Dirk said, we started to seek a little bit of wind in our sails in September, so we've backed off a little bit in the manufacturing environment to manage inventory in a marketplace that looks a little turbulent.

Interesting though, we're actually poised to actually respond if the market goes in the other direction and wants more units. So we feel like we're moving in the appropriate direction. Now that we know what we know, we probably built a little more inventory in the third quarter than a flattish environment would tell you to do, but had to make that call in the summertime.

<Q – Jim Covello>: Sure. All else being equal, how much do you think that lower factory loading would hurt the margins in Q4 – again, kind of business mix being consistent?

<A – Robert Rivet>: Not too much. Because of the 45-nanometer impact, it starts to play through.

<Q – Jim Covello>: Okay, okay.

<**A – Robert Rivet**>**:** So it's kind of – we got an offset, just a natural offset with the cost reduction of 45.

<**Q – Jim Covello**>**:** Okay. And if could just sneak in one more, then I'll go away. Just relative to the foundry, the Asset Smart strategy, Dirk, what do you think the biggest challenges are going to be in manufacturing at a foundry? Obviously, you feel comfortable that you can work through them. But what do you think the biggest things you're going to have to stay on top of are? Thanks so much.

<**A – Dirk Meyer**>**:** Yeah, good question. Certainly, there's some things that we're going to have to modify in terms of our behaviors and the way we go about running the business. The good news is, we've learned a lot about what we need as a result of seeing how the ATI team operates with their foundries. So we've learned quite a lot over the last two years.

In the area of both supply chain and new product development, we're going to have to change a little bit – our processes, just to make them more formalized. You can run things based on human relationships, when everybody's part of the same company. You need to be a little bit more formal when we're different companies.

I wouldn't say any of the challenges are fundamentally hard. But clearly, we're going to have some changes. And I actually think some of these changes are going to be good for us, because they're going to enforce more discipline across these organizations.

<**Q – Jim Covello**>**:** Thank you.

<**A – Robert Rivet**>**:** Thank you.

Operator: Thank you, sir. Our next question comes from Krishna Shankar from JMP Securities. Your line is open.

<**Q – Krishna Shankar**>**:** Yes. Congratulations on good results. A couple of questions. Can you talk about what kind of attach rate you're seeing in the notebook market for your Puma platform with your own graphics? And are you seeing kind of a step up in your penetration of higher-end notebook models with that? Or is it still more in kind of the low- to mid-range consumer market?

<**A – Dirk Meyer**>**:** Yeah, Dirk here. I would say we still have an untapped opportunity with the Puma platform in that if you look at the mix that we're selling – that is, the system-level price points at Puma in the market versus the market overall – we're a little bit lower. And as a result, the discrete graphics attach rate is lower as well.

<**Q – Krishna Shankar**>**:** Okay. And also, can you talk about your penetration efforts in the enterprise market? I realize it's sort of been weak the first three quarters of this year. But how is Shanghai helping there? And also some of your business-class desktops and notebooks? Can you lay out sort of your thoughts on the enterprise market and penetration there?

<**A – Dirk Meyer**>**:** Sure. First, let me clarify the question. So our big participation in the enterprise market, meaning big businesses, is really through our server business. Our commercial client business is really more of a government education and small and medium business play. On the client side, I would say that '08 has been the year of design wins and seeing those design wins get in the market. And now we're in a mode of working with our OEMs to get those systems sold through their channels. I'd say, quarter-by-quarter we're making progress, but we've still got a lot of opportunity in front of us and a lot of growth we can still tap. So a long way to go, I guess I'll say in summary.

On the server side, with Barcelona having shipped for an entire quarter in Q3, I would say we're making progress. We're doing better than holding our own overall in the server category. We clearly saw strength return on our side in the four-socket arena. And we're really enthusiastic about Shanghai, based principally on how enthusiastic our customers are about getting our systems in the market in Q4.

<Q – Krishna Shankar>: Okay. And my final question is what percent of AMD Foundry Company will be owned by you, and then the Dubai investor? Can you give us sense for how the ownership of The Foundry Company will be, starting Q1 '09?

<A – Dirk Meyer>: Yeah, there's two dimensions of ownership. There's voting ownership, which will be a 50-50 proposition, and economical ownership will be roughly 55-45 on a fully converted basis.

<Q – Krishna Shankar>: So, 55 AMD and 45 -?

<A – Robert Rivet>: No, the other way around, economically.

<Q – Krishna Shankar>: Okay, thank you. And if I can sneak in one more, what's your response to Intel's Atom processor? That clearly is a very viable high-growth segment. What's AMD's product strategy there?

<A – Dirk Meyer>: Yeah. That's a good question, and it's a complicated answer over the phone. We'll show at the analysts conference pictorially how we think about the notebook market. But clearly the so-called netbook is a new form factor, a new market opportunity, and one that we're not participating in right now today. We do have strategies together with our OEMs for pushing our solutions both down into smaller form factors and lowered notebook price points. And we'll detail that next month at the analysts conference.

<Q – Krishna Shankar>: Thank you.

Operator: Thank you. Our next question comes from JoAnne Feeney from FTN. Your line is open.

<Q – JoAnne Feeney>: Thanks, folks, and congratulation on a nice quarter. A couple questions. One is, do you guys anticipate a continued improvement in gross margin? It seems like a lot of what we saw here in the third quarter came from improved mix in CPU and GPU, and it sounds like that is likely to continue into the fourth quarter. Is that a safe assumption to make at this point?

<A – Robert Rivet>: This is Bob, JoAnne. Hi. I would love to say that if business was usual, strong fourth quarter, I'd say there's – pretty easy to call improvement in gross margin. Based on the market condition, it's a little bit tougher to call. In what we control, I feel like we've got the dials moving in the right direction, which is improved mix because of new products – Shanghai being, I'll call it the big new one in the fourth quarter – and cost of moving to 45-nanometer. So those two dials we control definitely moved in the right direction and should yield better gross margin. What I don't know is how much – what's all the total – what's the mix of what we're going to ship in the fourth quarter, first quarter, et cetera? So kind of a political answer, I'll call it, but that's, I think, reality.

<Q – JoAnne Feeney>: Reasonable, yeah, given the uncertainty we're facing, I suppose. And perhaps a follow-up. If we could maybe talk a little bit about Asset Smart and in particular the advantages that you're seeing. I mean, as I see it, you've alleviated the debt, a major concern, and you've also shored up the technology front with, it sounds like, a stronger partnership with IBM.

I mean, as you go into the next year and you're trying to trim your operating expenses, it seems like a couple things might be happening for you. One, with the market being so weak, there might be some people around, design engineers perhaps, that you could pick up to also shore up the design side of the company. I'm wondering if you're planning to do that.

And then secondly, do you anticipate more people from IBM being involved on the foundry side? I know that the CEO is an ex-IBM guy, and I'm wondering if that relationship will become tighter through more participation from the IBM folks.

<A – Dirk Meyer>: Yeah. JoAnne, Dirk here. Second one first. IBM has publicly expressed their support behind The Foundry Company venture, and the reason is clear. This brings a strong – technically and financially strong – foundry to the IBM ecosystem. Clearly, that's good for IBM; they see that. And as a result of that, I do expect the partnership between the two companies to get stronger over time.

With respect to the prior question, as we always do – and your question was, mix of design engineering what are our thoughts there. I would characterize '09 as, high order, being one of getting better results from the capability that we have in house as opposed to hiring people en masse. That said, we always rebalance the work force to get the right talent working on the right stuff.

<Q – JoAnne Feeney>: Okay. Yeah, it sounds like you might have a good opportunity in a downturn, might be a lot of people on the streets. And with your stock at its current price and potentially moving higher, it just seems like that would be an attraction to being able to hire some more better people?

<A – Dirk Meyer>: You're singing our song.

<Q – JoAnne Feeney>: Well, thanks a lot. That's helpful.

<A – Robert Rivet>: Thank you.

<A – Dirk Meyer>: Thank you.

<A – Robert Rivet>: Thank you.

Operator: Thank you. Our next question comes from Ross Seymore from Deutsche Bank. Your line is open.

<Q – Ross Seymore>: Thanks, guys, and congrats again on the business strength, especially in GPUs. Just wondering with your guidance, how would you describe recent demand patterns? I know there's a ton of uncertainty out there. But was the end of the quarter something that has continued to now in October gotten worse, better, stayed the same, et cetera?

<A – Dirk Meyer>: Dirk here. I wouldn't say a couple of weeks into Q4 we're seeing substantially different market conditions than what we saw in Q3. I would just say that the quarter doesn't have its usual strength. It doesn't seem like a disaster. As Bob said, we're not forecasting a shrinking business Q3 to Q4. But it is pretty murky.

The one good news I'll say is, averaged across customers and channels, we're not seeing inventories being terribly out of line. So to the extent end user demand picks up or is a little stronger than we think, we've got an opportunity to ship more.

<Q – Ross Seymore>: Another question on the balance sheet. You might have gone through this, Bob; I apologize if you did. But the cash fell quarter-over-quarter. Given that you got the 191 million that came in, I was a little surprised to see that. Could you describe what happened there?

<A – Robert Rivet>: Sure. Yeah, one of the phenomenas on the 191 is actually we collected the majority of the 191 in prior quarters. They were all, I'll call it, prepaid. It wasn't till we completed the revenue process in the quarter that we could actually record it. So the 191 didn't show up just in the third quarter. It actually showed up throughout this year, which is how we've managed our cash balance throughout the year. So that's one of the phenomenas of why cash went down even though I had this nice pop in revenue, particularly from process technology licenses.

<Q – Ross Seymore>: Great. Thank you.

Operator: Thank you, sir. Our next question comes from Patrick Wang from Wedbush Morgan. Your line is open.

<Q – Patrick Wang>: Hi guys. And want to add my congrats on the quarter. I just had a question on 45-nanometers here. If we assume a relatively fast ramp, what are some of the milestones we should be looking for over the next I guess four to six quarters here, just in terms of how fast that ramps, and if you guys have an estimate or target in terms of when you guys see a crossover versus 65-nanometers?

<A – Dirk Meyer>: Yeah, Dirk here. We'll be fully converted in the first half of next year.

<A – Robert Rivet>: So it's a very fast ramp. I mean, we'll be more than 50% end of first quarter. We'll have actually fully conversion by sometime in the summer, second quarter kind of timeframe. So, it's not six quarters, it's less than four to do full conversion for us.

<Q – Patrick Wang>: Okay, thanks. That was helpful. And then just secondly, I'm just trying to figure out some of the moving parts in terms of the revenue side in computing here. I know that in terms of desktop units, units were up and ASPs were flat, notebook units were up and server units were up. But just in terms of pricing on those, would it be fair to call that both of those were down just slightly on the quarter?

<A – Dirk Meyer>: Dirk here. So as Bob said, overall across the MPU portfolio, ASPs were flat, desktop ASPs were flat, notebook ASPs were essentially flat – I mean, down just a wee bit – and server ASPs were essentially flat, I'll call it up just a wee bit. But overall, noise, I mean, think flat across the board.

<Q – Patrick Wang>: Got you. And in terms of pricing, going forward into the fourth quarter, I know you guys kind of touched on this earlier, but any thoughts there?

<A – Dirk Meyer>: Well, there's a couple elements to pricing from our perspective. One is what's the mix that we sell, first mix across server, desktop, and notebook; and secondly within a product category, how rich a mix are we able to sell? And then finally, what's the competitive dynamic in the overall pricing environment? The pricing environment really didn't change Q2 to Q3, and we're not expecting that to change much Q3 to Q4. We're always striving to sell more server and sell a richer mix within notebook and desktop. That's always the goal.

<Q – Patrick Wang>: Okay. All right, hey, thanks very much.

<A – Robert Rivet>: Thank you.

Operator: Thank you, sir. Our next question comes from Sumit Dhanda from Banc of America Securities. Your line is open.

<Q – Sumit Dhanda>: Yes, hi. A couple of questions. First on the relative growth, I don't know if you touched on this, Dirk or Bob, between desktops and notebooks, if you have to give us a sense of where the revenues grew faster, one versus the other, could you give us some sense?

<A – Dirk Meyer>: Yeah, Dirk here. I mean, clearly, quarter-to-quarter, notebook revenues outpaced desktop in terms of growth.

<Q – Sumit Dhanda>: Was it a 2x factor, just some rough idea?

<A – Dirk Meyer>: I would say, in terms of growth rate, better than 2x.

<Q – Sumit Dhanda>: Okay. The second question I had was, as it relates to the earlier comment on shipping the quad-core processors at basically the same price as the dual-core processors, is this really impacting your margins on quad-core? I'm assuming that the die size is much larger, since you haven't done your 45-nanometer transition yet. And do you expect to get a much more favorable margin basis on your quad-core products as Shanghai ramps? In other words, give us a sense of how much smaller is that die. Is it just a 50% shrink as you would expect?

<A – Robert Rivet>: If you just isolate your question to talk servers, as an example – but I'll come back to the further clarification of your question – clearly, at 65-nanometer a quad-core is more expensive than a dual-core and takes up more real estate. And we're not seeing that much price premium, I'll call that, as we kind of continue to go through that process.

<A – Dirk Meyer>: Though the one thing I'll remind you is the dual-core Opterons that we're shipping are 90-nanometer.

<A – Robert Rivet>: That's right.

<A – Dirk Meyer>: We don't have a dual-core 65-nanometer Opteron. So it's really a quad-core 65 versus a dual-core 90.

<A – Robert Rivet>: Yeah, it's not an apples-to-apples comparison.

<A – Dirk Meyer>: Not apples to apples.

<A – Robert Rivet>: But that just shows, one, we had respectable gross margins in the current quarter – of moving to 45-nanometer really is a nice pickup, from that perspective, because you're not going to see an ASP drop. And you're going to see the cost reduction from that standpoint. Plus, the product actually is a hot product, as Dirk said. So we're actually – we will sell a lot more units. So that's the story on server.

But if you look at it in the total, either one of those stories, whether it's shipping 65-nanometer Barcelona or 45-nanometer Shanghai, that's still the area we want to move into, because that's much higher gross margin than the client business. So it's kind of – in a priority sequence, think of it as, sell as many units as you can in the server space at whatever technology, because you actually get a lot of bang for the buck. And then of course execute your plan within the server portfolio to get to the richest technology as you can.

<Q – Sumit Dhanda>: If I could sneak in just one short question here. You noted that unit volumes and product mix contributed to the jump in non-GAAP gross margins. Could you give us a sense of – was it all microprocessor related, given that you outsource your graphics chips?

<A – Robert Rivet>: No, I'd refer you – you can see it fairly quickly if you look at the segment reporting page in the press release, but we made huge progress in the Graphics business quarter-on-quarter, and progress in the CPU or the Computing Solutions segment. So it was actually both business units contributed to improving the gross margin and the profitability.

<Q – Sumit Dhanda>: Okay. Thank you very much.

<**A – Ruth Cotter**>**:** Huey, we'll take two more questions, please.

Operator: Yes, ma'am. Our next question comes from Craig Berger from FBR Capital Markets. Your line is open.

<**Q – Craig Berger**>**:** Hey guys, thanks for taking my questions. With such a steep ramp in 45-nanometer coming in the next couple quarters, how do we think about the impact on gross margins there?

<**A – Robert Rivet**>**:** All goodness. Goodness from the standpoint of clearly that delivers better product off a 45-nanometer technology node, which sell more units potentially at higher ASPs, and cost reduction because of the smaller die. So to me going to 45 – think about it – compare this quarter to, let's pick second quarter of next year, is wildly different from a cost structure perspective, and the refresh of the products.

<**Q – Craig Berger**>**:** Any quantification?

<**A – Robert Rivet**>**:** No, not at this point. I'll talk about next year at the analysts conference in four weeks.

<**Q – Craig Berger**>**:** And can you just remind us again the impact on your OpEx from the satellite deal?

<**A – Robert Rivet**>**:** I assume you're talking Asset Smart?

<**A – Dirk Meyer**>**:** Yeah.

<**Q – Craig Berger**>**:** Yes.

<**A – Robert Rivet**>**:** Yes. So I mean, the ZIP code I've kind of given people last week is still the same, again, more details to come. We will lose around 100 million a quarter in process R&D in the AMD design co. business. That'll be replaced in gross margin by a higher wafer cost. Effect to operating income is effectively neutral. So that we'll just have some parts moving around. Again, I'll talk about that in 30 days.

<**Q – Craig Berger**>**:** Okay. Last question, is the 191 million of licensing revenues, is that all in the processor bucket?

<**A – Robert Rivet**>**:** Yes, it is. Computing Solutions.

<**Q – Craig Berger**>**:** Okay, thank you.

<**A – Robert Rivet**>**:** Thank you.

Operator: Thank you, sir. And our last question comes from David Wu from Global Crown. Your line is open.

<**Q – David Wu**>**:** Well, thank you very much. Sorry, I was late getting on. I just want to get some clarification, Bob, on the – when you mentioned about $1.5 billion breakeven, is that on a consolidated basis, or do you have to sort of do some magic and just look at design co. in Q1?

<**A – Robert Rivet**>**:** Let's stay in focus, as we have been, being consistent with our message – clearly, last week we could come out of stealth mode and really talk about it – is as 1.5 billion breakeven for AMD, the design product company, not a GAAP consolidated basis, which will be a

little more confusing. But again, think of it this way, for everybody on the call. That Foundry Co. piece of the bucket will have profits and losses – we'll talk about that later – but they're all cashless. The cash-generating machine of AMD is the AMD design product P&L. We will be transparent and show that when we start reporting after the transaction closes.

<Q – David Wu>: But Bob, from a pure accounting basis, it's going to be multiple years when your ownership of the foundry will be off your consolidation basis, right? Because it'd probably make a couple of rounds of fund-raising before you actually deconsolidate the numbers?

<A – Robert Rivet>: It's actually even more confusing than that, but the fundamental answer is yes, it'll take a while before we'll stop consolidating.

<Q – David Wu>: Okay. Do you need a lot of – with the Fab 38 coming onstream now that you've got a rich uncle, how does it change your mix of SOI and bulk CMOS in your manufacturing situation, and would you be using that to help your graphics company to reduce costs?

<A – Dirk Meyer>: Dirk here. So we'll, as you said, be ramping Fab 38, and we'll be installing into Fab 38 a 32-nanometer bulk process for the purpose of enabling the foundry business. We'll also be moving some GPU product into The Foundry Company in order to help The Foundry Company get off the ground relative to that foundry type business. And clearly, as a result of having two really good suppliers on the GPU side, we've got an opportunity to improve our costs there, and capability.

<Q – David Wu>: Okay, great.

<A – Robert Rivet>: And one of the pickups to think about on a go-forward is the beauty – another beauty of the deal is we finally get scale, because that factory can be ramped not just on the backs of the microprocessor business, but on, I'll call the total industry, including the bulk part of the process. Therefore, we'll both get the benefit of it.

<Q – David Wu>: So basically, in Dresden, we get one SOI fab and one bulk CMOS fab?

<A – Robert Rivet>: That's maybe a little too simplistic, but you're not too far off.

<Q – David Wu>: Okay. Thank you.

Ruth Cotter, Investor Relations

Okay. We'd like to thank everybody for participating in today's earnings call, and we look forward to seeing many familiar faces at our forthcoming analysts day. Thank you.

Operator: Well, ladies and gentlemen, this does conclude today's conference. Thank you for your participation, and have a wonderful day. You may now all disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Matt, and I will be your conference operator for today. At this time, I would like to welcome everyone to AMD's Second Quarter 2008 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations Manager

Thank you, Matt. Thank you everybody and welcome to AMD's second quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; and Bob Rivet, our CFO.

This is a live call, and will be replayed via webcast on amd.com. There will also be a telephone replay. The number is (888) 266-2081. Outside of the U.S., the number is (703) 925-2533. The access code for both call numbers is 1240774, and the telephone replay will be available for the next ten days, starting later this evening.

I'd like to call your attention to our Q3 2008 earnings quiet time, which will begin at the close of business on Friday, September 12. In addition, I'd like to take this opportunity to remind you that we will be hosting our Annual Financial Analyst Day on November 13 at our Sunnyvale offices.

Before we begin today's call, I would like to caution everybody that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions, and expectations, speak only as of current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast. Therefore, we encourage you to review our filings with the SEC, where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from our expectations. You will find detailed discussions in our most recent SEC filing, AMD's quarterly earnings report on Form 10-Q for the quarter ended March 29, 2008.

Now with that, I would like to turn the call over to Bob.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thank you, Ruth. Good afternoon everyone. In the second quarter, revenues declined 7% from the prior quarter, affecting both of our businesses and reflecting the challenges of the current consumer macroeconomic climate. Looking ahead, the good news is we are getting traction with our new products as evidenced by a steep increase in unit growth and our Triple-Core and Quad-Core offerings, and strong market response to our new graphics products.

More specifically on the product side, we expanded our Quad-Core offerings with 18 new products this quarter, including four energy-efficient, and four high performance processors. In servers, all four leading OEMs are shipping systems based on our Quad-Core AMD Opteron processors, and we are regaining server momentum in winning back business with key customers on the strength of our superior performance in floating point and memory-intensive workloads, as well as in the context of virtualization solutions. It is noteworthy that three of the top five, and seven of the top 20 supercomputers in the world, are built on AMD Opteron solutions.

Finally, our graphics leadership momentum continues to build with the successful introduction of our next-generation ATI Radeon HD 4800 family of graphic processors, which have earned outstanding reviews and include the world's first graphic chip to break the teraflop performance barrier. In addition, we continue to focus on delivering increasing differentiated platforms optimized for every usage scenario, at work, at home and at play, at leadership price performance points.

We launched the AMD Business Class commercial desktop and notebook solutions, powering PCs from Acer, Dell, HP, Fujitsu Siemens, and Lenovo. Our AMD Live and AMD Game platforms continued to gain customer momentum in the client space. We also launched our next generation Puma notebook platform this quarter, and has seen over 100 design wins to-date on the basis of its superior 3D graphics and HD image quality.

Before I proceed with the financials, I'd like to remind everyone that last quarter we signaled a review of our non-core businesses. This resulted in a decision to divest the handheld and DTV divisions and classify them as discontinued operations for financial reporting. Prior periods have been recast for comparability. For the purpose of my remarks this afternoon, I will look forward to continuing operations unless stated otherwise. The reconciliation of GAAP to non-GAAP financial results is available in our press release.

So, let's begin. Revenue for the quarter was $1.35 billion, down 7% sequentially, and up 3% year-over-year. We reported a net loss of $1.96 per share in the second quarter. Losses from continuing operations were $269 million or $0.44 per share, which included a net favorable impact of $97 million or $0.16 per share. This favorable impact consists of a gain of $193 million from the sale of 200 millimeter tools, partially offset by $96 million in charges.

Our loss from discontinued operation was $920 million, or $1.52 per share. This was largely made up of non-cash goodwill and intangible asset impairment charges of $876 million. Reported second quarter operating loss was $143 million, but on a non-GAAP basis was $276 million compared with $185 million last quarter. For comparability, I've excluded the tool sales, [inaudible] and restructuring charges as are outlined in our table on the press release.

Gross margin in the quarter was 52% including a 14 percentage point positive impact associated with the sale of 200 millimeter equipment. Therefore, gross margin was 37% compared with 41% in the prior quarter. This decline was due to lower unit volumes and ASPs and changes in product mix as we sold older generation products to make way for our new offerings.

Now, switching to the business segments; Computing Solutions revenue was $1.1 billion in the second quarter, down 8% from the prior quarter and flat compared to the same period a year ago, primarily due to weaker client sales. The server business saw a 5% unit growth over the prior quarter and 19% increase over the same period a year ago, a positive sign in light of the recently launched OEM products.

Quad-Core and Triple-Core processor shipments were up significantly, while microprocessor ASPs were down, the result of sales of older generation products. Operating loss for the Computing Solutions Group was $9 million; however, this includes a $193 million gain from 200 millimeter tool sales.

In the Graphics segment, which now includes game console royalties, revenue for the quarter was $248 million, down 5% sequentially and up 18% year-over-year. Operating loss for the Graphics segment was $38 million in a very competitive pricing environment, particularly on our older generation products. However, our new highly acclaimed HD 4800 series has been well-received in the market since its launch in late June.

Now turning to the balance sheet. Our cash and marketable security balance at the end of the quarter was $1.57 billion, down 186 million from the prior quarter. Adjusted EBTIDA was $119 million. Capital expenditures were $104 million for the quarter, down from $322 million in the prior quarter. We still have in excess of $200 million in future non-operational cash generating opportunities based primarily on administrative assets. This does not include any proceeds from the sale of our discontinued operations or the execution of our Asset Smart strategy.

Now let me turn to the outlook. The following statements are forward-looking and actual results could differ materially from current expectation. Last quarter we set a goal to reduce our breakeven point at the operating level to approximately $1.5 billion. We have made progress in the direction in this quarter with the breakeven approaching $1.6 billion. We expect to make ongoing progress on this front as we continue to focus on achieving this goal early next year.

In a seasonally up third quarter, AMD expects revenue from continuing operations to increase in line with seasonality. Operating expenses are expected to be approximately 4% down from the second quarter. Amortization of acquired intangibles is expected to be approximately $30 million. Depreciation and amortization expected to be approximately $300 million, and we remain on-track with our planned capital expenditures for the year of approximately $900 million. In summary, the second quarter was a tough one. However, we remain focused on transforming the business for future success as we continue to roll out new and exciting platforms positioning us for success in the second half of the year.

At this point, I'd like to turn it over to Hector.

Hector de J. Ruiz, Ph.D., Chairman and Chief Executive Officer

Thank you Bob, and I'd like to welcome all of you to the call. Three years ago under my leadership, the AMD Board of Directors began putting in place a succession plan to transfer the reins of this company to my good friend and colleague, Dirk Meyer. I am pleased and excited to announce on behalf of the AMD Board of Directors that we have elected Dirk as President and CEO of the company effective immediately. The time is right. Barcelona is shipping, product momentum is picking up in both our graphics and microprocessor business, and our conversion to 45 nanometers technology is well on track.

We have made enormous progress on our Asset Smart strategy, and this is why the time is right to turn the company over to a new leader, one who has earned the trust and respect of AMD customers, partners, and employees worldwide, and one who I know will do what it takes to earn your confidence as well. You know what most of us know about Dirk is that he is a very prolific engineer. He has over 40 patents and over a dozen chip designs to his name, including the groundbreaking DEC Alpha processor.

He also led the design of our industry transforming AMD64 architecture, and then took the reins of what was then the Computation Product business where he was, under his leadership, able to double the revenue and expanded his customer base, partner and R&D footprint, and I think we all know that that changed the face of the microprocessor industry as we know it. What a lot of you are going to get to know in the near future is that he is an incredibly talented business executive who makes decisions quickly, decisively, and just as quickly turn those decisions into action. In short, he is the right leader at the right time for this company.

I will remain as AMD's Executive Chairman focusing my full-time energy on driving our Asset Smart strategy through its exciting conclusion, and I will also continue to lead our initiative to break our industry free from the grips of an illegal monopoly. So, Dirk, my friend, congratulations on this well-earned promotion; AMD is in great hands.

Dirk Meyer, President and Chief Operating Officer

Hector, thank you. Thanks both to you and to the AMD Board for your support and your confidence in me. AMD is a great company comprised of great people dedicated to serving our customers and transforming this industry. Hector, we've come a long way in the last six years since you took charge of this company. With you at the helm, we took AMD into the enterprise on the strength of AMD64 platform. We built AMD's global presence with bold expansion efforts in China, Latin America, India, and the Middle East.

We established partnerships with many of the greatest OEMs and software firms in this industry: HP, IBM, Sun, Dell, Microsoft, Oracle, to name a few. And you courageously launched a global initiative for fair and open competition, a battle that we are winning for the benefit of the industry and consumers everywhere. We have a company rich with great people, great products, a great spirit and a lot of great potential.

Looking to the recent past, we've not been living up to that potential. Looking forward, we will. We will demonstrate a pattern of sustainable profitability. We will focus on our unmatched combination of x86 and leadership graphics technologies. And we will execute, execute and execute.

We've been able to attract some outstanding new leaders to our team. Examples, Nigel Dessau our new CMO, Ahmed Mahmoud our new CIO; Chekib Akrout who joins Jeff VerHeul in leading our newly formed Central Engineering team, and Emilio Ghilardi who will join us next month to run sales and marketing in our EMEA Region.

Great people, motivated to join a strong team and one of the most compelling professional opportunities in the high-tech industry. I want to thank Hector for the great progress we've made on our Asset Smart strategy and for accepting the Board's request to stay on and drive it to completion. And I know that I speak for all AMD employees when I say that I am really looking forward to the challenges and opportunities that lie ahead.

And with that, Ruth, how about some Q&A?

Ruth Cotter, Investor Relations Manager

Matt, we're now happy to take some questions, so if you could please call our participants and introduce each questioner accordingly, we'd appreciate it. So we're ready to go Matt when you are. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you Ms. Cotter. [Operator Instructions]. Our first question is from John Pitzer of Credit Suisse. Your question, please?

<Q – John Pitzer>: Yes, guys thanks for taking my questions this afternoon. Just, Dirk, can you talk a little bit, you talked about demonstrating a power and a sustainable profitability. What kind of timeline would you be willing to share with us? You guys have talked in the past about some goals as we into the second half of calendar 2008. I wonder if you could just elaborate on those. Thank you.

<A – Dirk Meyer>: Yes, I'll provide some comments and ask Bob to maybe provide some more. We still believe on the strength of the momentum that we're seeing in the market place based on the new products that we introduced in Q2 that we can expect to be profitable at the operating level in the second half. And, Bob you want to provide further commentary?

<A – Robert Rivet>: Yes, to me it's, we're not backing off on that. We still believe that we had made progress in the breakeven point as I talked about. The goal is to get to the 1.5 billion in the beginning of next year, making progress to that; so, we'd like to put the stake in the ground that we don't want to look back. So start making money in the third quarter and moving forward from there.

<Q – John Pitzer>: And guys relative to those targets, does that imply more work around the Asset Smart strategy or do you think the strength of the top line demand in the back half of the year kind of gets you there?

<A – Robert Rivet>: It's really a combination of both. Clearly, we believe the new products will give us traction to increase the top line. Our strategy to continue to execute on 45-nanometer improves our cost structure. But also it does incorporate Asset Smart execution by Hector to bring it to conclusion.

<Q – John Pitzer>: And then, guys, last question from me, if you kind of project out for the balance of this year, your CapEx to rev ratio this year is going to fall about 15% which is kind of almost half of what has been running for the last three years. I am just kind of curious as to what kind of confidence level or milestone you can throw out around 45 nanometers to make us feel more comfortable that you're spending at an appropriate level to stay competitive?

<A – Dirk Meyer>: Yes, first I'll talk a little about 45 nanometers in general. We're well on track with the 45 nanometer plan as we've been telling this group about in the past. We've actually started production late last quarter and are on track to start volume shipments early in Q4. Typically, it takes us three to four quarters to flip the factory as once we start so that would say that would be largely converted roughly in the middle of next year. Much of the capital expense that we're bearing now is in support of that plan.

<Q – John Pitzer>: Great, thanks guys.

Operator: Your next question is from Ross Seymore of Deutsche Bank. Your question please.

<Q – Ross Seymore>: Hi Dirk, with your new role can you talk about any sort of differences with the strategic direction that might ensue?

<A – Dirk Meyer>: Two comments. One is Hector and I have been in sort of partnership leading the company through this point. Looking forward, there will certainly be some changes as I said in my opening remarks. We're a company with great potential and really distinctive capability relative to having both x86 and leadership graphics capability in hand. I think looking forward, you're going to see us focus a little bit more narrowly on some of the big volume sweet spots in the marketplace particularly, in the PC space and the volume server space.

We're certainly going to increase our focus on execution, dependable delivery of products to our customers and focus on efficiency. Some of my personal focus by the way given my background as Hector described, is to work with the team and ensure that we've got the right product and solution road map entering the front end of our R&D funnel, and a focus on ensuring dependable R&D execution. Likewise, I've been focused up to this point, and will continue to focus on building a great team of people around me to help lead the company particularly in the sales and marketing area.

<Q – Ross Seymore>: Maybe a follow up on the 200 million remaining of asset sales and then whatever potentially will happen with the handheld side. Bob, could you give us just a rough idea of timing on those? Do you think just generally second half of this year, some of those actions will be taking place, just so we can factor it into some of our cash burn assumptions?

<A – Robert Rivet>: True, the majority of the 200 million left is associated with administrative buildings. To be honest, the market is a little bit choppy to go execute a transaction in that space, but I anticipate that's a back half of the year, beginning of next year type execution of that 200 million bucket that's still left, which is the majority of the bucket.

<Q – Ross Seymore>: Okay, and then what about the discontinued ops? What should we think about there? And I obviously know you can't give any real specifics.

<A – Robert Rivet>: No, we're quite well down the path and we believe you will see something before the end of the year.

<Q – Ross Seymore>: Okay. And then the last question from me for you, Bob, is puts and takes on gross margin in the third quarter; it sounds like your mix would improve, but given the pricing environment that we are hearing about in graphics, is that kind of a headwind and any other variables would be helpful?

<A – Robert Rivet>: No, if you kind of think of it clearly the second quarter was characterized of a little bit of traction in the server space, as I outlined, some unit growth. But the OEM lineup took place more into the quarter, so it takes a little while for that to turn into volume. We expect some of that volume opportunities will present itself in the third quarter. So, the mix will enrich towards the server space. Also we will have more of the new architecture affect the third quarter, which clearly gives us the ability to have some higher ASPs, more unit volume and higher ASPs in that perspective.

And it's kind of the same story with just different words in the graphics space. We launched the first new – the new series of products really with only about two weeks to go in the second quarter. So, we'll have a full quarter worth of traction, and as you know, seasonally this is a strong quarter for graphics from that perspective. So it's really top line and change of mix, which is what drives us in that – in the appropriate improvement direction.

<Q – Ross Seymore>: Great, thank you.

Operator: Our next question is from Tim Luke of Lehman Brothers. Your question please.

<Q – Tim Luke>: Thanks so much. Congratulations Dirk on your promotion. Hector, I was wondering if you could provide us with some of the parameters around which you are considering the asset-lite strategy – you talked about some of the progress that maybe you could share with us, some of your thoughts around sort of how we should think about that progress, and how you perceive that developing? Is it something that you think that you would be likely to conclude in the calendar third quarter?

And separately, Bob, perhaps you could give us some color on how you perceive your balance sheet in terms of any needs for incremental capital going forward? Thank you so much.

<A – Hector de Ruiz>: Tim, I can tell you that we are very pleased with the progress; we've made enormous progress. We are looking forward to being able to share that with you, and certainly I have incredibly high level of expectation that we'll be able do that before the end of the year.

<Q – Tim Luke>: And then, right, in terms of progress, could you give any color on how you measure that or what you consider to be the elements of that progress?

<A – Hector de Ruiz>: I really can't.

<Q – Tim Luke>: Okay.

<A – Robert Rivet>: Hi, Tim. This is Bob.

<Q – Tim Luke>: Hey, Bob.

<A – Robert Rivet>: To the balance sheet question, as I've said repeatedly in prior quarters, I get nervous, I'll call it on the cash for the business when I start approaching the $800 million level I'm two X that, so just a level set from that perspective. So therefore, I am not nervous. I believe in the business; the business plan from the second half of the year. So, I don't see I need to go, do anything to raise capital from that perspective based upon the business plan we have in front of us and execution of Asset Smart and execution on the discontinued operations.

<Q – Tim Luke>: Bob, maybe you could just paint for us just as a reminder how – you perceive normal seasonality to be roughly what sort of range up for the calendar third quarter. And did I get that right that [inaudible] were eluding to breakeven in the third calendar quarter?

<A – Robert Rivet>: First on the seasonality question, our data would suggest – we've seen a range of 2 to 14%, so it's a fairly big range. The average continues to settle around that 8 to 10 as seasonality pick up in the third quarter from the second for the microprocessor business. It's actually a little bit healthier than that in the GPU business. But it's in the same zip code because clearly it's going through the same spaces from that standpoint. So that's the seasonality question.

And our comment is, it's too close. I'm not going to try to forecast as I normally do what is – I don't forecast profitability for the next quarter out, but we clearly will be profitable in the second half of the year.

<Q – Tim Luke>: So, you are inferring from that – but haven't seen the gross margin move to the 37% level, you're comfortable that obviously to get back to this target it's going to be in the low 40s shortly then as you move ramping your products?

<A – Robert Rivet>: Clearly, your math is right, we've got to get back to 40 plus, which is where we were last quarter. Clearly, in the microprocessor business, there's still a very fixed cost oriented business and how you run the factories, how many units you sell has a big impact on that gross margin.

The current quarter's low level just drove gross margins would not be very good. We expect those will pick up through the seasonality process; and most important, through all the new products.

<Q – Tim Luke>: Thank you, guys.

<**A – Robert Rivet**>**:** Thank you.

Operator: Our next question is from JoAnne Feeney of FTN Midwest. Your question, please.

<**Q – JoAnne Feeney**>**:** All right, thanks, and congratulations, Dirk. And Hector, I am sure we're looking forward to see how this restructuring plays out and your leadership there. I guess, I have a question really on the top line and the combination to gross margin and how that played out this quarter. You were saying you ended up with more Legacy products selling, and I guess I am just wondering as the mismatch between what you were trying to sell and perhaps what the demand is looking like from the market, and how you see that changing in the third quarter? Have you gotten rid of those old products? Are you seeing demand for the new ones? What should we expect gross margin really to look like?

<**A – Dirk Meyer**>**:** Well, clearly with the introduction, I'll call it of the new Quad-Core architecture, which really took place at the beginning of this year in servers at the end of the first quarter, that's what we're talking about, I'll call it as the new microprocessor architecture. Clearly the prior architecture was focused on single and dual-core. So we moved out a lot of I'll call it single-core type products in the second quarter, which definitely demanded a lower ASP from what the marketplace had.

We are also seeing the continued shift to people want to buy value-based computers that are in the right price points. So price points typically are moving down in the lower direction. But putting that aside, third quarter with servers contributing more to the top line, so, I'll call it a mix shifting towards the server business, because we'll now have a full quarter of traction with all the major OEMs. And a better merchandising of our new architecture in the desktop lineup and the Puma platform starting to get some traction based upon the 100 design wins we have, we believe that will drive the top line, which would also drive gross margin.

<**Q – JoAnne Feeney**>**:** And so on the graphics side, you've seen some real wins here recently with the new products that have come out. Do you see – and you said the 2Q was sort of dominated by older graphics processor at lower prices. So, how much might we expect that to contribute to gross margin? And even looking forward beyond that, it seems like with the good execution in graphics and graphics sort of becoming perhaps more important to the company, how big you think graphics can be for AMD over the next few quarters?

<**A – Dirk Meyer**>**:** Well, clearly you're back to the thesis of why we purchased ATI which was the graphics and chipset part of the business and then IP, clearly we're starting to see some progress from the team's phenomenal efforts to bring a bunch of new products out.

The new 4800 Series, we believe will be the best products in the marketplace and you'll see that continuation happen through the second half of the year. So it will definitely contribute to gross margin. It's very similar to the microprocessor business; you got to be in the right price points; you got to be fully merchandized in the whole stack. It's not just about having volume and the value and the equation.

You've got to have it all; we believe with the new series of products we will and driven, and our first as we talked about we feel very comfortable with what's going on in OEM notebooks and desktop, the channel we continue to make progress, that's where you're starting to hear a lot of chatter to the goodness. So gross margin expansion driven by top line expansion on the backs of all new products.

<**Q – JoAnne Feeney**>**:** And then it sounds like sort of a mix shift across the board, it's something that would push the gross margins to a level by the end of the year where you reach that breakeven point? Is that correct?

<**A – Dirk Meyer**>**:** Correct. Actually make money for the back half of the year.

<**Q – JoAnne Feeney**>**:** Okay, great. Thanks.

Operator: Our next question is from Krishna Shankar of JMP Securities. Your question, please?

<**Q – Krishna Shankar**>**:** Yes, congratulations Dirk and best wishes to you Hector going forward. A couple of questions; previously you've talked, Bob, about a $2 billion breakeven level and now you are sort of talking about a 1.5, $1.6 billion level. Can you talk about that and also you said profitability in the second half, is that profitability at the operating profit level or what do you mean by profitability here in the second half of the year?

<**A – Robert Rivet**>**:** Sure. I'll kind of – in my – I'll do in my order but answer all your questions. First is, since we're so far away from profitability the first order magnitude is operating profit at the operating income level, not at the net income level. First get to that level then we'll work to get in that. So that's what I talk about when I say 1.5 billion at the operating income level. And yes indeed, we actually used to say 2 billion was kind of more our breakeven point.

We realized in the current environment and in reviewing our whole portfolio of products, that didn't make any sense, revised it down to 1.5 billion. We're still not at that goal; we expect to be at that goal at the turn of next year. So that's kind of in the first quarter. So making progress and right now if you do the math we're little bit north of 1.6 billion.

<**Q – Krishna Shankar**>**:** Okay. And also can you give us some update on Puma. I know you have 100 design wins. We've seen some delays with the competitor's platform. How is Puma looking, and will that have a material impact on Q3 revenues in terms of the back-to-school bill for notebooks?

<**A – Dirk Meyer**>**:** Yes, Dirk here. Certainly Puma is going to be a big contributor to revenues and margins in Q3. As you know the notebook platform refreshes happen in the so called back-to-school cycle as it's called in U.S. retail. That's a cycle where machines start to show up on shelf in July. We've had some of our OEMs already announced those machines and other's will do so shortly. So, we've shipped some Puma platforms in OEMs in anticipation of that retail cycle, but really the volumes start taking off in Q3.

<**Q – Krishna Shankar**>**:** And my final question Dirk, can you give us some update on Fusion and your thinking on the Fusion architecture for '09?

<**A – Dirk Meyer**>**:** Yes, absolutely. We introduced the term – Fusion represents the idea of bringing together in distinctive ways our x86 CPU at graphics and video technology. One of the ways in which we do that obviously is to bring together the platform level, which is what Puma represents.

Looking forward, we'll integrate those technologies into a single piece of silicon. That development is underway and we'll be sampling customers next year. So we're very excited about it and our customers are really enthused about it.

<**Q – Krishna Shankar**>**:** Thank you.

Operator: Our next question is from John Lau of Jeffries & Company. Your question, please?

<**Q – John Lau**>**:** Great, thank you. You mentioned seasonality. I was wondering if you can give us a little bit more color as to what you're seeing in the marketplace. There has been a lot of concerns

out there. Do you see anything that would change your thoughts about the normal seasonality pattern for Q3, and I have a follow up. Thank you.

<A – Dirk Meyer>: Dirk here. Obviously everyone we talked to is watching the macroeconomic environment and kind of wondering what it's going to mean for the PC market, but interestingly the signals we get from our customers still indicate that the market on a global basis is healthy; obviously some of the more developed areas U.S., Western Europe are weaker, but the emerging markets are still going strong. So in aggregate based on what we hear we would expect normal seasonal patterns walking into Q3.

<Q – John Lau>: Great. And then as a follow up, you mentioned the EBITDA, I was wondering, can you give us the cash flow from operations for the last quarter? Thank you.

<A – Dirk Meyer>: Sure. It was a negative 240 million.

<Q – John Lau>: Great, thank you.

Operator: The next question is from Srini Pajjuri of Merrill Lynch. Your question, please?

<Q – Srini Pajjuri>: Thank you, Bob. I have a few questions on gross margins. First of all in the quarter, despite the fact that you saw better mix they dropped in almost 400 basis points or so. I am just wondering did you see any unusual price pressures on the client side or was it anything else there?

<A – Robert Rivet>: Actually we're probably the most unusual price pressure was in graphics; clearly our competitor took some pretty aggressive actions to try to maintain their position as we came out with our new products and slowed things down and I also think it also had a lot of inventory and a very seasonally weak quarter.

So there was more pricing pressure, I'll call it. In the graphics space processors always has pricing pressure but I wouldn't say it was anything beyond normal. Like I said before, there is a tendency shift that we see going on which is more geared toward the value space, that's kind of where the world wants to go and you have to remember particularly for AMD, we're much more exposed to the consumers than the commercial space. We're trying to change that mix, but that is this the realities of the world we live in today is the consumer space.

<Q – Srini Pajjuri>: Okay. But you seem uncomfortable that gross margins can get back into 40% levels in the next couple of quarters?

<A – Robert Rivet>: Yes, yes.

<Q – Srini Pajjuri>: And Bob, one more time, for the breakeven of 1.6 billion, what are the different elements of – just looking for your OpEx, and what kind of OpEx do you expect by Q4 of this year?

<A – Robert Rivet>: Well, as I signaled Q3 will go down, so I'll get a full quarter impact of the restructuring process in the quarter. And to be honest we're going to try to stay at those kind of levels for a quite long period of time and get back to what Dirk talked about, a sustainable profitability. So we've done a pretty thorough investigation of how do we spend the money, where we spend our money. And so we'll stay at those levels plus or minus a little bit for a while.

<Q – Srini Pajjuri>: Okay, got it. And then my final question is on the gross margin again. Once you're done with the asset light strategy, once you execute that, what kind of impact – how should we think about your gross margins longer-term and how's the – do you have a longer term target in mind once you close the asset light execution? Thank you.

<A – Robert Rivet>: It's – I'll give you – I'll say a 50,000 feet, the specific details to me doesn't make sense to give until we actually have a deal to announce with all the pluses and minuses of a deal, I'll call it. But in reality, today if you think about it from microprocessor business, I spend two things in the R&D category or three things I'll call it, in the R&D category which is process development, bringing up factories and chip design.

And clearly there's two of those that would go away in an asset smart strategy. So one, there's cost reduction in that area, and clearly there is going to be cost increases in the gross margin as you pay for the cost of that technology on a per wafer basis and the cost of capital on a per wafer basis. So it's kind of a trying to figure out the math of working those two angles that we will talk about once we have a deal.

<Q – Srini Pajjuri>: Thank you.

<A – Robert Rivet>: So gross margin down, R&D down. That's about all I want to get into at this point.

<Q – Srini Pajjuri>: Thanks Bob.

Operator: Our next question is from Uche Orjis of UBS. Your question, please.

<Q – Uche Orji>: Hi, thank you very much. Just a couple of quick questions. In terms of your design win in graphics for the new notebook platforms, once again you gave us a number awhile ago the level of design win that you've had. Is there any updates to that, please?

<A – Dirk Meyer>: Dirk here. First of all, I want you to know those were design wins all that were locked down last year actually. So, now it's when they start to pay off.

<Q – Uche Orji>: And so what's the estimate of what share you were getting in those platforms?

<A – Dirk Meyer>: Yes, as we said at the analyst conference, we were very happy with our design win momentum and we are getting 60% plus design win share on that new platform.

<Q – Uche Orji>: Okay. Just a different question. We've heard reports about pricing going up at the foundries just for your graphics business. Is there any way you are able to protect yourself from a cost-push pressure coming from price increases from the foundries? I think the first question is, are you seeing it yet and also to what extent are you able to try and manage this given all the comments you made about ASP pressures as well within graphics, and then on to my second question.

<A – Robert Rivet>: Sure. And one reality that's always a supply-demand equation that the foundries got to work their way through. Clearly for people like us who are a big user of the foundries and are big strategic customers of the foundries, we work our way through those cost increases. Most of those cost increases are – I'll call it to the smaller players, not to us, not that they don't ask for price increases. So we are working our way through that; we don't see that instantaneously we work our way through that because we have a long-term strategic relationship with these guys. So, I guess that was a long answer to your question. We are not seeing significant cost increases coming from our foundries.

<Q – Uche Orji>: Great, thank you.

Operator: Our next question is from Doug Freedman from AmTech Research. Your question, please.

<Q – Doug Freedman>: Thanks for taking my questions. Can you talk a little bit about new customer acquisitions company over, well Hector you are sitting in the CEO role, added quite a few number of major OEMs to the AMD stable. Can you talk about if there is opportunity to continue to add to that, and if so is it something we can expect to see in the next 12 months?

<A – Dirk Meyer>: Yes, good question. With Hector at the helm, we did a great job of acquiring new customers. And in fact, if you look at the big players in the PC market, there is only a couple left with whom we don't do business on a CPU basis, although we do business on other product lines. So looking forward clearly there's a couple of opportunities left relative to customer acquisition on the CPU side. But really the big opportunity that we have is to enjoy a broader base of business with the customers that we've already acquired. And that's what we're focusing on. And the big example there is really the commercial client business, Bob referred to it a little bit. We got a number of design wins actually introduced in 2Q, I think the number is 15 overall in our business class platform. So that's an area of incremental opportunity for us.

<Q – Doug Freedman>: Can you talk a little bit about the next-generation 45-nanometer server chip, Shanghai, and are we close enough yet to start to get some performance benchmark so whether to an industry standard or to your own present lineup?

<A – Dirk Meyer>: Yes, but we are close enough to know exactly what we've got in hand, and we're really excited about it, and look forward to telling you about them when we launch the product.

<Q – Doug Freedman>: Any projections on when it will launch?

<A – Dirk Meyer>: Yes, as I said, we are in production now and we will ship for revenue early in Q4.

<Q – Doug Freedman>: Great, thank you.

Operator: Our next question is from Chris Danely of JPMorgan. Your question, please.

<Q – Chris Danely>: Thanks guys. Can you give us a sense on what units versus ASPs did in Q2?

<A – Robert Rivet>: This is Bob, yes. Directionally, units were down a little bit; ASPs were down more. So kind of the mix – it was – both of them contributed to the drop in revenues quarter-on-quarter, so it was, but more ASPs than units.

<Q – Chris Danely>: Okay, great. And then a little bit of a niche question, but in terms of the Barcelona speed, are you guys shipping 2.4 gigahertz now and when will you begin shipping 2.5 and 2.6 gigahertz?

<A – Dirk Meyer>: Yeah, the answer to the first question is no, not yet in volume. And on the second question, I'd like to hold off until we talk about future products and actually launch them rather than pre-launching on this call.

<Q – Chris Danely>: Sure. Dirk, can you give us a sense of when you will begin shipping in volume?

<A – Dirk Meyer>: On Shanghai you mean or?

<Q – Chris Danely>: The 2.4 Barcelona.

<A – Dirk Meyer>: I don't want to pre-announce product introductions on the call.

<Q – Chris Danely>: No problem. And I might strike out on this next question, because it's in the same vein, but your competitors talked about success with it's stripped down netbook processor, are there any plans for AMD to launch a similar product and why or why not?

<A – Dirk Meyer>: Are you referring to Atom?

<Q – Chris Danely>: Yes.

<A – Dirk Meyer>: Yes, it's an interesting question. First thing to point out is we're a much smaller company with not nearly the scale that our competitor has, so clearly we don't intend to try to do absolutely everything they do in the marketplace.

Atom as I understand, it is intended for a range of products below what I'll call traditional notebooks in form factor size ranging from handhelds to so called mobile Internet devices. It's a smaller factor – form factor and more inexpensive notebooks. Clearly when you talk slightly smaller form factor notebooks and inexpensive notebooks, that is a market segment that we're interested in. It's actually a segment that we are starting to offer products to our customers and support, of now we actually haven't talked in public about that but I expect we'll be talking about that road map when we get together in November at our analyst conference.

<Q – Chris Danely>: Okay, thanks that's helpful. And then last question, Hector you've been talking about the fab light asset, light asset smart for a while now and then in the last quarter you promised us some details in the near term. So, I know you're not going talk about details but what's taking so long on this thing?

<A – Hector de J. Ruiz>: First of all, the near term is coming, so I just can tell you we are getting closer and all I can tell right now is that it is – if we work something as simple as going to a foundry would be very easy to do and talk about it but it's actually something that we believe is uniquely tailored to AMD, uniquely tailored to the needs of our customers and company and therefore much more complex to do than just a general outsourcing scenario. And for that reason, it's taking longer than we thought.

<Q – Chris Danely>: Do you guys expect a major improvement to margins with this or is there something a little bit more minor?

<A – Dirk Meyer>: Well, it'll be a major reformation of the company from that standpoint; I don't want to get into those kinds of specifics, but it's definitely going to improve the balance sheet.

<Q – Chris Danely>: Okay. Thanks a lot guys.

Operator: Your next question is from Glen Yeung of Citi [Citigroup]. Your question please.

<Q – Glen Yeung>: Yes, thanks. Dirk, earlier you said that one of the changes we might expect from you is that AMD will focus more on what you consider to be a volume market. I wonder if you could just define first where you think those markets are?

<A – Dirk Meyer>: Yeah. What I mean by that, it's kind of the traditional markets that AMD and ATI frankly has been focused on for a long time, so the PC market, traditional desktop, PC market what we know today is the notebook PC market and that market as it evolves particularly on the low end. And finally the volume server market, especially one and two socket servers, that's not to say four sockets not interesting, we actually have a great position there and we intend to defend that.

In addition, markets that are adjacent technologically, so an example there would be the enterprise embedded market, networking and storage being an example. We've got a participation in the living room game console space, we intend to continue that participation. Does that give you a feel for it?

<Q – Glen Yeung>: It does. It begs another question which is, one of Intel's strategy is to try to proliferate x86 beyond just the traditional PC and sort of by definition that opens up an opportunity for AMD. As you see that evolve, and I think it's hard to see where it might evolve at this point, but as it does start to evolve do you think that's something AMD is in a position to take advantage of?

<A – Dirk Meyer>: Yeah, first of all it's kind of interesting, we started talking about x86 everywhere three or four years ago, maybe prematurely. Since that time we've seen Intel cast off their armed-based business and follow us with this idea. Now being a bigger company they've got more money to create markets for x86 technology as I said in response to an earlier question. Given our scale, we can't afford to lead into every market but to the extent Intel creates opportunity for x86 technology by growing new markets, that's good for us over time.

<Q – Glen Yeung>: Okay. And can I clarify one thing from some statements you made before about pricing and mix in the second quarter, so you suggested Bob that ASPs were down more than units. Just to be clear is that – was that a function of the pricing environment or is that a function of mix?

<A – Robert Rivet>: It's really a combination of a little bit of both. So I'd say it's not solely on one side of the table or the other, it's a little bit of both, pricing environment and just mix more in the lower end of the stack.

<Q – Glen Yeung>: Okay. All right, which seems to be right, what you tell us with that as well. The other question I had was on SOI. If you guys think forward into your roadmap, particularly as the act of smart strategy starts to evolve, does SOI has to be part of that strategy?

<A – Dirk Meyer>: Dirk here. Going into every technology transition, 90 to 65, 65 to 45 as examples, we reevaluate the technology choices we make including SOI. Going into 45-nanometer, we are very confident that the SOI choice we've made is the right one, and we'll make that same judgment as we go into 32 and beyond and that is not really influenced heavily by the asset light direction.

<Q – Glen Yeung>: Actually one last question on – really kind of stretching a little bit here, but you mentioned in some point you were making about ATI that you bought ATI for the graphics and the chipset business. When I kind of think about things like the consumer business there, is that to suggest that something you don't really want?

<A – Dirk Meyer>: Well, first comment is we are declaring those businesses as discontinued operations and offering them for sale, so I think that's probably the answer. That's not to say they are not good businesses. They are great technology, good people. But to be honest, they are not funding themselves today, and we think they will be more successful in the hands of a company that's more focused on those markets.

<Q – Glen Yeung>: Okay, great. Thanks.

<A – Ruth Cotter>: Matt, we'll take two more questions, please.

Operator: Our next question is from David Wu of Global Crown Capital. Your question, please.

<Q – David Wu>: Yes, I actually have two questions on – one on discontinued operation, one on the discrete graphics business, and finally on the clarifying with Bob. To get to the breakeven at the operating level, I guess the precondition for that is asset light a precondition for that or is the designs of the products that you have on a roadmap running on 45-nanometer is the key to hitting the breakeven point either in Q4 of this year or the first quarter of next year?

On the ATI side of the house, I was thinking about the discontinued operation, do you intend to sell the whole thing to one buyer or as separate pieces of that discontinued operation to potentially different buyers? And the last question is the 4,800 family is a different track from ATI's past experience in the last two generation. And I was wondering whether in fact the gross margin that you can achieve with the 4,800 should be higher than the sort of mid 30s that when ATI was independent company, those where the goals they were setting for the discrete graphics business. Could you actually – if you have the architectural leadership this time around, can you achieve, put a number [inaudible] in front of it?

<A – Robert Rivet>: Sure, I think Dirk and I can work our way through this kind of it to the -I'll call it a simple one. The ATI question, not going to – we are going get out of both of those businesses, which is handheld DTV, don't feel compelled to talk about how are we are going to do that, if it's one or two separate transactions, we will just figure out how to exit those appropriately, so that there is seamless transition for the customers and there is a place for this great team of people and technologies to find appropriate home.

<Q – David Wu>: Okay.

<A – Robert Rivet>: So, we'll just leave that one to where it is. On the break even question, asset smart is not a precursor to the breakeven equation. We are trying to set the cost structure in place today. That will achieve that breakeven and actually make money in the back half of this year, so in the next two quarters add, but to get to the 1.5 billion will get us to some of the asset smart type transactions. So we believe we are on a path to continue to make progress or work our way down, but then make a significant transformation as we execute asset smart. So hopefully that answered the question.

And then I'll take a shot at the 4,800 piece. I mean clearly you can see based on our competitor, since there is only two of us in the graphic space, he who has the good goods gets the better margin. And then videos enjoyed nice margins in the graphic business. We believe we can enjoy those same kind of margins and anticipate that will happen as this new family of products kind of takes over in the marketplace.

So our gross margins north of 30 to the 35, 40 is definitely where we've said we desire this business to be operating at and that's – and the way to get there is to have the right products that are better than our competitor in the marketplace.

<Q – David Wu>: Well they have gone for 40.

<A – Robert Rivet>: Well, you got to get to mid-30s before you can get to 40.

<A – Dirk Meyer>: Right. And the other thing I'll point out is another margin dollar and margin percentage opportunity as the workstation graphics market, and we've talked about that in the past as being an opportunity for AMD.

<Q – David Wu>: Okay, thank you.

<A>: Thank you.

<A – Ruth Cotter>: Okay, Matt, we'll take one more. Thank you.

Operator: Our final question is from David Wong of Wachovia. Your question, please.

<Q – David Wong>: Thank you very much. Your discontinued operations, do you have high confidence that you'll actually sell them and get cash for that or are you also considering the possibility of having a cash outlay because you will need to shut them down?

<A – Robert Rivet>: We have no plan for a cash outlay, clearly we have a plan and believe it's highly – we're highly confident there will be cash inflow.

<Q – David Wong>: Right. And further on the expense front, can you give us any idea what your legal expenses the quarter are associated with pursuing anti-trust actions?

<A – Robert Rivet>: We don't give that level of granularity but it's – they're not insignificant.

<Q – David Wong>: Right. Okay. Last thing, so if I understand what you've said just now about breaking even without needing asset smart, so we can't assume that we will learn about Asset smart or that they will be implemented in the next six months? You'll actually – you'll expect to breakeven regardless of that?

<A – Robert Rivet>: Well you're misinterpreting two things to me. We will make money in the back half of the year period, so that's – make sure you're clear on that. That's not a statement about Asset smart and we – and there's no indication – we're not trying to give any indication that Asset smart is a 2009 event. It is soon as we can get it done, which is what Hector's focused on.

<Q – David Wong>: Right. Thanks very much.

<A – Robert Rivet>: Thank you.

<A>: Thank you.

Ruth Cotter, Investor Relations Manager

Okay Matt, that concludes the call and we'd like to thank everybody for participating. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Matt, and I will be your conference operator for today. At this time, I would like to welcome everybody to AMD's First Quarter 2008 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Director of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Investor Relations

Thank you and welcome to AMD's first quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; and Bob Rivet, our CFO. This is a live call, and will be replayed via webcast on amd.com. There will also be a telephone replay; the U.S. number is 888-266-2081. The international replay number is 703-925-2533. The access code for both is 1221534. The telephone replay will be available for the next 10 days starting later this evening.

I would like to call your attention to our Q2 2008 earnings quiet-time, which will begin at the close of business on Friday, June 13th. Before we begin today's call, I would like to caution everybody that we will be making forward-looking statements about management's expectations. Investors are cautioned that those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and involve risks and uncertainties that could cause actual results to differ materially from our current expectations. The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast. Therefore we encourage you to review our filings with the SEC, where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from our expectations. You will find detailed discussions in our most recent SEC filings, AMD's annual report on form 10-K for the year ended December 29th, 2007.

Now with that, I would like to hand the call over to Bob Rivet, our CFO.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thank you, Ruth. Good afternoon, everyone. The first quarter of 2008 was a difficult start to the year for AMD. In a seasonally weak quarter amplified by a challenging global economic environment for consumers, and softening demand for our previous generation products we experienced lower than expected revenues across each of business segments.

And while we are obviously unhappy with these results for the quarter, looking ahead we are pleased with the customer response to our new offerings across all of our major product segments.

In our graphics business, independent benchmarks continue to show the strong performance and value of our AMD Radeon HD 3000 series of graphics products. In our microprocessor business, our innovative triple-core technology is gaining traction for its unique performance and value proposition. With our upcoming Puma and Perseus platforms in the second quarter we continue to execute our desktop and notebook strategy with solid customer support. And we are particularly pleased with customer response to the B3 version of our Quad-Core AMD Opteron processors in the last few weeks of the first quarter, with 23 SKUs available from multiple OEMs including HP and Dell, with another Tier 1 OEM coming on board in the second quarter.

All told it was quarter characterized by poor top-line performance, but a strong new product refresh in all of our major businesses that should pay solid dividends as the year progresses.

Total AMD revenue for the quarter was $1.5 billion, down 15% sequentially and up 22% year-over-year. We recorded a net loss of $0.59 per share in the quarter including a charge of $0.08 per share related to the ATI acquisition. Gross margin in the quarter was 42%, a 2 point decline from the prior quarter, due largely to lower microprocessor unit shipments and an inventory drain on older generation products.

Our world class manufacturing facility in Dresden continues to set benchmarks for operating performance, including yield and cycle times. We continue to execute our 45-nanometer strategy according to plan, and we will start production at mature yields this summer.

Total operating expenses, R&D and SG&A were up 6% over the prior quarter, in line with guidance. Cash flow from operation was a positive $16 million for the quarter and adjusted EBITDA was a positive $54 million. A reconciliation of GAAP to non-GAAP financial results are available in our press release. Capital expenditures came in at $323 million for the quarter.

Now switching to the business segments. Computing Solutions revenue was $1.194 billion in the first quarter, down 15% from the prior quarter. The quarter-over-quarter decline was due primarily to lower microprocessor unit shipments across server, desktop and notebook product lines in a highly competitive market. Quad-Core processor shipments were up while microprocessor ASPs were flat. Operating loss for the Computing Solutions group was $160 million.

Graphics segment revenue was $230 million, down 11% sequentially and up 17% year-over-year. Due to the strength of our new product-mix, gross margins improved, keeping operating losses flat at $11 million, despite the drop in sales.

Consumer Electronics segment's revenue was $81 million, down 26% from the prior quarter, the result of seasonally down sales of products for handheld devices and DTV solutions. The Consumer Electronics segment reported an operating loss of $8 million in the quarter.

Now let me turn to the balance sheet. Our cash and marketable security balance at the end of the quarter was $1.753 billion, down 136 million from the prior quarter. We sold some 200-millimeter tools in the quarter, generated proceeds of approximately $50 million. Remaining tool sale opportunities and potential administrative land and building sales continue to represent more than $400 million of cash generating opportunities in the future. With days of inventory at 81 days, total inventory declined in the quarter to $785 million. In accounts receivable DSOs remained flat at 33 days.

Now let's turn to the outlook. The following statements are forward-looking and actual results could differ materially from current expectations. In a seasonally down second quarter AMD expects revenue to decrease in line with seasonality. Operating expenses are expected to be flat to slightly down from the first quarter, as we see early effects of our cost reduction programs. Acquisition-related charges are expected to be approximately $50 million. We expect to have a tax expense of approximately $5 million in the quarter.

Depreciation and amortization expected to be approximate $300 million. We reduced our planned capital expenditures for the year to approximately $900 million with our investment focused primarily on 45-nanometer. As previously announced, we will take a restructuring charge in the second quarter; details of the amount will be disclosed as they become available.

In summary, we had another challenging quarter and in the context of an uncertain economic environment, we are taking big steps as quickly as possible so we can reduce our costs and re-structure our business for future success.

At this point, I'll turn it over to Hector for some brief closing comments.

Hector de J. Ruiz, Chairman and Chief Executive Officer

Thank you, Bob. There are two things that Bob alluded to in his remarks that I want to underline that occurred in Q1, that are very important for us as a company. One of them is the continuation of great performance by our manufacturing operations in Dresden, Penang, Singapore, and Suzhou. And the other one is the general availability of our Quad-Core AMD Opteron processors, as evidenced by the announcement of systems by our Tier 1 customers, HP and Dell, and later on this quarter another Tier 1 customer.

However, it is clear that our business environment has changed from just the second half of last year where we saw some of our non-core businesses on a path to growth and profitability. That is now questionable. As a result, we are embarking on a significant restructuring of our company to address the following.

We need to intensely scrutinize all of our businesses in order to ensure that our core x86 and graphics products are on a healthy path to leadership and profitability. We also need to intensely scrutinize our non-core businesses and re-visit their strategic fit into our plans and their path to growth and profitability. Absent these we will exit those businesses.

We will complete the 10% workforce reduction just announced, as one of the elements of a program to reduce our breakeven point by couple of $100 million from where we are today. All of these efforts are key to repositioning the company not just with a reduced breakeven point but, more importantly, as one strategically positioned to sustainably grow and lead in those core areas that I mentioned before.

We have made significant progress in our Asset Smart strategy and I am personally driving this effort intensely and I am very hopeful that we will be able to communicate details of this rather complex effort in the near future. At that time, we believe we will also have an opportunity to further restructure the company for increased focus and added flexibility, while placing us in a better position to deliver sustainable, profitable growth.

We have not deviated from our goal of achieving profitability in the third quarter of this year. And our commitment to you is that we will take the appropriate actions necessary to achieve that. Thank you for your patience and support.

And let me turn it over to Ruth for the question-and-answer.

Ruth Cotter, Investor Relations

Matt, we would now like to open the call for questions, please, if you could poll the audience.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question is from Srini Pajjuri of Merrill Lynch; your question please.

<Q – Srini Pajjuri>: Thank you, Bob. After you're done with the restructuring, could you help us understand where your OpEx will be, maybe let's say by Q4 of this year?

<A – Robert Rivet>: Well, as Hector outlined, we are trying to reduce the breakeven point, to get us in a zone of more – we break even at $1.5 billion. We probably won't totally be there at the fourth quarter level, but that translation would mean fairly significant cost reductions in the order of 25 to 50 million per quarter less by the fourth quarter versus the current run-rates of today.

<Q – Srini Pajjuri>: Okay.

<A – Robert Rivet>: I don't want to be overly specific because we are working at both, on manufacturing and OpEx. But I think that's a reasonable expectation of what we are modeling and working at right now is 25 to 50 by the fourth quarter.

<Q – Srini Pajjuri>: Okay, and Hector when you mentioned that you are going to take another look at the non-core businesses, is that part of restructuring that you announced or is it something new that you are talking about?

<A – Hector de J. Ruiz>: This is something in addition to what we just talked about.

<Q – Srini Pajjuri>: Okay, and any timeframe that you can put around it?

<A – Hector de J. Ruiz>: We are on a path to do this as quickly as we can. And we will announce this as soon as we know. But we are on a fast pace.

<Q – Srini Pajjuri>: Okay and one final question for Bob. When you say seasonal, I guess I just want to understand because your seasonality has been all over the place and also it looks like you're ramping several new products. My question is why would you not grow a little better than seasonal in Q2? Thank you.

<A – Robert Rivet>: Well, seasonal from our perspective, and to me it's a combination of what our competitor says and us, because we are the industry. Second quarter: kind of the best any quarter has been and over a near-term period of time, is about zero percent, it's been down as much as 10% and the average has been about 4 to 5. Right now, I don't -- we don't see any reason, even though we do have a good product lineup, to push that any harder than what the math says, also based on what our competitor said.

<Q – Srini Pajjuri>: Thanks.

Operator: Our next question is from Patrick Wang of Wedbush Morgan; your question, please.

<Q – Patrick Wang>: Yeah, hey guys. Just a couple of questions. First off, I was looking at the profitability of the different business units here and it appears that operating margins just on a unit base, on a unit to unit basis is -- has gotten a little bit worse in Computing. Can you give us some color just to get us a little bit more comfortable in terms of operating margin of the Computing business?

<A – Robert Rivet>: Well, clearly volume drives that margin pretty significantly. That is a fixed-cost business, from our perspective, and clearly you drop the volume and you've got that fixed-cost issue that kind of plays through. So, I am not sure exactly what else I can say on that is -- clearly with the product refresh that we have started to introduce at the tail-end of the first quarter, and the continuation of the platform strategy we have, we feel like we will continue to make progress and grow the top-line, reduce the cost per unit, particularly when we introduce 45-nanometer in the back half of the year, from -- in volume production, that you will see costs per units drop and margin improve.

<Q – Patrick Wang>: And that's expected in the back half of this year.

<A – Robert Rivet>: Correct.

<Q – Patrick Wang>: Okay, and then just some color on Graphics. Because I mean, I think commentary just on the product portfolio on the graphics side is that you do have a stronger line-up there. Any color into when that starts seeing improvement?

<A – Dirk Meyer>: Yeah, hi, Patrick, it's Dirk here. So, what we saw in the quarter actually was better margins on the Graphics side again, driven by stronger products and a mix-shift that was favorable on that dimension, offset a little bit by pricing pressure on the low-end. Looking forward, we clearly expect, on the strength of products, to start to grow share across the board, and see that business improve.

<Q – Patrick Wang>: Okay, great, thank you. And just one last question, just on 45-nanometer. I know that you said that you expect production and mature yields sometime in the summer. Any more color you can provide there? Just to help us better understand what's happening.

<A – Dirk Meyer>: Yeah, Dirk again here. So, we will start the production ramp in the summertime and start to ship products in volume in Q4.

<Q – Patrick Wang>: Okay, great, thank you.

Operator: Our next question is from Krishna Shankar of JMP Securities. Your question, please.

<Q – Krishna Shankar>: Yes, Bob, previously you have been talking about a $2 billion sort of breakeven and now I think you are saying $1.5 billion or is that $1.8 billion because Hector also talked about a $200 million reduction in that breakeven point. Can you clarify that for us?

<A – Robert Rivet>: 1.5 is the target that we are working on to reduce. So basically, I'll just keep it simple. It's the current quarter, the first quarter we just repeated [reported] that that $240 million loss would be zero. So that's what we are working our way toward. So we've taken a much more aggressive stance than may be interpreted in the past.

<Q – Krishna Shankar>: I see. And then in Graphics, you did have a pretty good mix with the 3000 product family and yet the business was not profitable. Can you talk about what leads that to becoming more profitable going forward?

<A – Dirk Meyer>: Dirk again here. High order, it's more volume generated through share gains. And we have pretty good confidence based on two things that we'll get there. First of all, as we told this group at the December analyst conference, we did a very good -- we were very effective at locking down OEM design wins on the mobile platforms which refreshed here in Q2. So a lot of that is locked, and then beyond that we've again got a strong product line and ought to be able to grow our share in the desktop space, both on the OEM side and on the add-in board side.

<Q – Krishna Shankar>: And the final question on Barcelona, it sounds like that's going to be a key vector in terms of profitability and margins. What's been the response from customers and are you competing there in terms of performance, price per watt, what are sort of the metrics that you are trying to win back business given your late entry into that Quad-Core server market?

<A – Dirk Meyer>: The response from customers has been enthusiastic, as has the response from end users. We've talked about, in the past, some of the marquee cluster wins that we generated and served actually with Rev B2 of the product. Rev B3 is stronger. We'll be able to increase frequency over time. The product is terrific in the high performance computing space where floating point intensive applications reside, and in addition, in virtualized data centers, the product really shines.

<A – Robert Rivet>: And as I... just to remind you as I said, HP and Dell have launched, so that product is available, you can go to the HP website and see the product. That's available with AMD product.

<Q – Krishna Shankar>: And my final question is for Hector, you talked about the asset-lite strategy and having details on that soon. I am trying to reconcile that with your sort of excellent performance in manufacturing and can you give us a little more clarity on what asset-lite might look like either in terms of shared ownership of a fab or AMD becoming to some extent fabless? I just want a little more color on your asset-lite strategy?

<A – Hector de J. Ruiz>: I know you would like it, and I feel terrible that I can't provide you details that I would love to and I hope to do it soon. But the obvious thing is that what gives us an opportunity to do things creative is the fact that we have incredibly strong world class benchmark manufacturing assets and at this point in time, and I hope to tell you more soon.

<Q – Krishna Shankar>: Thank you.

Operator: Our next question is from Cody Acree of Stifel Nicolaus. Your question, please.

<Q – Cody Acree>: Hey guys, thanks a lot. Gross margins for the second quarter, any color on direction or magnitude?

<A – Robert Rivet>: Well, this is Bob, clearly in a seasonally down quarter, if you don't have the top line it makes it a little bit more challenging, but as I said I'd like to give you a framework, I don't give color on exactly what's going to happen, so we don't give that kind of guidance. But I would like you to think of it in two dimensions. And the first dimension is, we do have a bunch of new products, we only had weeks of the B3 material take place for the first quarter, versus we'll have a full 13 weeks in the second quarter.

And the same thing goes in graphics. In graphics we continue to be excited about the new products, we continue to have more new products coming, so those are the positives of the quarter. The negatives is the seasonality, just the unit pressure you have of clients, particularly for us in the consumer space is a little bit of a challenge. So there's a plus and there is a minus, you need to quantify what you think that is.

<Q – Cody Acree>: Maybe could you also talk, obviously this may also be an answer you can't give, but talking about the breakeven number, if you can't talk about specifics at least maybe the drivers that gets you there at 1.5 billion, you gave us little bit of OpEx guidance, what kind of gross margins do we need to be getting to or at least what kind of mix shift helps you to get to the gross margin numbers to get to that breakeven level?

<A – Robert Rivet>: In the current business model, so I'll call it pre-Asset Smart, we have to be – using fourth quarter as a proxy, we have to be pushing the north of 45% level. Clearly, though we're trying to reduce the burden in the OpEx category and also see if there is some room we can in reducing the cost of manufacturing, so it's easier to get to the north of 45. So kind of – but in a perfect world we're going to try to shift fixed cost to variable cost so that we can weather storms a lot easier at 1.5 billion than we currently are today.

<Q – Cody Acree>: Okay and then lastly, you mentioned 13 weeks of B3 and GPUs ramping in. When are volumes large enough that we really start to see some drop-through to the bottom line to impact on operating profits? Is it late late in the year or is it sooner?

<A – Robert Rivet>: It's really this summer. So to me we'll see server improvements right now in the current quarter and continuing in the third quarter and fourth quarter. So it's definitely happening. Desktop is happening right now also as we continue to increase the lineup of Phenoms available. Triple-Core is another opportunity that we just started again in the first quarter, that will continue. So really that Quad-Core architecture that we also use for Triple-Core will have good benefit right away. The wild card issue is the environment we are in, in the consumer space, which is the world we play in mostly.

<Q – Cody Acree>: Perfect. Thanks, guys.

Operator: The next question is from David Wu of Global [Crown] Capital; your question, please.

<Q – David Wu>: Yes, I was wondering about the fact that your Puma platform is also coming out. Would that enable you to turn that notebook volume around since that's a completely new platform?

And in the second quarter, concerning your lineup of products, would be surprised if your market share would not go up in the calendar quarter relative to what you had suffered in Q1 because of product freshness issue. Can you talk about that a little bit?

And the other one I was wondering about is, Hector was mentioning about what were the core technology, and I think graphics was one of them but there -- the graphics portfolio that you have today is a very broad one and can you dissect -- or discard part of the graphics core without hurting the part that you want to keep?

And lastly on the -- maybe Dirk can help me on this score: the Barcelona platform apparently is a straight 45-nanometer die shrink of the – sorry, Shanghai platform is a straight 45-nanometer die shrink of the today's Opteron, but I was wondering whether you may change an architecture a bit to help your initial performance by having say a 4 issue per clock kind of thing as opposed to current generation's three issue.

<A – Dirk Meyer>: Hi, David, I'll try to take those, all three of them in the order you asked them. So first of all with respect to Puma, the way I would characterize that one is as follows: first of all that platform has enjoyed great design win success across our customer base certainly in our historic consumer segment but also in the SMB area. It will be hitting the market in Q2. Clearly relative to notebook share, the exposure we have with the consumer market makes us swing a little bit more seasonality than the overall notebook market, and due to that we've got opportunity to gain serious headwind in the back half of the year, again due to seasonality.

And in addition as I said the fact that that Puma platform is also enjoying some success in the form design wins with SMB gives us an opportunity to further grow our share in the back half of the year.

You asked about what do we consider core and what do we consider non-core, you know high level the way we think of this is the technological foundation of our core businesses is our x86 technology together with our graphics technology and the business outlet for those is primarily computing, servers and PCs and markets that are very adjacent to PCs. So hopefully that clarifies that a little bit.

And then finally you asked about Barcelona. If I understand that -- your question, it had to do with are we going to be substantially changing the core when we move to Shanghai and first order there are some core improvements, but not major ones, I would call them incremental improvements to the core, but other improvements on the die such as caches and so on.

<Q – David Wu>: I see, okay thank you.

Operator: Our next question is from Tim Luke of Lehman Brothers, your question please.

<Q – Tim Luke>: Thanks so much. Just to clarify on that, you are suggesting that Puma should see some volume at the end of the second quarter or you think it will be more volume in the calendar third quarter on the notebook side?

<A – Dirk Meyer>: Hi Tim.

<Q – Tim Luke>: Hi.

<A – Dirk Meyer>: The platform refresh happens on the consumer side and what is called the back-to-school cycle. That cycle typically starts with machines showing up in retail channels in North America as an example in July and we start shipments to prepare for that in late May and June.

<Q – Tim Luke>: Okay and then just on Barcelona you had shared some metrics in terms of units for that at the analyst day in New York, fourth quarter, first quarter I was wondering if you had anything else to share in terms of how we should think about the ramp in terms of units or volume or revenue as you move into the second and third quarters?

<A – Dirk Meyer>: Yeah, and Tim just for clarification when you say Barcelona, I hear that being a server question. Is that right?

<Q – Tim Luke>: That's right.

<A – Dirk Meyer>: Okay. Rough math our Quad-Core server shipments in Q1 represented about 25% of the mix roughly. That ought to grow quickly to 50% in the current quarter and go beyond 50% after that point in time.

<Q – Tim Luke>: Are you assuming that with that, Dirk, you get – that having seen a flat ASP overall in the first quarter, it is improved or flat or overall for the company lower in the calendar second quarter?

<A – Dirk Meyer>: Yeah, good question and first of all the flat ASP comment was relative to the entire microprocessor product line: server, desktop and notebook. Clearly to the extent that we start to grow our server volumes and improve our share in servers that improves our overall mix and is a good factor relative to the overall ASP and profitability of the product line.

<Q – Tim Luke>: And lastly this is for Hector, in framing your expectations, you might be able to provide some incremental color on asset-lite in the near future. Should we think about that being so by the time you got to the core in July being the next sort of near future, near term event, that will be when you might be looking to have news to share or do you think there is potential for it to move out beyond into the second half of the calendar year?

<A – Hector de J. Ruiz>: Good try Tim. I know that it's -- I am not really trying to be evasive but I think we are truly tremendous progress in this area and I don't want to be flippant but the near future is anytime in the next 90 days to the rest of the year, so I don't -- I can't call you any closer than that.

<Q – Tim Luke>: Maybe as part of that, Bob, on the cash balance, you've got 1.75 billion of cash and you have taken down your CapEx a little bit. How should we think about you planning for the cash balance and what's your expectation as you move through the calendar year, any color there?

<A – Robert Rivet>: Sure, well clearly, we are trying to run the business very cash-focused to try to manage capital investments versus how much cash from operations we'll throw off. Clearly that's why we are stepping up to deal with excess employees and those kind of things. So I am trying to weather the storm and be prepared for whatever storm presents myself -- presents us.

Second is we still are monetizing tools and that administrative building and land we've talked about, so that's over $400 million. So I feel pretty good that I'm in the appropriate liquid position to manage my way through this, pre-Asset Smart.

<Q – Tim Luke>: Thank you very much guys.

Operator: Our next question is from John Pitzer of Credit Suisse, your question please.

<Q – John Pitzer>: Yes, good afternoon guys. Thanks a lot for taking my question. Just quickly on the guidance for seasonal for Q2. Now if you look at some of the IDC and Gartner data that came out for Q1, despite the macro headwinds, the overall PC unit growth was about seasonal and clearly you guys underperformed. So I am just trying to understand why you feel comfortable guiding to normal seasonal going into the June quarter given that the macro headwinds are still there. Are you expecting a better than seasonal overall market, or are you expecting sort of in line PC seasonality with you guys gaining share? If you can give me some color on that, that would be great?

<A – Robert Rivet>: Well. Here's a way we kind of look at it, to me, if you add up our competitor's results and our results and just look at microprocessors sold into the marketplace, we're down about 9%. The industry is down about 9% quarter-to-quarter first to fourth, which is on the low end of seasonality. Clearly, we did poorly in that performance which we believe is due to our exposure in the consumer space. Though total PC units, an interesting phenomena appear to be okay from I'll call what PC units are selling.

But clearly there's lot of people very cautious. So our position for second quarter is we are cautious, we clearly still see, I'll call it, the consumer pressures, but we don't need to forecast stronger or worse than at this point in time, we will just kind of try to hit it down in the middle of the fairway. And we have got a new product lineup which we believe will help us but again right now I need to reestablish creditability versus throwing out a big number or a small number.

<Q – John Pitzer>: Bob just to clarify; you hold share in a seasonal market in the June quarter is kind of the way you are looking at things?

<A – Robert Rivet>: Again our consumer exposure makes that a little tough, but our goal is to hold share not lose any more share than we have and if anything try to gain some of it back that we lost particularly in the server space.

<Q – John Pitzer>: And then Bob as you take breakeven down another 200 from 1.7 to 1.5, is that just executing on stuff that you've already announced or would you -- we need to see more announcements for you to get to that breakeven level.

<A – Robert Rivet>: You'll see more announcements, so there is more for you to be told on the specificity of actions.

<Q – John Pitzer>: And then lastly for Hector, Hector you mentioned that having world class capacity is critical to your MPU strategy. Do you need to own that world class capacity I guess? And if you didn't, do you think that would put you at a competitive disadvantage?

<A – Hector de J. Ruiz>: First of all, I don't think that the ownership of the capacity is necessarily a reflection of the leadership in technology needed there. Our partnership with IBM has demonstrated that we're able to hang in there relative to technology without having to own the R&D for example, totally. We're sharing it. So I am a strong believer that especially for us we demonstrated in the past, we'll demonstrate that going forward that partnering with people is very important to our future and particularly in the area of technology.

<Q – John Pitzer>: Thanks guys I appreciate it.

Operator: Our next question is from Glen Yeung of Citi, your question please.

<Q – Glen Yeung>: Thanks. Can one of you guys address the departure of your CTO and just whether or not that has any implications for the longer term roadmap either from a design or manufacturing standpoint?

<A – Dirk Meyer>: Yeah. It's Dirk here. Second part of the question first; it doesn't have any implications for the roadmap or our ability to execute on that roadmap. You know beyond that it wouldn't be appropriate for me to comment on any specific person's departure. But I can tell you we're focused on elevating our game and fixing some of our execution problems and in so doing we are going to bring into the company people with better talent and better experience and you will see more. I'll cite as an example the recent addition of a new CMO and a new CIO to the company.

<Q – Glen Yeung>: Okay, great and then sort of another niggling little point here, I did notice that you bought out the ownership of Zander in your fab – I think it was 36 maybe just address what the strategy is there?

<A – Robert Rivet>: Well it's always been in our plan you know when we originally set up Fab 36 we did that through a process of some help from our friends I'll call it of the State of Saxony and M&W as minority partners and then some loans with some help from the government. Our plan has always been at the appropriate times and we have different sequences in time is to take out the minority partners. That first opportunity presented itself on April 1st, and we've executed that. It does -- it will help us on the cost our interest expense on a go forward basis and we felt it was the right thing to do and has been our plan and every opportunity we have we will wind our way out of those minority interest.

<Q – Glen Yeung>: Thanks just wanted to clarify those two things. So next question I guess is for Dirk. Just thinking about channel inventories of processors first, but I'm actually more interested in graphics and what your thoughts are there both of your inventories and your competitor's, how you feel the channel inventories fit?

<A – Dirk Meyer>: On the graphics side, we've been very carefully managing I'll call it the inventory levels in our AIB partners and we feel like there is absolutely no issue what we've got is what we plan to have period. Likewise on the CPU side of the business we don't feel like the inventories are particularly unhealthy and I will say that with the availability of B3 late in the quarter a lot of that product was absorbed by the channel and it is out there in the sub distributors no doubt, but we don't know of anything that causes alarm.

<Q – Glen Yeung>: And then actually sort of in that vein, I wonder if you saw any geographic changes over the course of the quarter and I'll be specific we are little worried that Europe is getting weaker and again we did see the data on PCs that looks pretty healthy for Q1, just wondering if you've seen any signs at the turn of the quarter from a geographic perspective that raises any question marks?

<A – Dirk Meyer>: Yeah, Dirk again here you asked about Europe specifically, there is no question that we're hearing from our customers signs of a little bit of weakness in the Western European countries, UK, France, etcetera, but that's largely offset as we understand it by strength in Eastern Europe, so overall the market seems to be hanging in there in Europe.

<Q – Glen Yeung>: Okay. Last question, Dirk either for you or for Hector, just is there such a thing your strategy on ASPs, what your intentions are for the remainder of the year? Is this an area where you feel like you can sort of hold -- particularly with the new products coming out you feel like that pricing is something you are going to have some advantage with this year?

<A – Dirk Meyer>: Yeah, I'll take that one and it's Dirk again. Overall the pricing strategy of the company hasn't changed and that is to deliver good value to our customers and to the market on the strength of good technology and do so in a way that is responsible financially to the company and generates appropriate margins.

We've got some things going for us from Q1 looking forward and that is the introduction of Quad-Core to both our server and desktop lineups, which clearly gives us an opportunity to play across a wider breadth of the marketplace, get back and ahead of the game on the server side and have a richer mix on the desktop side, which are both positive factors on ASP.

<Q – Glen Yeung>: Thanks that's really helpful.

<A – Dirk Meyer>: Okay.

Operator: Our next question is from Ross Seymore of Deutsche Bank, your question please.

<Q – Ross Seymore>: Hi guys, just a couple of questions on the cost reduction strategy. I think that you guys mentioned there is another round of adjustments coming to get to that breakeven number you talked about. Is that simultaneous with what Hector was talking about, as looking at every segment or is there like a middle step between those two?

<A – Hector de J. Ruiz>: First of all let me separate the two pieces and then Bob can come in. One of the things I said, and let me hopefully clarify it, is that we are very confident that when the time comes for us to implement our Asset Smart strategy that we will have the opportunity to go through another round of cost reductions relative to restructuring the company. This will be something very much tied to the opportunity that we will have when the Asset Smart gets implemented.

But as Bob pointed out, between now and then we will also have a continuation of other cost reduction activities. One of them is the intense scrutiny that we are putting in our businesses to ensure number one that our core businesses continue to be healthy and especially as it relates to leadership and profitability. And that those businesses that are not core get a really scrutinized relative to whether we want to continue that depending on their outlook relative to growth and profitability. Once we accomplish that there will be an announcement made relative to the impact that that will have in reducing our OpEx.

<Q – Ross Seymore>: So is the Asset Smart strategy a prerequisite to the breakeven or is all three of them the 10% plus the scrutinization and the Asset Smart?

<A – Hector de J. Ruiz>: No, the Asset Smart strategy is not a prerequisite to the breakeven; all of the other actions are part of the continuation of reducing the breakeven.

<Q – Ross Seymore>: Okay and then I guess the final question on the restructuring would be I believe we've just hit the one year anniversary of hearing about the Asset Smart or fab-lite strategy and really haven't seen much to do with it. I know it's a difficult and complex strategy. Is there any reason to believe that that scrutiny of your core and non-core businesses would happen any sooner than that sort of one year anniversary we've already run into on the fab-lite side?

<A – Hector de J. Ruiz>: I can assure you that it will happen a lot sooner.

<Q – Ross Seymore>: Okay. Moving quickly away from the housekeeping – excuse me, the cost cutting side of things, any difference in what was happening in the graphics business between the desktop and the notebook side of things?

<A – Dirk Meyer>: Dirk here, could you clarify the question? Any difference...?

<Q – Ross Seymore>: On your GPU side of things it looked like the ASPs were down but the units were up, I wondered if there was any – if it was a mix related thing or an apples-to-apples thing especially considering some of your new product introductions?

<A – Dirk Meyer>: I would think of it just as a mix-related thing strength in the high-end and pricing pressure on the low-end kind of offsetting each other.

<Q – Ross Seymore>: Okay. And then similar to an earlier question, the ASPs being flat in your microprocessor business, were there any outliers as far as the three main segments: servers, desktops and notebooks that changed quarter-over-quarter to cause that or is it really just about the same in each of the three segments?

<A – Dirk Meyer>: It was pretty similar across the three segments really. There wasn't – not any too big offsets in other words.

<A – Robert Rivet>: This is Bob, the data is all fairly consistent piece by piece; slight improvement, slight decline but all within the noise level of plus minus 1%.

<Q – Ross Seymore>: Okay, then the last one is bit more of a housekeeping question; depreciation came in below what you guided to and it looked like it actually went down sequentially. Can you just talk about the mechanics of how that actually dropped given your past CapEx, and then if you could remind us of full year depreciation guidance that will be helpful too?

<A – Robert Rivet>: Well we continue as we – we've been on a ramp to add additional capacity in Fab 36. We're also are converting Fab 30 from 200-millimeters to 300-millimeters. We stopped production at the beginning of the fourth quarter on the 200-millimeters. So tools have been coming in that's where the $322 million which is split between Fab 38 and Fab 36, but clearly I am not turning on the tools if I don't need to execute them in the manufacturing environment. And so that's why depreciation is a little bit less; we didn't feel like we needed to turn them all on as fast as we originally forecasted based upon the economic view and the current realities of the first quarter.

From a balance throughout the year, it will be a little bit less. We'll drift from the levels we talked about before from guidance of $1.4 billion probably at this point in time I might say it's probably more 1.2 but I'll give you more updates on a quarterly basis. Right now I see a little bit of growth as we put -- we bring on 45-nanometer tools as we start in the summer 45-nanometer production.

<Q – Ross Seymore>: Great, thank you very much.

Operator: Your next question is from Uche Orji of UBS, your question please.

<Q – Uche Orji>: Thank you very much. Just a couple of questions, first of all on graphics. Given the lineup of products you have now, do you anticipate that you'll start to regain market share through the rest of the year, that's the first question.

And also secondly, at the Analyst Day you showed us some mix of your share gain within the Montevina platform, and I think back then you said you'd gain 60% of the design wins. Can you update that for us now if possible, please?

<A – Dirk Meyer>: Yeah hi, Dirk here. First we do anticipate gaining share across both desktop and notebook starting in Q2, and I'll say accelerating through the second half of the year. On the notebook design win front, really the story hasn't changed from the good one that we told you back in December.

<Q – Uche Orji>: Okay. Different question within graphics also, I noticed in the press release you talked about having a full lineup of FireGL products, now granted you've been – not been a big player in the professional solutions market here, NVIDIA does very well here. Is this a new attempt that strategy within the professional solutions because of the margins there?

<A – Dirk Meyer>: I can't speak to the new factor in the sense that the ATI team has been part of AMD only for a year and half roughly, but I can tell you there is no question that's a focus for the company, that's a big margin pool in the graphics business. We're pretty optimistic about our ability to have bigger access to that pool both based on two things, one is the very good OpenGL drivers that we announced a couple of quarters ago which are very robust, very solid and offered great performance. And number two, the capability of the hardware products themselves and now clearly there is a lot of other things we've got to do right. Specifically engagement with a couple of big Tier 1 OEMs who really drive volume in the workstation space, but also evangelizing our technology in enterprise and also partnering when appropriate with ISVs.

<Q – Uche Orji>: Okay. Just to ask you the same question let me switch to microprocessors, you described the environment as competitive and yet ASPs were flat, now is it safe for us to assume that there are conditions in place now for ASPs to rise for you and for the industry through the rest of 2009? Of course this is not as you mean that you know what Intel is going to do but just from what you sense of the environment and you can be able to give us some color in the past about what you think will happen. So Hector is there any sense from your side that we're past the hostilities on pricing and you expect pricing to stabilize or maybe rise for the rest of the year?

<A – Hector de J. Ruiz>: We have seen -- we saw a – we call it a stable environment in the forth quarter or in the second half of last year and I would call it very competitive and we don't see any change from that at least in the near future in the marketplace. We expect the environment to continue to be very competitive. And talking about ASPs, the key at the end of the day is really the ability to improve our mix with the new products that both Bob and Dirk have been talking about, the fact that Barcelona, the Quad-Core are ramping both in the server and the client, and the introduction of new platforms all of that and our ability to ramp those volumes higher will have a bigger impact on ASPs than any minutia in the market changes relative to ASP environment.

So we expect and our plans are to see a stable but competitive environment in the next couple of quarters.

<Q – Uche Orji>: And just one last question. Given that 45-nanometers will be -- we are looking at shipments in Q4 and I will assume that with the mainstream we are now looking maybe Q1 '09 for 45-nanometers in the mainstream. Your restructuring measures, will they include any other measures to reduce cost per units in the meantime? So I am assuming right now that most of the efforts you are going to make on the structure will be more on the OpEx line. But will that include any other strategy to reduce cost per unit, in anticipation of when 45-nanometers will kick in because this if not between now and then, between now and when 45 becomes available in mass, I just worry that you may not be able to remain competitive against Intel.

<A – Robert Rivet>: No, this is Bob, Uche. I mean clearly the cost reduction effort is across the board. It's in manufacturing. I mean we are turning over every rock to find every penny for the amount of units we ship, to see if there is ways to save more pennies. Whether its test time reductions, changing burn-in times everything you can imagine in the manufacturing environment, to streamline flows, etcetera, to save more pennies per unit. Besides in the OpEx category of how we become more efficient in our R&D investment or in our G&A operations. So it's an across the board type issue not just waiting for 45-nanometer to happen, it's all areas.

<Q – Uche Orji>: Great, thanks. Thank you very much.

Operator: Our next question is from JoAnne Feeney of FTN Midwest, your question please.

<Q – JoAnne Feeney>: Yes thanks. A bit more on the Barcelona detail and what your hopes are, maybe you can help us identify the end market segments whether it's DP servers, two-way servers or multi-way servers, where you think you're likely to have the most success with your future customers and where you might see the best shipment growth? Or where in the desktop and notebook segment you think you're going to get the best traction over the course of this year?

<A – Dirk Meyer>: Hi, JoAnne, Dirk here. So first on the server side; as you probably know we have retained a pretty good position in the 4-P space, even with the dual-core products that we have on the strength of I'll call it system architecture superiority and the introduction of Quad-Core to the 4-P product line, certainly helps us out there. In addition, we got the opportunity to grow back some of the share that we lost in the 2-P space. Really across many segments in the server space, whether it's web serving that is the outer Tier, HPC, you name it. Getting back on an even playing field certainly helps us and gives us an opportunity to grow share.

On the client side of the business, as you know we've got kind of a historic strength in consumer retail and refreshing the product line, at worst keeps us hope, in an area of historic strength. It gives us an opportunity to get a little bit richer mix on desktop, same statement with GPUs by the way. And then finally the area where we really are under penetrated is the commercial client market, generally. We kind of think of that market in three broad buckets, I will call it: government education, one; enterprise, that being big business, two; and SMB, number 3. The big opportunity for us is SMB, first because that's the biggest of those three segments, and it's the one where we are aligned with OEMs near term to penetrate. Does that help?

<Q – JoAnne Feeney>: Sure it does. But you did reference the big architectural difference between yourself and your competitor and that's one difference, one big part of that difference that may evaporate at the end of the year, with their release of their next generation products. So where do you think you might be able to still retain an edge, despite that introduction? And do you see the introduction of 45-nanometer based products as essential to your doing that?

<A – Dirk Meyer>: Yeah, I mean. Clearly we will give our product line a good pop when we introduce the 45-nanometer Quad-Core products codenamed Shanghai. And then we will be introducing new platform architecture late 2009, early 2010.

<Q – JoAnne Feeney>: And then finally if I could just -- how much of the B2 version of Barcelona have you guys left in inventory?

<A – Dirk Meyer>: You know, I can't quote you a number but the way I would think of it is this. We've been selling the B2 Quad-Core pretty successfully in desktop and despite B3 being in the marketplace have plans to continue to do that through all the channels that we have. So, we are not particularly worried about the B2 inventory position.

<A – Robert Rivet>: We've flipped manufacturing clearly to the B3 in the first quarter. So I am comfortable with B2 inventory that we'll be able to move it at the appropriate speed particularly in the client space.

<Q – JoAnne Feeney>: So with your slowdown a little bit of ramping Fab 36 and filling it out to full capacity how much extra room do you have to increase your unit shipments if you were to increase your CapEx again? How much extra output could you get if you did that?

<A – Dirk Meyer>: Well, I mean to give you a framework. Fab 38 has the capability of about 20,000 starts per month and we're at zero. So I mean, if you just forget about Fab 36, because Fab 36 really has all the equipment in place. It's just a utilization issue and transitioning to the appropriate technology node. But Fab 38 is an asset that's sitting there with a little bit of equipment that will be built-out at the appropriate time for unit growth.

<Q – JoAnne Feeney>: And what kind of timeframe Bob would be required to outfit that facility at this point?

<A – Dirk Meyer>: It's -- I mean the lead time for equipment is anywhere from 3 to 12 months. It depends on the piece of equipment. So it's that kind of a zone. Clearly we push and pull on that number all the time. As you've seen we can back off capital fairly quickly, we can ramp-up capital pretty quickly. So, but it does take a while to -- I'll call it, if we needed that kind of capacity tomorrow, it takes a while to put in place.

<Q – JoAnne Feeney>: And are you currently running Fab 36 flat out, are you 100% utilization?

<A – Dirk Meyer>: No.

<Q – JoAnne Feeney>: Okay.

<A – Dirk Meyer>: So we have room to build more units in Fab 36 alone, if we want to, and the markets wants it.

<Q – JoAnne Feeney>: Okay, thanks.

<A – Ruth Cotter>: Matt, we will take two more questions please.

Operator: Thank you. Our next question is from Doug Freedman of AmTech Research. Your question please.

<Q – Doug Freedman>: Lot of good questions asked and answered. If you could focus a little bit on the 45-nanometer product – congratulations on seeing samples already and have you been able to get a measure of sort of how they are going to measure up benchmark-wise and what your expectation are there from performance perspective?

<A – Dirk Meyer>: Is that -- you are asking us to draw comparisons between our 45-nanometer products and what we think the other guy's --

<Q – Doug Freedman>: Or even your own, if you could just benchmark and what type of performance improvements do you expect to achieve with those products?

<A – Dirk Meyer>: Okay, yeah, couple of dimensions. One is clearly by going to 45-nanometers; we've got an opportunity to put more function on the die to the benefit of performance, which is something we do clearly in the server space. So that would drive architectural improvements. Also by going to 45-nanometers we get improvement in transistor performance and power efficiency, which kind of raises all, both server and desktop.

In addition, in the 45-nanometer generation we'll be doing die variance, with the interest of having products that are targeted to the appropriate cost points as they exist in the marketplace. Does that help?

<Q – Doug Freedman>: Yeah, somewhat. Can you also talk a little bit about where you stand on the development of the new cores, the Bulldozer and Bobcat, that were talked about at the last Technical Analyst Day?

<A – Dirk Meyer>: Yeah, the Bulldozer core's in development in the 45-nanometer technology and we'll be sampling that in 2009.

<Q – Doug Freedman>: All right, great, thank you.

Operator: Our final question today is from David Wong of Wachovia. Your question please.

<Q – David Wong>: Thank you very much. First just a clarification. You said earlier about ASPs being flat so you meant they were flat in each individual segment, right; server, notebook and desktop and there wasn't a mix-shift that helps hold the ASPs flat. Is that what you said?

<A – Robert Rivet>: Yes, that's correct David.

<Q – David Wong>: Okay, great. And the other thing is can you quantify how much it will cost you in cash to get to breakeven? Will you have significant cash restructuring charges? What do you reckon your cash balance might drop to before you hit neutral cash flow?

<A – Robert Rivet>: Not ready to disclose that information, we continue to work through it, as we said. We've got many steps in the process that we are working our way through. But as I said before we feel like with the current cash balance and the other opportunities we have we're in fine shape to manage our way through even cash restructuring costs.

<Q – David Wong>: Okay, great and just one final one: In the December quarter you said you shipped about 400,000 Quad-Core processors? Can you give us a number for the March quarter for Quad-Cores?

<A – Robert Rivet>: In excess of 0.5 million.

<Q – David Wong>: Great, thanks very much.

<A – Robert Rivet>: Thank you.

Ruth Cotter, Investor Relations

Okay, Matt, that concludes the call, thank you.

Operator: Ladies and gentlemen thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Lainey and I will be your conference operator for today. At this time, I would like to welcome everyone to the AMD Fourth Quarter 2007 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question and answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Senior Manager of Investor Relations for AMD. Please go ahead.

Ruth Cotter, Senior Manager, Investor Relations

Thank you and welcome to everybody to AMD's Q4 2007 earnings conference call. Joining me on the call today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; and Bob Rivet, EVP and CFO.

The call is live today from Austin, Texas and is being webcast on amd.com. A telephone replay will be available for the next ten days starting later this evening. The toll free number is 800-642-1687. Outside of the U.S., the telephone number is 706-645-9291 and the access code for both is 29165551.

Before we begin, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in our forward-looking statements.

The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from our forward-looking statements.

You will find detailed discussions in our most recent SEC filings, AMD's Quarterly Report on Form 10-K for the quarter ended September 29th, 2007.

Before I turn the call over to Bob Rivet for some prepared remarks, I would like to advise you that our Q1 2008 earnings quiet time will begin at the close of business on Friday, March 14th.

Now with that, let me hand it over to Bob.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thank you, Ruth. Good afternoon. We achieved near breakeven performance in the fourth quarter. We again grew the top-line in each of our businesses leading to a 3 point sequential improvement in gross margin. As a result of those achievements, our overall non-GAAP operating loss was $9 million.

Total AMD revenue was $1.77 billion, up 8% sequentially. In the fourth quarter, we achieved several new records including record microprocessor unit shipments, record microprocessor unit shipments into the distribution channel, record desktop processor unit shipments and once again, record notebook processor unit shipments.

We are seeing growing demand for new product offerings in each of our businesses and in particular, we are – for our quad-core processors. We shipped close to 400,000 quad-core units across our desktop and server product segments consistent with our guidance.

We recorded a net loss of $3.06 per share in the quarter. In December, we disclosed that we would be taking a material charge for the write down of goodwill and intangible assets associated with the acquisition of ATI. This charge amounted to $2.89 per share or $1.675 billion, of which 1.6 billion was non-cash. The components of this charge are as follows, a non-cash goodwill and intangible write down of $1.545 billion or $2.67 per share associated with the ATI acquisition net of taxes; a non-cash charge for other ATI acquisition-related costs of $61 million or a $0.11 per share and a cash investment impairment of $69 million or $0.12 per share associated with our remaining Spansion holdings.

Fourth quarter gross margin increased sequentially 3 percentage points to 44% driven by increased new product shipments, higher ASPs and cost containment. Manufacturing performance in Fab 36 remains strong, exceeding targets for output, yield and cycle time.

Total operating expenses, R&D and SG&A were down 25 million from the prior quarter lower than we projected as a result of continued strong operational discipline.

Cash flow from operation was a positive $114 million for the quarter and adjusted EBITDA was a positive at $203 million, as compared to $60 million in the prior quarter. A reconciliation of GAAP to non-GAAP financial results are available in our press release.

Now switching to the business segments, the Computing Solutions segment was profitable in the fourth quarter and we believe we gained share in microprocessors on the basis of its 11% growth in revenue. For the segment, revenue was $1.4 billion, up 9% from the prior quarter. Microprocessor unit shipments increased 7% sequentially and ASPs grew 4% over the prior quarter. Operating income was $21 million, a $133 million sequential improvement. The segment returned to profitability on the strength of new products, cost containment and gross margin expansion.

Demand for quad-core AMD processors is strong. We continue to execute our volume ramp and in the first quarter we will more than double our shipments over the fourth quarter

In the Graphics segment, revenue was $259 million, up 3% compared to the third quarter. The operating loss in Graphics segment was $12 million compared to $3 million loss in the prior quarter. Demand of our new ATI Radeon HD 3800 and HD 2000 GPU families is strong.

Consumer Electronics segment revenue was $109 million, up 12% from the previous quarter, driven by improved handheld sales and higher gaming console royalties. The Consumer Electronics segment reported an operating income of $12 million in the quarter compared to an operating loss of $3 million last quarter.

Now, turning to the balance sheet; our cash and marketable securities balance at the end of the quarter was $1.9 billion, up $361 million from the third quarter. In the quarter, we netted $608 million from the strategic investment by Mubadala Development Company. We are pleased with our progress in improving working capital metrics.

Total inventory at the end of the fourth quarter was $821 million, down 4 days to 76. In accounts receivable, we improved DSOs to 33 days, down 5 days from 38.

Now, turning to the outlook; the following statements are forward-looking and actual results could differ materially from current expectations. In a seasonally down first quarter, AMD expects revenue to decrease in line with seasonality. Operating expenses are expected to be up approximately 5%

compared with the fourth quarter. Acquisition related charges are expected to be approximately $55 million. We expect to have a tax expense of approximately $15 million. Depreciation and amortization is expected to be approximately $315 million and capital expenditures are expected to be approximately $425 million in the quarter.

In summary, in the fourth quarter we achieved near breakeven at the operating line. We grew ASPs on the strength of new products. We believe we gained share in microprocessors. We've managed costs well while growing the top-line and we improved gross margin by 3 points, capping off an 8 point gross margin improvement from a year ago.

We are maniacally focused on our return to profitability, and as I said last month – at last month's Analyst Day, we plan to do so in the second half of 2008.

With that I'll hand it over to Hector for some closing comments.

Hector de J. Ruiz, Ph.D., Chairman and Chief Executive Officer

Thank you, Bob. You know, Dirk and I are not doing our usual prepared remarks today because we wanted to do a couple of things differently. One is to give Bob adequate time for an extended prepared remark explanation of our financials. We are very pleased with the progress and as you saw from Bob's remarks, we came darn close to breaking even operationally in the quarter.

In addition, we also wanted to allow at the end a little more time than we usually do to make sure that we are able to address any and all of the questions that any of you might have as well as we can.

What are the things that we did in the month of December, we had an analyst meeting, at which time we told you a number of things that we were planning to do not only for the quarter, but also for our goals and objectives for 2008. One of the things I would like to underline today before we go into the Q&A is that everything that we've told you at that analyst meeting is on plan and there has been no change in any of the information that we gave you and the projections that we gave you into next year. One of the things that we talked about and we'd like to – I know we're going to have some dialog on this particular topic, is the fact that we were determined to fix our Barcelona quad-core issues as soon as we could.

I am very pleased to report that silicon has been out of the factory with the fixes that we've put in place and we are really thrilled with all of the work that's been done and expect that within two to three weeks, we will begin providing our customers the samples that they will then put in server platforms beginning in the end of the quarter and well into the second quarter and beyond.

Our customers are thrilled about the progress that we've made and they are looking forward to receiving this product. It is exciting to point out too that at the same time we have had silicon out on a quad-core 45 nanometer product and equally, we are pleased with the results and look forward to being able to ramp 45 nanometer aggressively in the second half of this year.

In manufacturing, we continue to have an outstanding asset in our company, in an organization that delivers high quality products, high yields, low cost and incredibly good quality. We are very pleased with the progress that has been made. But equally important going into 2008, we have a flexible manufacturing plan that we believe is very strong.

With incredibly great productivity in Fab 36 and the addendum we are going to do in the factory in Fab 38 as well as the continued great performance of Chartered Semiconductor in our foundry, we are planning to meet the needs of all our customers in 2008 with those plans. But on top of that, it is important to note that this plan is flexible in the sense that we have the opportunity to dial it up if we need it to, to be able to increase that capability quite significantly.

With that I would like to now turn it over to Ruth to monitor the Q&A for today. Thank you.

Ruth Cotter, Senior Manager, Investor Relations

Operator, we are happy to take some questions if you could poll the audience.

QUESTION AND ANSWER SECTION

Operator: Our first question comes from the line of David Wu. [Global Crown Capital].

<Q – David Wu>: Good afternoon. Well congratulations on a almost breakeven quarter. I have three questions. The first one is the notebook unit growth has been very robust in the early part of the year. It appeared that that seems to have slowed down and I wondered what has happened, is the market lower or your OEMs are basically launch AMD Turion Notebooks? The second one I have is on the quad-core, there were something less than 400,000 units shipped and I was thinking whether the mix is sort of 80:20 where 80 is the desktop and 20 the server and what would the mix be like in Q1 of '08 based on your B3 stepping going out the door? And lastly if I have a richer mix of server, what would that do to my gross margin, I assume that unit cost will be higher as your factory loading comes down. Would that be an offset?

<A – Dirk Meyer>: Its Dirk here and I will take the questions in the order you cited them. First, relative to notebook unit growth, we continue to see the PC market growth being paced by the notebook form factor and we expect notebook unit growth to continue to be very strong year-on-year looking into 2008. Going Q3 to Q4, because of the seasonally you often see lower notebook quarter – notebook growth Q3 to Q4 because in fact Q4 shipment to OEMs are in support of Q1 OEM shipments and of course that's a seasonally down quarter for notebook. So, that's the situation on notebook. Relative to quad-core, you asked what was the mix in our quad-core shipment units in Q4 between server and desktop, round numbers 2 to 1 desktop to server, very roughly, and I would expect that ratio to actually increase and become more representative of the market in Q1, that is the ratio of desktop to server will go beyond 2 to1 in Q1. And finally you asked about the server mix, yeah, clearly to the extent that the mix of our business increases of in direction of server that's a plus for gross margins.

<Q – David Wu>: I assume when you say in more normal ratio, I assume we go from 2 to1 desktop to server to 2 to1 server to desktop?

<A – Dirk Meyer>: No, the other way. So it was 2 to1 desktop to server in Q4. Looking forward, the ratio desktop to server would increase 3 to1, 4 to1 and beyond.

<Q – David Wu>: I see.

<A – Dirk Meyer>: Round numbers, the desktop is in excess of 100 million unit a year kind of market and server is more like 14 to 15 million microprocessor unit per year market.

<Q – David Wu>: Okay.

<A – Dirk Meyer>: So, the ratios long-term will head in that direction.

<Q – David Wu>: Okay. Thank you

Operator: Your next question comes from the line of Tim Luke with Lehman Brothers.

<Q – Tim Luke>: Thanks and congratulations on the margin progress. As you move to operating profit in the computing area could you give us any color Bob on which segments you have seen move into the black between server, desktop and mobile? And then I was wondering with respect to your seasonal guidance if, Dirk, or – you have any color just on the general environment? Obviously, some weakness in some of your key partners in Europe and obviously you have the graphics area which was somewhat slower growth perhaps in the fourth quarter that is expected to ramp in the first quarter, if you could give us any color on how you would expect some of the different segments to perform within the seasonal guide? Thank you.

<A – Robert Rivet>: Sure. Tim, this is Bob. First, thank you for the questions. On the first one, we don't report that level of granularity of profitability, but I can give you some flavor. Clearly our gross margin is the highest in the server business followed by Mobile followed by Desktop. So, that's the profile it's been in the past, it is today, we expect it in the future. So, clearly as we get back with Barcelona shipping and grow that position, that actually helps the gross margin from that perspective. The color on the other ones, Dirk can answer a little bit there to kind of give you a little bit of flavor of what's going on. From seasonality, we are still believing it's some place between 5 and 10% down quarter – between fourth quarter and first quarter...

<Q – Tim Luke>: Okay.

<A – Robert Rivet>: That's about all I'll say at this point in time. It's some place in that zone.

<Q – Tim Luke>: But the graphics business would be up sequentially or not necessarily?

<A – Robert Rivet>: No, it's got a seasonal issue too, so it'll have a little bit of a down tick also. So a little bit less of that range, it's more on the lower end of the range but it's still down a quarter-on-quarter in a seasonal pattern.

<Q – Tim Luke>: And what about service given the wrap; was that seasonal as well?

<A – Robert Rivet>: There's a little bit of seasonality but clearly, as we get more products out there, we hope we'll actually be able to power through the seasonality issue and gain some share in that space.

<Q – Tim Luke>: And just on the environment, Dirk?

<A – Dirk Meyer>: Yeah. Tim you asked specifically about Europe. We actually saw pretty good demand in Europe in Q4 and we are not seeing anything extraordinary on the negative side beyond normal seasonality in Europe as we head early into Q1.

<Q – Tim Luke>: And more broadly on the inventories that you see just in the industry?

<A – Dirk Meyer>: I would echo the same comments worldwide. We saw a pretty healthy environment in Q4. We are not seeing anything substantially different than what Bob referenced as normal seasonality in Q1, clearly with all the economic noise in the system we are looking very keenly and constantly at the environment but again haven't seen any substantial change from norm.

<Q – Tim Luke>: Okay for me.

<A – Robert Rivet>: As I said in my prepared remarks, we have record distribution microprocessor sales. They went out of the quarter with very controlled inventories so I'll call it from that standpoint, so a very different view than a year ago.

<Q – Tim Luke>: Okay. Lastly, if I may, for Hector, just if you have any color on what timeline we should think about for you being potentially able to provide us any updates on the asset smart strategies and how you think about that evolving? Thank you.

<A – Hector de Ruiz>: No, Tim, I wish I could. All I can tell you is that I am more excited than I have been on this issue because it looks to us as strategies that it's really key and very important. We make progress on it and as soon as we can we are going to be able to tell you, we'll be delighted to tell you a lot of the details on it and that's all I can tell you right now.

<Q – Tim Luke>: Thanks a lot, guys.

<A – Dirk Meyer>: Thanks Tim.

Operator: Your next question comes from Krishna Shankar of JMP Securities.

<Q – Krishna Shankar>: Yes, congratulations on moving towards operating profitability. I had a couple of questions on Barcelona. Hector, you mentioned that the B3 rev is out of the fab and it looks good. What things need to happen between now and the end the quarter when your customers will be sampling platforms and can you sort of give us an update on both the speed ramp profile for Barcelona as well as the Phenom products going forward with the B3 sub revision?

<A – Hector de Ruiz>: I am going ask Dirk to do that. He is very, very familiar with it. So, Dirk.

<A – Dirk Meyer>: Sure, I would be happy to. So as Hector said, we've got B3 material out of the fab and we are putting it through its paces internally and in a couple of weeks we'll be providing engineering samples to our customers and then follow that quickly with production samples later in the quarter. We'll be working with our server customers very diligently to accelerate as best possible the availability of their systems in the marketplace. You'll start to see that very late in Q1 and then most of the systems early in Q2 and later into Q2. From a speed perspective, we are focused on getting kind of the high volume mid-band power products into the market where the top speed grade there is the 2.3 gigahertz part, the higher performance band 2.5 gig part will follow in Q2.

On the Phenom side, the focus in Q1 is going to be largely on getting our triple-core product into the market, as well as our low power 65 watt device into the market and we'll follow that up with higher speed Phenoms early in Q2.

<Q – Krishna Shankar>: So far the evaluation of the engineering samples shows that the TLD problem has been solved and the chips look good?

<A – Dirk Meyer>: Yeah, absolutely yes, that was a really focused issue, very easy to validate internally. So, we have high confidence we're ready to go.

<Q – Krishna Shankar>: Great. Thank you.

Operator: And your next question comes from the line of Chris Danely with JPMorgan.

<Q – Chris Danely>: Thanks guys. Just a quick clarification; you said that the guidance you gave for '08 at the Analyst Day is intact, so I just wanted to ask about the gross margins. You gave a target of 46 to 50% for the year, so off of the current Q4 that would imply flattish gross margins in the first half and then gross margins getting pretty close to 50% in the second half of '08. Can you just give us a sense of how you're going to maintain flattish gross margins in the first half and then how do you get them to 50% in the second half?

<A – Dirk Meyer>: New products, as we said at the Analyst Day. I mean our plan is predicated on new products across the board, whether it's in consumer graphics or the microprocessor area followed on in the second half of the year by 45 nanometer. So, we'll move up the stack, have a product offering in all the bands and it's really – new products is the key to gross margin expansion besides the normal things we do on a daily basis of improving costs, yields and cycle time.

<Q – Chris Danely>: Got it. And then Bob can you give us a sense of any kind of timeline or revenue level that would be a break-even on a net basis?

<A – Robert Rivet>: Well, as you can see from the financial statement if you peel through it, I've got – there's a 90 to 100 million of cost below the operating level, so that's what I've got get the operating income levels to. As you can see in the current quarter, we did better than we expected, I kind of signaled more 2 billion versus 1.8, I am rounding up. So, we've got to get north of 1.8 billion to get the appropriate 100 million operating income to get the net to be zero. So, it's going to probably be in the few billion dollar zone.

<Q – Chris Danely>: That makes a lot of sense. And then last question for either Dirk or Hector. I guess, guys, from a broader sense, what are your sort of goals for market share and profitability in the various segments? And in other words, are you maybe pulling back a little bit here and trying to, I guess shore up the profitability rather than go for market share in the various segments, do you feel like you have a certain advantage in one? Can you just give us a little bit of color there on your goals?

<A – Hector de Ruiz>: Well, our number one goal operationally, we said it before, it's in the fourth quarter, we'll say it again and again and again so that all of us know it is we got to return to profitability as soon as we can. We believe we have a plan that would let us do that in the second half of the year beginning with the third quarter, and our level of confidence is high. But at the same time, we also want to make sure that it is understood that are also very parallel to that is to serve our customers. Our customers are going to ask us for things they want and need, we want to make sure we have the capability in place to do that. Having said that, though, I think it's important to note that because our focus is return to profitability that means we are not going after unit share just for the sake of unit share. We are going to make sure that that is served in making sure that our customers get what they want.

<Q – Chris Danely>: Great. Thank you very much.

Operator: Your next question comes from the line of Ross Seymore of Deutsche Bank.

<Q – Ross Seymore>: Thanks guys and also congrats on getting the culture to breakeven. On the profitability in the first quarter, Bob, could you us an idea of what you think gross margin is going to do or at least the puts and takes for that metric?

<A – Robert Rivet>: Yeah, clearly if you start at the top line, we have a little bit of pressure because we're in a seasonally challenged quarter, so I'll call revenue is a little on the south side of the equation. Clearly, we continue to have more new products in the mix, so that offsets some of that seasonality issue and new products, I'd say almost exclusive in total, have higher margins than old products. In a general statement I'd call it from that perspective. So we kind of get a little bit of a plus/minus issue to kind of work our way through, to kind of be relatively in the same zone.

<Q – Ross Seymore>: Okay. And the SG&A or the OpEx rising sequentially in the quarters, can you just talk us through why that's happening, given that the focus on returning to profitability?

<A – Robert Rivet>: There is a few things we did in the fourth quarter, as an example we did a forced shutdown, made people take vacation. We are not making them do that in the first quarter, so there is a few things that we did from that perspective. We are also trying to ramp as quickly as possible 45-nanometer, starting up Fab 38 and we continue to try to execute as quickly as possible to get new products out there. So we are making those appropriate investments and as prudently as possible but right now our plan is not to be flat, it's got a little bit of growth.

<Q – Ross Seymore>: Now the last one from me on the ASP side. You mentioned that went up 4% sequentially. Sorry about that, you mentioned that went up 4% sequentially on ASPs. Was that only because of mix or was there actually some apples-to-apples price increases that you put through?

<A – Robert Rivet>: We actually – if you kind of look at it, I mean it's a little bit of both but the bigger piece of the equation is actually just improvement in the product segment of improving the

ASPs. So, not just a mix of how much Server is of the total, but actually improving the ASPs and Desktop.

<Q – Ross Seymore>: Great. Thank you.

Operator: Our next question comes from the line of Srini Pajjuri of Merrill Lynch.

<Q – Srini Pajjuri>: Hi, Hector, just quickly, I guess Intel yesterday, they said their CapEx was going to be up for the year and yours looks like it's going to be down significantly. I guess as you move into the second half of the year, given your capacity plans, are you concerned at all about Intel maybe putting a bit more pressure on the pricing side?

<A – Hector de Ruiz>: Let me tell you my view of that. I think that first of all as I said before, and it's really critical to hopefully grasp the following, is that the combination of Fab 36 and the Fab 38 addendum that we have and the charter gives us a lot of flexibility to increase unit capacity if we need to. But thanks to the tremendous productivity of Fab 36, we are in a position to serve a unit growth, that Bob mentioned, that we're counting on for next year and be able to meet the needs of our customers. So we think we're managing our capacity well and so forth. But I also don't think that there is an environment where there is an overemphasis on pricing pressure. We have not seen it. Doesn't mean it won't happen and frankly we'll have to wait until we are closer to the second half to be able to answer your question accurately.

<Q – Srini Pajjuri>: Okay and just one clarification on the OpEx front. Post-Q1, I mean obviously you said Q1 is going to be up 5%, do you see any more opportunity to bring it down further or is it going to stay at that level?

<A – Robert Rivet>: More than likely stay at that level. I mean we continue to sharpen our pencil and try to be more efficient in every area as possible, but we've done a lot of that work throughout '07. So I don't see any significant decrease in any area. It's really trying to get to no growth and reposition it in the appropriate areas where we can get a big return on it.

<Q – Srini Pajjuri>: Thank you.

Operator: Your next question comes from the line of David Wong of Wachovia.

<Q – David Wong>: Thanks very much. It was very impressive, the total number of server chips you shipped including the number of quad-cores. Now, are you under any obligation to replace any of the original quad-cores that you shipped given that you've got a stepping that seems has some fixes associated with it?

<A – Dirk Meyer>: The answer to that first order is no. There's a few instances where we have agreed with customers we'll do some swaps, but that's a minor part of the overall shipments that we had.

<Q – David Wong>: However, – so therefore – but the quad-cores that you have already shipped on the server front, they aren't being shipped in end systems, is that correct?

<A – Dirk Meyer>: They are being shipped in end systems into targeted large cluster installations.

<Q – David Wong>: I see. And the last thing your processor – server processor shipments, the 22% growth, was it roughly the same growth for four-way and two-way server chips or was one greater than the other?

<A – Dirk Meyer>: I don't think we get quite that specific in our disclosures.

<**Q – David Wong**>**:** Okay. Thanks.

<**A – Dirk Meyer**>**:** Sure.

Operator: Your next question comes from the line of JoAnne Feeney of FTN Midwest.

<**Q – JoAnne Feeney**>**:** Thanks, and congratulations on a great quarter. Couple more details perhaps on the ASP front. So, I am wondering whether within the mix of ASPs up 4% whether you could clarify the difference of the dynamics going on in the notebook space versus the desktop space?

<**A – Dirk Meyer**>**:** Hi JoAnne, it's Dirk here. Notebook ASPs were first order flat. Desktop ASPs were up a bit, largely driven by mix, a contributor to that was additional quad-core Shipments in the quarter and then overall ASPs of course got some lift due to increased server business in the quarter.

<**Q – JoAnne Feeney**>**:** That's great. Thanks for that. And then on the Barcelona progress, I'm wondering if the first quarter shipment outlook is going to exhaust these earlier versions, the B2 stepping, or will you still have some of those to send out the door in Q2 and perhaps you could elaborate on how much of the B3 might be going out the door in Q, as a proportion of the total?

<**A – Dirk Meyer**>**:** Yeah, good question JoAnne. So, let me remind everybody that the issue with B2 can be mitigated with a very simple to implement Linux kernel fix which is something that's very practical to do in targeted big cluster installations and because of that, for those sort of customers B2 is fine. It was fine in Q4, it'll continue to be fine in Q1, so we'll in fact ship lots more B2 product in the current quarter and then the ramp of B3 really starts late in the quarter as we start bringing online our Tier-1 OEMs.

<**Q – JoAnne Feeney**>**:** And so then, I mean presumably you'll be wanting to produce lots of the B3 than the B2 and that would probably tend to fill up your fabs more. Should we expect a gross margin expansion from that greater capacity utilization?

<**A – Dirk Meyer**>**:** Well, I would just reference you back, JoAnne, to the comments that Bob made. We have the puts and takes, the overall unit volume being down in light of seasonality and then new products helping us in the other direction.

<**Q – JoAnne Feeney**>**:** Okay and then one last question if I could....

<**A – Robert Rivet**>**:** JoAnne this is...

<**Q – JoAnne Feeney**>**:** You talked about your capacity overall, I'm wondering how much unit growth your current capacity could support for 2008?

<**A – Robert Rivet**>**:** Well as we – this is Bob, JoAnne. As we showed at the Analyst Day, Doug showed that. I mean, we've got pretty respectable unit increase capacity pushing, I'll call it 80 to 90 million units, capability this year through a combination of our own factories and charter which of course you toggle up and down. So, I mean we've got pretty good respectable unit growth to support the markets 15% growth plus. One other comment I would make that, JoAnne, is remember the B2 inventory also services the desktop. So I mean that that inventory is not exclusive for servers, that's in the current quarter that's what goes into desktop, that's what will happen also in the first quarter. And therefore, our factory was – we built B2 inventory to actually service the desktop market.

<**Q – JoAnne Feeney**>**:** Okay, that's helpful. Thanks very much.

Operator: Your next question comes from the line of John Pitzer of Credit Suisse.

<Q>: Thanks, this is Amit (35.16) calling in for John. I was wondering, can you just give us an update on your 45 nanometer ramp? You said that I think you have silicon working, do you still expect to ship products at the end of '08, first half of '09? Just any color you can give there?

<A – Dirk Meyer>: Yeah, good question, Dirk here. Yeah we've got internal samples of our 45 nanometer microprocessors. We're putting them through their paces currently and we are on track to the plans we've talked about in the past which is to start our ramp in the first half of this year and ship revenue product in the second half of this year.

<Q>: Okay, thanks. And then also just thinking a little longer term, I know you announced a while back to build a Fab in upstate New York. Is it too early to give color on, are you still planning to go ahead with those plans? When would that spending start, or is that a 'we'll see how the market goes over the next couple of years but we have capacity for '08?' Just anything you can give on how you are thinking about that?

<A – Hector de Ruiz>: There has been no change in our plans. We've had the opportunity, the window is until December of 2009 for us to make the decision. We believe that it's going to be exciting to be able to demonstrate that the growth in share growth and the opportunities for us is going to demand that we do actually execute on that plan, so no change and I have to say that we look forward to being able to do it.

<Q>: Okay, thank you very much.

Operator: Your next question comes from the line of Mark Lipacis of Morgan Stanley.

<Q – Mark Lipacis>: Thank you for taking my question. Perhaps a question for Dirk, you talked about the B3 stepping getting put through the paces internally. What's the risk that the new stepping has some type of a bug that needs more rework? Thank you.

<A – Dirk Meyer>: Well, first of all I'd say that the risk that by changing the design, we inadvertently broke something is incredibly small. I mean this is a very simple to implement risk – fix. The risk that there is something else lurking in the design is not zero but small. The fact of the matter is these are incredibly complicated devices that if you look at any microprocessor errata sheet you do find issues, but again we are pretty confident that the design is solid. The B2 version has actually undergone substantial validation by all of our OEMs. So we are quite confident of where we sit relative to hitting the plans I talked about earlier.

<Q – Mark Lipacis>: Great, thank you very much.

Operator: Your next question comes from the line of John Lau of Jeffries & Co.

<Q – John Lau>: Great, thank you. I wanted to take a step back on some of the more macro conditions and see what your outlook is for 2008. We've heard a lot of commentary. Do you see any concerns as you go into this new year in terms of excess inventory or double ordering? And then follow-up with your outlook for 2008 in terms of what the industry is going to do, double digits and I have a follow up on that? Thank you.

<A – Hector de Ruiz>: I am sure Dirk and Bob might have some comments to add but we are very cognizant as Dirk pointed out of all of the trepidation that's going in the world about the economy, both in the US and on a global perspective next year. But I have to say that we are in a unique segment of the market that's called the microprocessor market where that the need to drive the economic engines of growth in all the segments of the world, all the way from agriculture to automotive to computing et cetera are incredibly demanding. And the emerging markets in particularly, Eastern Europe, China, Middle East, Africa, et cetera are in such a need of infrastructure growth and economic growth that we see those markets even if they slow down from 10% growth to 8% in some of those regions we're still talking about a significantly strong and healthy growth. So as Dirk pointed out, we're alert as a management team on top of every single change that occurs to ensure that if anything could affect our business we can react as quickly as we can. But the outlook for our business and I want to make sure the microprocessor business has to be very positive. I think the need in the world economy for that to exist. We are optimistic, and at this point in time we have not seen anything yet that would indicate that it's not to be the case.

<Q – John Lau>: Hector as a follow-up you mentioned flexibility. What would be the average response time for you to modulate your capacity as you are seeing demand build up? How quickly could you ramp up your flexible capacity to respond to that?

<A – Hector de Ruiz>: It's a function of the size of the increment. We could run – I mean we could adjust our capacity in the 5 to 10% range rather quickly and by quickly I mean literally 30 days or so. But you go beyond that and it gets a little bit longer and what I think within the range of reasonableness for an expected growth beyond what we expect I think we are in pretty good shape.

<Q – John Lau>: Great, thank you.

Operator: Your next question comes from the line of Doug Freedman of American Technologies Research (sic) [American Technology Research].

<Q – Doug Freedman>: Thanks for taking my call. A couple of questions for you, not sure who wants to handle this. If I look at the segment reporting, it looks like the graphic segment didn't improve its profitability. Can you talk to what went on there and when do you expect to see some improvements in that segment?

<A – Robert Rivet>: Yeah, obviously flat revenue makes it a little bit challenging from that standpoint. It's really more just a function of inventory, old products, new products kind of working your way through. So the pressure was a little bit of gross margin that should cause the profitability to slip from $3 million loss to a $12 million loss.

<Q – Doug Freedman>: All right, and when do you see that sort of starting – when are the new products thought to be ramping that you should see some of the benefits from their gross margin?

<A – Robert Rivet>: We'll see that beginning in the first quarter and continuing strongly in the second and third, which is their two big quarters in the graphic space. So our product lineup continues to get refreshed with new products coming out on a pretty consistent cadence, which definitely will close that gap. But in that business it is I will call it less ASP issue. You don't see a lot of ASP movement. It is really new products and get the volume on the new products. Dirk, you want to add anything?

<A – Dirk Meyer>: Yeah, just to reiterate Bob's point, a lot of what you saw Q3 to Q4 really to put in context Q2, Q3 and Q4 and the answer is just inventory valuation fluctuation across really all three of those quarters. Looking forward as Bob said, we're pretty bullish about the response the marketplace has on the 670 product, we come out with the 680 product in Q1, very optimistic about our OEM share growth prospects based on design wins that are already awarded. So looking forward, we expect to grow share.

<Q – Doug Freedman>: Great. And Dirk, could you comment a little bit on the market that you participate in is very driven by platform wins. Have you seen your customer base waver at all given the issues in execution you've had on the quad-core product in the market and any – since that is sort of the visibility that you have going forward, can you update us a little bit on where you stand on the some of the major platform wins?

<A – Dirk Meyer>: Is your question server specific?

<Q – Doug Freedman>: Server and high-performance desktop.

<A – Dirk Meyer>: Okay, so relative to server, the neat thing about Barcelona is that it plugs into pre-existing Opteron platforms. So we've got just a huge breadth of platforms already in existence across all the big OEMs. Those platforms are all ready for Barcelona. Some of those platforms are being in fact updated to take advantage of the so-called split power plane capability of that product. So the short answer on server is great platform breadth that Barcelona will be able to ramp right into.

On the client side of the business, we've actually seen our design win activity continue to increase. As an example, the upcoming Puma platform has the most design wins behind it of any platform we've ever seen desktop or notebook. There is an excess of 100 design wins across all the big OEMs on that platform. On our quad-core desktop platform, we are seeing very good uptake and really happy with some of the uptake that we are seeing on the commercial side of the desktop business there from some of our big OEMs. So if anything I see our platform base in '08 being broader across the board than what it was going into '07.

<Q – Doug Freedman>: Great. And Bob if I could, a question for you. We are getting hopefully closer to the asset smart or asset light plan. Without knowing what the details are behind that plan or what it entails, is it safe to assume that there is some sort of a cash infusion that comes as a result of those actions? And if so, can you talk about where the priorities are for the company as far as the use of cash? Are you looking to sort of reduce the debt burden on the company? Are there – if you could talk to that, that would be helpful.

<A – Robert Rivet>: And I wish I could be more helpful, but right now I think that's inappropriate to kind of discuss if there is cash associated with what we're working on in asset smart. Clearly, I continue to be focused on fixing the balance sheet, and we'll fix the balance sheet in however we do it.

<Q – Doug Freedman>: I have one more thing then, if I could. Guidance last quarter was for OpEx to increase and it didn't. Should we think that your – the company for the last few quarters has sort of been conservative on their guidance, is that something that we should carry forward for the next few quarters that you guys are going to be operationally conservative?

<A – Robert Rivet>: I'm not going to answer that question to be honest. I mean we try to call it the way we see it. We do things to modify and adjust accordingly in a quarter. I mean a lot of things happen from both a cost, a revenue, inventory management et cetera. But we are trying to give our best shot of what we anticipate or what our plan is at this moment in time and then adjust accordingly.

<Q – Doug Freedman>: Right, great. Thank you.

<A – Ruth Cotter>: Operator, we'll take two more please.

Operator: Your next question comes from Glen Yeung of Citigroup.

<Q>: Hi, this is Peter for Glen Yeung. It sounds like for your 2008 gross margin progression -- I guess the question was asked, a little bit around 44% first half of the year and maybe getting closer to 50 in the second half. Can you give me a sense of how much of that would be volume based? In other words, how much of the progression up from first half to second half is kind of predicated on the typical increase seasonally in volumes? And I guess we have some pretty healthy year-on-year growth that we are expecting as well, so.

<A – Robert Rivet>: Well, just to remind everyone, the typical pattern which has been following relatively is, 55% of the volume of a given year is in the back half of the year, 45% is in the first half of the year; so that's just the natural progression of however many units you want to cast of what happens in the two periods. Really, our units are an important part of the equation but what's really important is traction on the new products. The new products are what's going to drive the margin improvement more than just shipping more units from that perspective. So it's really all the new products that we're coming out with in the microprocessor space, graphic space and the CE space that is really going to drive the margin improvement on a quarter-by-quarter basis.

<Q>: So to follow onto that if I were to -- let's say that just arguably the market grows somewhat below the 15%, how comfortable do you feel that with the new products you are introducing, you can get enough movement up the price stacks that you are still getting to the midpoint of maybe your gross margin guidance? I guess that's really what I am thinking about.

<A – Robert Rivet>: We're pretty confident – I mean we're pretty confident based upon -- a lot of these products are not, I'll call it, early in the design stage, they are actually in the tail end of the design stage. Like Puma is a good example; that product is not out there in the marketplace, but as Dirk said, that platform is getting designed in quite a bit. There will be incremental margin associated with selling that platform. So our confidence level is pretty high that we will maintain and improve gross margin as we go through 2008.

<Q>: And can I sneak in one last thing, quickly? You may actually not know -- have an answer to this but I am just curious. When you think about -- I know you have better visibility to how many platforms you're designed into, but especially on the server side, do you have any visibility into let's say the size of your installed base? And I guess in the first half of the year, how having quad-core might sell into the current installed base and if you -- how, kind of follow-on might be an expansion of your installed base? In other words, do you have -- how much of what you are thinking about is sales into your current installed base versus an expansion of the installed base, is what I am looking for.

<A – Dirk Meyer>: Yeah, Dirk here. It's hard to answer that question quantitatively, but what I can tell you is that within the enterprise community there certainly are a number of enterprises that have evaluated and adopted wholesale our Opteron technology, and have been therefore looking eagerly for Barcelona. So clearly those would be the enterprises into which we ramp Barcelona the most quickly, but we also plan to gain new customers in the enterprise with Barcelona and expand our installed base.

<Q>: Great. That's helpful. Thank you.

<A – Robert Rivet>: Last question.

Operator: Your final question comes from the line of Cody Acree with Stifel Nicolaus.

<Q – Cody Acree>: Thanks for fitting me in, guys. Dirk, can we go back to comments you made about design wins in the graphic segment. Can you give any more color to what -- where you're seeing success there?

<A – Dirk Meyer>: Sure; and what I think it best to do is to reference you back to the presentation that Rick Bergman gave at the analyst conference. I think he had a specific slide that actually provided numeric granularity there. All I can tell you is that across both desktop and notebook, we've gotten substantial design win activity and expect actually to have a fairly dominant share position on an OEM level in both desktop and notebook as platforms get refreshed in the spring.

<Q – Cody Acree>: So as we kind of head out of -- into Q2 and into the summer months we should be seeing that drop to your bottom line?

<A – Dirk Meyer>: Exactly.

<Q – Cody Acree>: Great, great. And then just very lastly for Bob, can you give us any help on what you expect for taxes through '08?

<A – Robert Rivet>: Roughly 15 million a quarter from that perspective of tax expense, which is pretty much what I talked to you about in -- at the Analyst Day in December -- right around that $15 million a quarter.

<Q – Cody Acree>: Great. Thanks and congrats guys.

<A – Robert Rivet>: Thank you.

Ruth Cotter, Senior Manager, Investor Relations

Okay. We would like to thank everybody for participating in the call, and there will be a webcast replay and a telephone replay of this call. Thank you.

Operator: Thank you all for joining. This concludes today's AMD earnings call. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Marvin and I will be your conference operator today. At this time, I would like to welcome everyone to the AMD Third Quarter 2007 Earnings Conference Call. All lines have been placed on a listen-only mode at this time. After the speakers' remarks, you will be invited to participate in a question and answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Mr. Michael Haase, Director of Investor Relations for AMD. Please go ahead, sir.

Michael Haase, Director, Investor Relations

Thank you and welcome to AMD's third quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; and Bob Rivet, our CFO.

This call is a live broadcast and will be replayed at amd.com. The telephone replay number is 800-642-1687. Outside of the United States, the number is 706-645-9291. The access code for both is 18461849. A telephone replay will be available for the next ten days starting this evening.

I would like to call to your attention that our Q4 2007 earnings quiet time will begin at the close of business Friday, December 14. Also, we are hosting our Financial Analyst Day on Thursday, December 13, in New York City. Additional details will be provided as we get closer to the day.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements are based on current beliefs, assumptions, and expectations, speak only as of the current date, and involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements.

The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from those in our forward-looking statements.

You will find detailed discussions in our most recent SEC filing, AMD's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

With that, I will turn the call over to Dirk Meyer.

Dirk Meyer, President and Chief Operating Officer

Thank you, Mike. We are encouraged by the progress we made in the third quarter. We improved our gross margins, we cut our operating loss by more than half and improved our cash flow. We executed well across each of our major lines of business and in all of the key components of our plan including growing the top line, increasing internal efficiencies, and continuing our transition to new technologies.

Our revenue was up 18% sequentially, fueled by a steady flow of new products and robust demand for our offerings.

We saw another quarter of great demand for AMD Mobile processors. Mobile processor revenues were up 43% sequentially to an all-time record due to strong customer response to the AMD value proportion and our innovative brand strategies.

We saw continued strong performance in our Desktop Processor business, particularly in the channel where we sold record unit volume in the quarter. We began shipping our new Quad-core AMD Opteron processors in the quarter, with customer excitement and demand quite high. And while our initial production ramp of Quad-core Opterons has been slower than anticipated, we expect the Quad-core Opteron will be widely available by the middle of this quarter, and we expect to ship hundreds of thousands of Quad-core processors this quarter into the Server and Desktop segments.

GPU revenues grew 29% sequentially, led by robust adoption of our ATI Radeon HD 2000 family, and we are encouraged by the widespread and growing customer response to AMD-based platforms. A great example of this is the combination of our processors and AMD 690 chipsets in systems from HP, Lenovo, NEC, Packard Bell, Samsung, and Toshiba. And we are particularly pleased with Toshiba's announcement this week to introduce commercial notebooks based on AMD Turion 64 processors and our AMD 690 chipset.

Looking ahead, customer and end user anticipation is growing for our upcoming Spider platform, the ultimate gaming enthusiast platform, featuring AMD Phenom processors, RD790 chipsets, and RV670 graphics cards. The Spider platform is proof positive of AMD's commitment to deliver the ultimate visual experience and remains on track for launch in November.

In the area of increasing internal efficiencies, manufacturing performance in Fab 36 in Dresden remains strong, exceeding targets for output, yield, and cycle time. We remain on schedule to shutdown Fab 30 before the end of this year in preparation for transitioning that facility to 300-millimeters.

Our supply chain transformation efforts are starting to produce results, where we did a particularly good job matching product delivery to customer demands while at the same time reducing inventories.

We have controlled the growth of operating expenses and will continue to focus on increasing the efficiency of all areas of the company, including R&D sales, marketing and administration.

Finally, we continued our transition to new technologies in each of our businesses. We completed the transition to 65-nanometer technology in Fab 36 in Q2, and as I said, we will be transitioning Fab 30 this quarter to a 300-millimeter toolset. And as a result, our mainstream processor business will be based on 65-nanometer, 300-millimeter technology as we leave this year.

We are looking forward to ramping 45-nanometer product production in the first half of next year. And in our graphics processor business, we will launch the RV670, the world's first 55-nanometer GPU in the fourth quarter.

For the second quarter in a row, we grew our revenues and believe we gained CPU market share. We introduced new products, we drove increased efficiencies in manufacturing, and we'll continue to do so across the entirety of our business.

In summary, we have made good strides to put AMD on course to approach profitable operating performance in the current quarter, and we will not be satisfied until we have achieved sustained profitability. But we are encouraged by the past quarter's improvement and by our continued strong customer relationships.

And with that, I will turn it over to Bob.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thank you, Dirk.

We improved our performance in the third quarter, improving the gross margin and significantly reducing our operating loss as planned. We also reduced our operating expenses while establishing all-time records in microprocessor unit shipments, microprocessor unit shipments into the distribution channel, notebook processor sales, and notebook processor unit shipments. These records drove AMD's third quarter revenue to $1.632 billion, up 18% sequentially, and up 23% compared to the third quarter of 2006.

We recorded a net loss of $0.71 per share in the quarter. This loss includes charges of: one, $76 million or $0.14 per share from ATI acquisition-related integration and severance charges, which I call ARC; and two, $42 million or $0.08 per share charge associated with the impairment of our holding in the common stock of Spansion. Excluding ARC, we had an operating loss of 148 million in the quarter, a 61% improvement from the prior quarter.

As detailed in our press release, third quarter gross margin increased to 41%. This compares to a gross margin of 33% in the second quarter of 2007. The eight-point increase in the prior quarter was largely driven by record microprocessor unit shipments, improved manufacturing efficiencies, inventory management, and a richer microprocessor and graphic product mix.

As I outlined last quarter, gross margin was negatively impacted by inventory charge of approximately $30 million or 2 percentage points for older generation microprocessor material. Therefore, operational third quarter gross margin improved by 6 percentage points from the last quarter. As guided, total operating expenses, which include R&D and SG&A, were down 21 million from the prior quarter.

Cash flow from operation was a positive $223 million for the quarter, a significant improvement from last quarter, and adjusted EBITDA was positive at $60 million, another solid improvement over our second quarter performance. A reconciliation to operating loss and EBITDA in accordance with GAAP is available on our press release.

Now switching to the business segments, Computing Solutions revenue was $1.283 billion, up 17% from the prior quarter, primarily driven by a 19% increase in microprocessor revenue. Microprocessor unit shipments increased 16% sequentially. We achieved sequential double-digit revenue increases for our notebook and desktop product lines. Notebook processor unit shipments growth remained strong, increasing 41% sequentially and 68% year-over-year. And we significantly reduced our operating loss in the Computing Solutions segment to $112 million in the third quarter, $146 million less than last quarter.

Switching to the Graphics segment, revenue of $252 million grew solidly compared to the second quarter. Sales of the ATI Radeon HD 2000 series were strong representing more than half of the graphic processor sales for the quarter. Design win momentum continues to be strong. Operating loss in the Graphics segment was $3 million, a $47 million improvement from last quarter.

Consumer Electronics segment revenue was $97 million, up 12 million from the prior quarter. Handheld sales were higher than prior quarter and gaming console royalties increased. Third quarter operating loss was $3 million, a $19 million improvement from the prior quarter.

Now let's turn into balance sheet. Cash and marketable securities balance at the end of the quarter was $1.528 billion, down 66 million from the second quarter. This includes $118 million representing the value of our holding in Spansion common stock which has been reclassified for long-term investments to marketable securities and we netted $1.48 billion from our five and three quarter convertible debt offering in the third quarter and used the proceeds with additional cash of $200 million to repay in full the $1.7 billion outstanding balance of the term loan used to acquire ATI.

As previously outlined during the last earnings call, we had approximately 800 million in non-operational cash generating opportunities. We collected approximately $200 million in the third quarter through the sale of a portion of our Spansion investment, 200-millimeter tool sales and administrative asset sales. We expect to execute our plan to capture the remaining amount in the coming quarters.

Total inventory at the end of the third quarter was $839 million, down 53 million from the prior quarter. Days of inventory outstanding finished at 80 days, an improvement of 9 days from the second quarter. Our inventory is fresh with a vast majority of microprocessor inventory DDR2 compatible and more than 70% of our GPU inventory comprised of the new HD 2000 family.

Now let's talk about the outlook. AMD's outlook statements for the fourth quarter are based on current expectations. The following statements are forward-looking and actual results could differ materially from current expectations.

In a seasonally up fourth quarter, AMD expects revenue to increase in line with seasonality.

Operating expenses which include R&D, SG&A and employee stock based compensation are expected to be up by approximately 6% compared to the third quarter primarily driven by investments in new process technology.

ARC charges are expected to be approximately $75 million. We expect to have a tax expense of approximately $25 million. Depreciation and amortization is expected to be about $290 million and capital expenditures are expected to be approximately $300 million. For the year, we expect capital expenditures to be approximately $1.7 billion.

In summary, we made good progress in the third quarter, and we will look forward to continue to move the needle in the right direction in the fourth quarter.

And with that I will turn it over to Hector for some final remarks.

Hector de J. Ruiz, Ph.D., Chairman and Chief Executive Officer

Thank you, Bob. As you heard today we have made solid progress on our plan towards a profitable model while continuing to invest in the products and technology for our long-term success.

We will continue to exercise operating cost control and accelerate our efficiency thrust across the board. We expect continued improvement in gross margins while maintaining our momentum on the development and ramp of new technologies. We sold record units through the microprocessor channel and launched a new product cycle in each of our major business units.

I think while we still have much more important work to do our progress on each of this front is significant and gives us additional confidence to continue that wholesale industry transformation that I outlined in the last quarter.

Demand for the AMD value proposition is strong and customers continue to want more; more products that match their needs and value propositions; more integrated platforms and solutions and more customer-centric innovation and more competition.

Our customers' one choice and their decision to involve AMD in their business is very strategic. Nearly a year after our acquisition of ATI Technologies the results of that industry change in action are both real and demonstrable in the strength of our evolving relationship with key customers, like Dell, HP, IBM, Sun, Acer and now Toshiba, in the growing portfolio of breakthrough products like our Radeon HD 2000 series, the AMD690 and upcoming RD790 chipsets, the unprecedented performance and performance-per-watt characteristic of our AMD Quad-core Opteron processors and soon to be released AMD Phenom Quad-core desktop processors, in the form of game changing platforms like our upcoming Spider offering, our forthcoming Puma platforms and the promise of Fusion, and an exciting new future of accelerated computing.

Every one of our business units is entering an exciting new product cycle with the added opportunity to deliver increasing value to our customers. We are very encouraged by our progress but dissatisfied with our financial results. And we are working diligently to bring this company back to profitability as soon as possible. But as I mentioned last time we remain committed to our unique opportunity for industry leadership and to the strategic course that we have set to achieve that end. We are making strong progress in new products, in R&D, in our technology transitions.

And finally, I know that you are all interested in learning about the progress we are making on our Asset Light strategy. We have a bold and substantive plan and we have made significant progress in validating it. Meanwhile, and as I have told you before, for competitive and business relationship reasons we will not be presenting details of our plan and progress until we put that plan in action.

What I can report to you today is that we have made considerable progress in our preparations, and I am personally very excited about it. We are positioned for success and have an exciting future ahead of us.

Once again I want to thank our customers for their support, our investors for their confidence and most of all, our employees for their unwavering commitment to help us win.

Now back to Mike for the Q&A.

Michael Haase, Director, Investor Relations

Thanks Hector. Operator can we begin the Q&A process please?

QUESTION AND ANSWER SECTION

Operator: At this time we will now begin the Q&A session. [Operator Instructions]. And our first question comes from the line of Krishna Shankar with JMP Securities.

<Q – Krishna Shankar>: Yes, congratulations on the good progress in the quarter. I had a couple of questions, can you talk about the server business, what that did in Q2, and the outlook for growth in the server business in Q3, you mentioned hundreds of thousands of Quad-core, but I wanted to get a sense for how the older Opteron business did in Q2 and the growth trajectory in Q3? And secondly for Bob, the trajectory for gross margins in Q4, assuming you have a better mix and seasonality in Q- Richard Goodman

<A – Dirk Meyer>: Yeah, I guess, I will go first. First of all, I think when you were referring to Q2, you actually meant Q3.

<Q – Krishna Shankar>: That's correct.

<A – Dirk Meyer>: Okay. We shipped tens of thousands of Quad-core Opterons in Q3. And that didn't have a material contribution to the overall server business in Q3. So, as a result, Q2 to Q3, we were roughly flat to down a little bit. As I said, we expect to ship hundreds of thousands of Quad-core CPUs into both server and desktop in Q4, and we'll substantially increase the number of Quad-core server processors shipped in Q4.

<A – Robert Rivet>: And to the question of gross margin, the way I would characterize it, clearly we are pleased with our results in the third quarter. Fourth quarters are seasonally up, in addition to the new product offerings that Dirk just kind of talked about of continuing on the backs of the GPU product offering that we saw some significant progress in the third. And the Quad-core offerings that will continue in the fourth quarter, we expect gross margin to improve. But, it won't be at the same rate you saw the improvement from second quarter to third quarter, but directionally up.

<Q – Krishna Shankar>: Okay, thank you.

Operator: Our next question comes from the line of Chris Danely with JPMorgan.

<Q – Chris Danely>: Thanks guys. Can you just, I guess sketch out a path to profitability and tell us or give us a sense of what sort of revenue level or what sort of milestones you need to hit to become profitable?

<A – Robert Rivet>: Sure. Well, to me, kind of repeat where I was a quarter ago it is clearly our goal is to make money in any given quarter. But, clearly, as I talked about there, we needed to be approaching the $2 billion revenue level, and north of 40% gross margin to achieve that kind of goal, since we are not going to cut our way to make the bottom line happen. We are on a path. We've made good progress in the third quarter, got above the 40 on the gross margin, clearly not there in the sales level. We'll see in the fourth quarter. I mean that's, our goal is to breakeven. And maybe we have a shot at it, but that's, to me, the directional path we are going. It's still approaching the $2 billion top-line number to drive a bottom-line of breakeven.

<Q – Chris Danely>: Sure. And then maybe a question for Dirk, when do you guys expect to start shipping either a 2.4 or 2.5 gigahertz Barcelona?

<A – Dirk Meyer>: Yeah, the plans that we have haven't changed from what we talked about around the timeframe of the Barcelona launch which is to ship the 2.5 gigahertz product in the middle of this quarter.

<Q – Chris Danely>: Great, thanks.

Operator: Our next question comes from the line of JoAnne Feeney with FTN Midwest.

<Q – JoAnne Feeney>: Yeah, good afternoon folks and congratulations on a nice quarter. Couple of questions on the breakdown of sales if we could talk about that for a minute. Can you describe perhaps your ASPs by desktop and notebook? It looks like in the aggregate they went up by about 3 percentage points. But, did you see any difference really between the notebook and the desktop space there?

<A – Robert Rivet>: JoAnne, this is Bob. In the client space, whether it was in the notebook or desktop, we actually saw improvement in ASP in both categories. A slight decline in the server space, but – which drove the overall to be up. But both clients were up quarter-on-quarter.

<Q – JoAnne Feeney>: Okay. And so in the notebook space, so it sounds like if the price competition that Intel spoke about really sounds like it was confined to the consumer space then, is that right?

<A – Robert Rivet>: Well, it's the place we mostly play in. We continue to try to expand in the commercial space. But our notebook offering sits squarely in the consumer space.

<Q – JoAnne Feeney>: Okay. And then others have been concerned about double booking, are you folks seeing any evidence of that going into the fourth quarter?

<A – Robert Rivet>: No, not at all. The indications from the current quarter were, a lot of sell through, particularly in the distribution channel. We are at a very low level of weeks of inventory. And the signals we continue to get from OEMs is very bullish and strong that units are moving quite quickly. So we don't feel there is any overbooking at all.

<Q – JoAnne Feeney>: Okay, terrific. And then if I look at your breakeven path here, it does seem that given the trajectory we are seeing so far in gross margins, even if that does tail off a bit for the fourth quarter, if you guys continue at the pace you are going in terms of unit shipments and gross margin improvements, again even if that's a little slower, it does seem if I have the math right that it looks more likely that you will break even in Q4 than say a quarter ago? Is that right?

<A – Robert Rivet>: Thank you. I can't argue with your math. And, like I said, I mean, everything needs to work. It's not just one business that drives that equation, it's all the businesses moving at the appropriate speed. Some of them are different in the season of the fourth quarter, but clearly, if we get to 2 billion, I think, we can do it.

<Q – JoAnne Feeney>: And then finally, if I could, just on the Graphics side, it's a neglected part of the business often in these discussions, but it does seem like you have been doing better in the mainstream. Do you feel like going into the fourth quarter that you are getting more traction in the mainstream and do you think you can really break in at the high-end enthusiast segment?

<A – Dirk Meyer>: Yeah JoAnne, it's Dirk here. We are actually feeling pretty good about the Graphics business first based on very good OEM design win momentum, a lot of which turns into business late this year and some of it – much of it actually next year. And a lot of the business that we did this quarter was in the channel where the response has been pretty strong and based on the upcoming release of the RV670, we are pretty bullish about being able to participate in a bigger and more profitable piece of the business.

<Q – JoAnne Feeney>: Great, thanks so much.

Operator: Our next question comes from the line of Tim Luke with Lehman Brothers.

<Q – Tim Luke>: Thanks. I was, and again nice job on the execution, I was wondering if you could just remind us of the 45-nanometer roadmap in terms of movement there, Dirk I think you sort of talked about first half of '08?

<A – Dirk Meyer>: Sure, Tim, it's Dirk here. First, we are on track relative to having basic yields in place in our factories on material that we are running today. We are building 45-nanometer microprocessors as we speak and those two facts give us increasing confidence and the public statements we have been making for some time around our intent to be starting our production ramp of 45-nanometer processors in the first half of next year.

<Q – Tim Luke>: So, can – any sort of clarity within how you define first half and sort of with respect to the second quarter?

<A – Dirk Meyer>: No, other than to just stop at the words first half.

<Q – Tim Luke>: Okay. And then Bob on your inventory level, lower in the third quarter, how do you see that developing going forward, and where do you want that to be?

<A – Robert Rivet>: Well, it's hard to imagine with the seasonal strength of the fourth quarter that we won't -- even if we try real hard that inventories won't decline. So, I expect to go out of the year with less inventory than I have today, and then try to repeat that pattern as we go through next year, but, so inventories I expect to drain in the fourth quarter.

<Q – Tim Luke>: Thank you very much.

<A – Robert Rivet>: Thanks, Tim.

Operator: Our next question comes from the line of Doug Freedman with AmTech Research.

<Q – Doug Freedman>: Hi guys, thanks for taking my questions, one of them was just touched on and that is the progress of the 45-nanometer ramp. Is there any more color you can offer as far as where you see those products targeted, where we should see the 45-nanometer products at first?

<A – Dirk Meyer>: I think, we'll provide more detail when we are at the Analysts Conference in December, but roughly speaking server and desktop will be the first to benefit.

<Q – Doug Freedman>: All right. And then, if I look at in the past you talked about Bobcat and Bulldozer, any progress and update on where those cores are at, and how that progress is progressing?

<A – Dirk Meyer>: Yeah, it's tough to provide meaningful detail in this call. I mean that's probably something better left for an analyst's conference as well.

<Q – Doug Freedman>: All right, let me try one more then. With the ATI progress, the magnitude of improvement, should we consider that what we saw in September is that a full quarter of improvement or should we expect that to continue to accelerate in the December quarter?

<A – Robert Rivet>: No, you are seeing – particularly in the GPU business, you're seeing a full quarter of improvement. We launched that new series of products in – I will call it mid spring. So it wasn't – we didn't have a full second quarter impact, we had a full third quarter impact, and maybe you don't realize, but seasonally, actually the fourth quarter is not strong in the GPU marketplace. So it's actually typically flat to slightly down. So it will be, we will have to work real hard to grow sales quarter-on-quarter which we will do, but it's hard to make a lot of progress if you don't have it from the top line.

<Q – Doug Freedman>: Great Bob. And in your commentary, you stated that some of the charges were related to severance and asset impairment. Can you help us understand exactly what actions – I know there has been some action plans put in place. Maybe since you don't want to talk about things that are forward-looking, can you give us some idea of what actions have taken place already? And I will leave it with....

<A – Robert Rivet>: Sure.

<Q – Doug Freedman>: That as my last one.

<A – Robert Rivet>: Well, we have taken – we have had a multiple prong attack to address, I will call it integration issues, integration opportunities where we had redundancy in different categories where we needed to eliminate those resources. And then we have been proactive in – I will call it, performance management to step up and deal with some people who weren't doing as well as we thought they should. So those two actions have yielded over the last two quarters. We have actually reduced some census to allow us to upgrade the organization as we go forward or to eliminate the redundancies in the G&A areas where you just didn't need to have the same people doing the same thing because they are two public companies. So, you are seeing that in the Acquisition of Intangible Assets and Integration Charges line on the P&L which is right above operating income. And unfortunately, in some of those cases, people actually had to leave the company.

<A – Hector de Ruiz>: How about Bob, the comments on asset impairment that, you know...

<A – Robert Rivet>: On the asset impairment, which is below operating income, which ended up to be $42 million, that is just reflecting the value of the Spansion stock which has been more permanently impaired since it's been sitting around $8 for quite a long period of time, which was more than our current book value when we wrote it down to the appropriate level, and took the non-cash charge in the quarter.

<Q – Doug Freedman>: Okay. And I guess one last one on just the pricing outlook. I mean, we heard your major competitor there say that, there is actually a possibility that they can't handle more upside; they've burned a ton of inventory in the quarter, what's your outlook as far as the overall pricing environment? What are you seeing out there? How competitive is it for new business?

<A – Dirk Meyer>: It's Dirk here. First of all, we didn't see a qualitative change in the environment from Q2 to Q3. Where we compete with the other guy, I would call it always competitive, but it didn't change Q2 to Q3, and we are not expecting much of a change Q3 to Q4.

<Q – Doug Freedman>: Great. Thank you so much.

Operator: Our next question comes from the line of John Pitzer with Credit Suisse.

<Q – John Pitzer>: Yeah, guys. Thanks for taking my questions. Just quickly on the top line guidance for the calendar fourth quarter, given how strong and how much above seasonality Q3 was, why the confidence around sort of normal seasonal for Q4?

<A – Hector de Ruiz>: Well, first of all, across the board, we are going into a quarter with optimism on one hand and some cautious concerns on the other, and let me outline those for you. First of all, the demand for products in the PC space from all the regions around the world, and particularly in the emerging markets is very, very solid, very strong. But, when we look at what our customers are telling us, and none of them has changed at least as of today their plans, they are telling that they also have a concern on three areas, one is, there is a spotty places where plastic appears to be in shortage. There are also spotty places where they see displays being difficult to obtain, and that also applies to a concern they have over the fact of that major fire in Japan where a battery factory pretty much got put out of business. All of that has caused a little bit of uncertainty into the quarter, but other than those three issues which are yet to be quantified by any of our customers, the optimism into the quarter is strong and particularly strong in the emerging regions.

<Q – John Pitzer>: And then Hector, above seasonal Q3, in line seasonal Q4. Any view on what that might do to the first half of next year? Are we setting up for a below seasonal correction in Q1 or do you think there is offsets?

<A – Hector de Ruiz>: I think that's pretty hard to predict. We'll try to create a future to our liking, but I can't tell you right now. I think if we don't have those three issues that I mentioned on impact; the consumption of product in the fourth quarter we'll go into a reasonably normal first quarter.

<Q – John Pitzer>: And then guys with Penryn coming out here in sort of mid November, how do you think that might impact sort of Barcelona adoption AND volume ramps there? Or do you feel like the 2.4 and 2.5 gigahertz parts will kind of offset the introduction here?

<A – Dirk Meyer>: Yeah, and based on the input we are getting from our customers and end-users, there is a lot of demand for Barcelona I'd tell you. We're just seeing people licking their chops and ready to get their hands on the product, and clearly, going from 2 cores to 4 cores is a big incremental increase in capability of the Opteron line that we think is going to provide some benefit to the business here.

<Q – John Pitzer>: And then last question from me, CapEx, you're currently going to move Fab 30 to 300 millimeter. Kind of if you look at the plan for next year, how should we think about CapEx from sort of the 1.7 billion level?

<A – Robert Rivet>: Well, I don't want to get into discussing 2008 forecast at this point in time. That's what I will set up in the December Analysts Conference. But to kind of give you at least a directional, right now, I would say it's flat to down for next year for capital expenditures.

<Q – John Pitzer>: Great. That's helpful. Thanks guys.

Operator: Our next question comes from the line of David Wu with Global Crown Capital.

<Q – David Wu>: Yes, good afternoon. Can you clarify two points for me please? The first one is, did you say the operating expenses would be increasing 6% quarter-on-quarter in Q4? And if so, what happened to the 500 head count reduction savings that has occurred or should be occurring at this point? And the second one I have is regarding the RV670 launch, which is I guess widely anticipated to be next month, when does it really hit your revenue line? Since Q4, I guess this is a little late to have much of an impact for Q4.

<A – Robert Rivet>: Well, let me -- this is Bob, let me tackle your first one, and then Dirk can handle the second one. And the first one is, yes you heard me correctly. Expenses for R&D and SG&A will be up from the third quarter around 6%. That includes stock option expense. To your question of, so where is the savings we've talked about? You saw some of them in the current quarter. A lot of that increase in the fourth quarter as I made in my prepared remarks, is for process technology development, as we continue to prepare for that 45 nanometer transition that Dirk talked about. So it isn't people related. It, I will call it, is more experiment related. So, and we continued to backfill those people that we have performance issues with better employees. So I mean our goal is to continue to invest appropriately in the R&D line and to prepare ourselves for the next process technology migration.

<Q – David Wu>: Perhaps, while you are answering that question, can I ask a dictionary question, what on earth is a "typical seasonal fourth quarter"?

<A – Hector de Ruiz>: So unfortunately, we are in an environment today, as Bob pointed out in some of his remarks is; with the GPU business is an example where it is a very strong third quarter and not as strong fourth quarter in the CPU business, which tends to be actually the opposite. You are right; it gets a lot tougher for us to anticipate what seasonality really means. But what we intended to say was if the market grows at X percent in the fourth quarter, in generally for the business in which we participate, we expect to be in that range.

<Q – David Wu>: Okay.

<A – Dirk Meyer>: On the RV670 question.

<Q – David Wu>: Yeah.

<A – Dirk Meyer>: When we launched the product, we anticipated doing so with cards available in channels, and therefore we will drive revenue in the quarter. Obviously with a mid-quarter launch and on a quarter billion dollar revenue basis, that's not going to contribute materially to the quarter, but it will provide some upside.

<Q – David Wu>: Could it offset a seasonal weak fourth quarter in that kind of business?

<A – Dirk Meyer>: Sure.

<Q – David Wu>: Thank you.

<A – Hector de Ruiz>: Thank you.

Operator: Our next question comes from the line of Uche Orji with UBS, New York.

<Q – Uche Orji>: Hi, thank you very much. Congratulations on very strong performance. Just very quickly on the graphics, a little bit more clarity for me. It may seem presumptuous to conclude -- for me to conclude that you took a significant amount of market share. Did you get a sense that you took some share? And if you can just clarify for me how much confidence you have going forward that that level of performance is sustainable, and not just pent-up demand for the products that you launched?

<A – Dirk Meyer>: Yeah, Dirk here. First of all, I would say it's hard for us at this point to really make confident proclamations on GPU share fluctuations just because of the way that business works and particularly the way the add-in board business works as an ecosystem. With respect to the second part of your question, a lot of our view of the forward-looking potential of the business comes from the design win activity that we generate with our OEMs. That's kind of a leading signal as to how competitive our products will be when they come out. And as I said in the prepared remarks, we are pretty optimistic based on those interactions.

<Q – Uche Orji>: Right. Just another question on R&D, I mean if you are going to be ramping 45 nanometer in the first half, how should we think of R&D spending subsequent to that ramp for the rest of 2008 and beyond? Should we expect that to start to tail off?

<A – Robert Rivet>: Well again, I will provide a lot more color at the December Analyst Meeting, but we will continue, I guess I'd view it this way. We're -- 45 then turns into 32. So you are continuing to always make investments in process technology with bumps; so there is that. And we continue to enhance our capabilities and design. So, it's hard to call at this point exactly where I'd peg those numbers and I will give you more in December. But we don't want R&D investment to go down per se.

<Q – Uche Orji>: Right. And just on the gross margins, I mean the fall through sequentially was quite significant, how much of that was 65 nanometer contributing on the cost side or how much of that was Barcelona -- early demand from Barcelona or just servers in general. If you can just kind of split it in terms of 65 nanometer --

<A – Robert Rivet>: Sure.

<Q – Uche Orji>: -- products, and just help me understand how sustainable this is?

<A – Robert Rivet>: I mean, again back to my prepared remarks we have recorded microprocessor unit shipments. That helped. And that was very little affected by the Barcelona launch. So there is very few units of Barcelona in there. We improved the ASP quarter-on-quarter. We had more 65 nanometers than the prior quarter. Manufacturing continues to get higher yields, more efficiency. We improved inventory management. So it really was no singular item, it was a lot of little things by each of the business, whether it was the GPU business or the CPU business that yielded that, I will call it, six-point operational improvement quarter-on-quarter. Hard to sustain as you said which I wouldn't say anybody should forecast at that kind of rate.

<Q – Uche Orji>: Right. And just finally on, back again on Graphics in terms of RV670, what kind of early feel are you getting from the customer base for this product?

<A – Dirk Meyer>: Customers are going to love it.

<Q – Uche Orji>: Okay. Thank you very much on that note.

<A – Dirk Meyer>: Thank you.

Operator: Our next question comes from the line of Srini Pajjuri with Merrill Lynch. Mr. Srini, your line is open.

<Q – Srini Pajjuri>: Hello, can you hear me?

<A – Hector de Ruiz>: Yes.

<Q – Srini Pajjuri>: Okay, sorry about that. Just a clarification first, you said you expect to grow in line with the end demand in Q4. You have been gaining share in notebooks, and also looks like at least you have a couple of new products that you expect to take further share in. I am just curious, is there anything else that you are seeing that makes you more cautious? I mean why don't you expect to grow faster than the end demand in Q4?

<A – Hector de Ruiz>: I mean let's just be totally candid here. Why would we want to stick our neck out on a number that frankly is very difficult to predict right now in the fourth quarter. We want to continue to increase our share participation in the mobile space, we believe we can. But I don't think it's prudent at all to try to pick a number other than to tell you that it's our goal to continuously increase and improve our participation in that space.

<Q – Srini Pajjuri>: Okay, fair enough. And then, one question on the CapEx, you mentioned it's going to be flat to down. I remember on the Analyst Day, you put out a chart that showed some capacity in terms of unit numbers. Given the efficiency that you are achieving in manufacturing, and also the demand that you are seeing, is there any change to that outlook in terms of your capacity that you expect to have in 2008?

<A – Robert Rivet>: Yeah, I mean, we continue, again, I don't want to get into the detail of 2008, but we continue to toggle how much capability we want to have in place to produce units. Right now, I would say, probably, we are less than we were a year ago at that point in time, in how many units we expect to produce in 2008, but we'll quantify that more in December.

<Q – Srini Pajjuri>: I mean, I guess, just so I understand, as you achieve more efficiencies, you expect to put that money back on to your balance sheet, not to extra units?

<A – Robert Rivet>: Correct. Instead of just building inventory for the sake of building inventory, we would like to build inventory to turn around and sell it. So, clearly we will take the advantages we see from manufacturing and let that flow through the business whether it's the balance sheet or the P&L.

<Q – Srini Pajjuri>: Okay, great. And then, just one clarification on the OpEx side, is there a steady state or normalized number for OpEx. I mean, I was hoping it would come down a bit more, so I'm just wondering after you ramp the 45-nanometer, should we expect a steady state OpEx?

<A – Robert Rivet>: That's – no. I guess, the simple answer is no. I mean, we continue to believe we have a business model that will gain share and grow the top line, and therefore we will continue to invest appropriately. We will see the percentages of cost as a percentage of revenue to decline, absolute dollars is dependent on the business conditions at that moment in time. But, so, there is no "steady state." This is not a steady state business.

<Q – Srini Pajjuri>: All right, thank you.

Operator: Our next question comes from the line of Sumit Dhanda with Banc of America Securities.

<Q – Sumit Dhanda>: Yes, hi, a question for you, Bob. You talked about, again not to belabor a point, but talked about reducing discretionary spending, head count. But, as I look at it, assuming a normal quarter here in Q4, it will be up to about 1.8, 1.9 billion in revenues give or take. But your operating expenses are still running about 100 million or so higher than where they were, when you were registering comparable revenues last year. So I guess I'm unclear as to exactly what measures you've taken and how – more importantly, how they've really impacted the operating expense structure to drive profitability?

<A – Robert Rivet>: Well, as we have said all along, we're not going to cut our way to prosperity. It's about growing the top line, and getting the appropriate margin from the manufacturing organization, and make the appropriate investments in R&D to propel us into the even higher growth rates. So we continue to invest in process technology development and in R&D for the multitude of products that you'll see come out – you see coming out right now, and you'll see coming out near term and then long term. So we continue to try to optimize the situation, but we're not backing off in our spending in R&D.

<A – Dirk Meyer>: One further clarification, the year-on-year comparison Q4 this year to Q4 last year, you got to be careful with because we didn't have the former ATI businesses as part of the company for all 13 weeks of the quarter in Q4.

<A – Robert Rivet>: That's true.

<A – Dirk Meyer>: Point one, point two, being, we came out of 2006 growing pretty rapidly our people and resources and capability in the CPU business, and it really flattened out that growth starting late in the first half of this year.

<Q – Sumit Dhanda>: Right, I wasn't comparing Q4. My point here would be that well, ATI is part of your business now, so it's really – it's a moot point whether you had it then or you didn't, but I guess I am a little disappointed that the cost cuts aren't coming faster than anticipated. But we will just let that go. Dirk I had a question for you. On the Barcelona ramp, you said it had materialized a little slower than anticipated, and your speed grades haven't been targeting the top bins right off the bat. So there has been some speculation that perhaps your yields on 65-nanometer specifically as it relates to Barcelona is the issue here. Any comments you want to make or a different explanation you'd want to offer up on why Barcelona speed grades aren't as fast as you would like them to be right now.

<A – Dirk Meyer>: Yeah, first of all, I would say that the basic silicon yields of Barcelona are right where we expected them to be. They are right line on line with the previous 65-nanometer products from a defectivity, and overall yield perspective. The issue has been simply one of tuning the design to the technology so as to support a high volume ramp. And it's that particular issue that caused to take a few extra weeks here before we turn on the high volume ramp in the middle of this quarter.

<Q – Sumit Dhanda>: In other words, there is nothing endemic to your process technology that is problematic or which might spill over to your 45-nanometer ramp?

<A – Dirk Meyer>: No, the issue is, the minor issues we have been experiencing have nothing to do with the process technology or the manufacturing capabilities, it's all a matter of wedding the design to the technology so as to be able to ship in volume.

<Q – Sumit Dhanda>: And anything else you could share along those lines in terms of details, what the issues have been wedding your designs to your processor volumes?

<A – Dirk Meyer>: I don't think in this forum.

<Q – Sumit Dhanda>: Okay, thank you very much.

Operator: Our next question comes from the line of Glen Yeung with Citi.

<Q – Glen Yeung>: Just a follow-up on that last question, you made the point about defect density, is your defect density the same per unit or per square inch of silicon?

<A – Dirk Meyer>: Per square inch of silicon.

<Q – Glen Yeung>: Okay that's helpful to know. The other question I want to know and Bob maybe this is for you and I know we all are trying to pinpoint you to a number here, but when you say fourth quarter is growing relative to whatever seasonality is going to be, is the current view that the demand outlook looks pretty normal versus normal seasonality? Because your competitor did not guide for normal seasonal and I wonder if you are sort of benchmarking to them or benchmarking to what one might call more normalized growth?

<A – Robert Rivet>: Well you can't ignore the market leader comments and statements, so to some degree they are setting the tone and have a much broader view of what's going on in the marketplace because they are still the dominant player.

<Q – Glen Yeung>: Yeah.

<A – Robert Rivet>: So I think that's a -- they are the best indicaiton of seasonality.

<Q – Glen Yeung>: Okay. No, that makes sense. The other question I wanted to ask and I am not asking for a number per se, but can you give us a sense as to utilization now, is it a high number for you now? Do you feel like you are running your factories pretty full? And what's the potential that you don't have enough capacity as you move into the first part of --- well, all of 2008 really?

<**A – Hector de Ruiz**>**:** Well, let me tell you how with the philosophy we have in running our factories is that we have been ramping Fab 36 in capability for quite some time and we are not yet at its maximum capacity and as we have ramped -- as we continue to add capability for Fab 36 we continue to utilize it, we don't ramp it and not use it. So from that perspective, we use their capacity reasonably well. But on the other side is we are, as you heard today, is we have shutdown Fab 30. We're transitioning out to Fab 38. And we are doing it in such a way that Fab 38 is going to be like a race car, idling in the pit stop. I mean we will be prepared to ramp that quickly should we need extra capacity in that space which frankly we hope we do. But at this point in time, we are planning to have Fab 38 at a modest activity in 2008.

<**Q – Glen Yeung**>**:** You remind me of your Ferrari laptops. The only other thing I want to then understand, Hector, is that you are basically saying that you say like you have some flexibility in the way you are managing your capacity for next year. And hopefully, obviously there is some lag between your expectation of capacity needs and what may actually materialize, but you feel like your -- you've got enough flexibility there to imagine you are not over, materially over or under supplying?

<**A – Hector de Ruiz**>**:** That's correct.

<**Q – Glen Yeung**>**:** Okay, that's helpful. Thank you very much.

Operator: Our next question comes from the line of Ross Seymore with Deutsche Bank.

<**Q – Ross Seymore**>**:** Thanks. Just a couple of questions on the server side of things. You mentioned that the interest level for the new Barcelona chip is quite high. How can we gauge the success of that in replacing existing customers, so were they upgrade versus bringing some new customers in to switch over to your platforms? If you can just discuss kind of the success you are seeing on those two vectors, please?

<**A – Dirk Meyer**>**:** Yeah, first, when you use the term customer, you maybe mean something different than what we mean when we say customer. To me, the customers are the people we sell the chip to which is the OEMs. At this point, we've got a broad assortment of Opteron-based systems from all the major OEMs already and Barcelona will just provide the seamless upgrade path into those systems. Perhaps you meant interest at the end-user level?

<**Q – Ross Seymore**>**:** Actually both.

<**A – Dirk Meyer**>**:** Okay. So, at the end-user level, we are seeing a lot of interest both amongst installations that are already, I'll call it Opteron installations, and new opportunities. And as I said, we've already got a broad assortment of OEM server products across blades, 2P, 4P racks and so on.

<**Q – Ross Seymore**>**:** And as I think about the ASP side of that equation, how should I judge the ASP bump you may or may not get because of Barcelona coming into your server mix? And if you want to talk about it in a relative term, if you could just contrast that versus the ASP bump you got when you put Opteron out in the first place?

<**A – Dirk Meyer**>**:** Yeah, honestly, it's more difficult to predict the ASP effect within the server line. It depends on the effect of the competition, the competitiveness of the competition's part. But in terms of overall effect on our ASP, the extent we drive more server business, we drive a richer mix of product overall and drive up ASPs for the microprocessor product line overall as a result which is a good thing.

<Q – Ross Seymore>: So that brings overall mix, but it's still kind of up in the air whether Barcelona's launch will increase the server segment ASPs, is that a summary of what you just said?

<A – Dirk Meyer>: Yeah I would say that although I will also say we already have a relatively dominant position in the highest ASP area of servers which is 4-socket servers. And the incremental opportunity for Barcelona is in the 2-socket space.

<Q – Ross Seymore>: Okay. And then the last question on the ASP side, you talked about in the last quarter that both your desktop and notebook ASPs went up, which I think that's the first time that's happened in a while. So, congratulations on that. Could you just give us a little more color as to what was happening with that? Is it less pricing pressure at the low end, or are you moving up the stack, or what dynamics driving that ASP up?

<A – Dirk Meyer>: I would say it was just reasonably good discipline on our part in terms of identifying the business we thought was good and taking it, so modest mix up shift.

<Q – Ross Seymore>: Okay. Then the last question. Hector, you mentioned that you weren't going to go into any details really about the fab light strategy quite yet, but could you give us any rough idea of when we might be expecting to hear some more details from you?

<A – Hector de Ruiz>: I am going to have tell you that I am going to do that when we actually do it. I'm sorry.

<Q – Ross Seymore>: Okay. Is it fair to assume, we might get a little bit at the Analyst Day in December or is it just don't, just kind of wait and see?

<A – Hector de Ruiz>: If it's appropriate, you will get some information.

<Q – Ross Seymore>: Okay. Thank you.

<A – Michael Haase>: Operator, we are going to take two more questions, please.

Operator: Okay. Our next question comes from the line of Cody Acree with Stifel Nicolaus.

<Q – Cody Acree>: Okay. Maybe a follow-up on Ross's question on the ASP mix. Can you look into Q4 and maybe talk about how you expect the mix with normal seasonality to impact the new products coming in, to impact the total ASPs?

<A – Dirk Meyer>: Yeah, I will just be extremely qualitative. We will be introducing Phenom Quad-core product into price points that we don't participate in today, and we expect to sell at those price points. On the server side, really the opportunity is to drive more server business, and therefore increase the richness of the mix for the overall product line.

<Q – Cody Acree>: Okay. So, would you expect ASPs to run roughly flat or do you think there is some room for improvement next quarter?

<A – Dirk Meyer>: Across the product line there is some room for improvement.

<Q – Cody Acree>: Okay, great.

<A – Robert Rivet>: But, Cody, but I would make sure you realize this is a client-oriented quarter too.

<Q – Cody Acree>: Right.

<A – Robert Rivet>: I mean, most of the seasonality is in the clients.

<Q – Cody Acree>: Right.

<A – Robert Rivet>: And clearly the clients are of much lesser ASPs than the server.

<Q – Cody Acree>: Okay, all right.

<A – Robert Rivet>: Not trying to diminish the Barcelona impact, but that's just a reality.

<Q – Cody Acree>: All right. And then with thin inventories in the channel it sounds like OEM inventories are relatively thin as well, your inventory coming down a bit. We've got shortages in a lot of other parts, but how do you feel about your mix of inventory, what you have available, and is there any, if we have a decent seasonal period, is there any potential constraints on your part?

<A – Robert Rivet>: No. This is Bob. To me, we have done a good job of transitioning to have very fresh inventory, a lot of 65-nanometer inventories. So, I mean, everything is moving in the right direction from a microprocessor standpoint. And even, we are further along or even richer in the mix of all new products in the GPU business. So we feel like we're well positioned to deliver on what we need to in the fourth quarter and first quarter, because first quarter you're already preparing for that. And as Hector outlined, we have flexibility to toggle up if demand continues be at this high rate that we are currently seeing in the third quarter and fourth quarter.

<Q – Cody Acree>: All right, great. That's all I have, and congrats guys.

<A – Robert Rivet>: Thank you.

Operator: Our last question comes from the line of Jim Covello with Goldman Sachs.

<Q – Kate Kotlarsky>: Hi, this is Kate Kotlarsky from Jim Covello. Quick question on just your share gains during the quarter. I was wondering if you could help us understand whether you've gained share across all of your market segments on the processor side, so in desktops, notebooks, and servers? Or was there more share gain in one segment versus the other, because it seems like your units grew relatively in line with the market. And so I was just curious what the dynamics are between the different segments? Thank you.

<A – Robert Rivet>: Well, we don't have all the data to confirm by segment, but based on the data we've heard from our competitors and knowing our own data, we've clearly gained share in mobile. We probably lost a little share in server from a unit perspective, and desktop is too close to call. It probably we held. So, that's how I'd call it at this point.

<Q – Kate Kotlarsky>: And any way to maybe comment on the magnitude of share loss in servers, is that one or two points or do you think it's more than that?

<A – Robert Rivet>: It's probably in the 0 to 1% kind of level. So it's a small, relatively small number.

<Q – Kate Kotlarsky>: Okay, that's helpful. Thank you.

<A – Robert Rivet>: And again, this is really before Barcelona has much impact.

<Q – Kate Kotlarsky>: Okay, understood. Thank you.

Michael Haase, Director, Investor Relations

Great, thank you very much, that will conclude the call.

Operator: This concludes today's AMD Third Quarter 2007 earnings conference call. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Henry and I will be your conference operator today. At this time, I would like to welcome everyone to the Advanced Micro Devices Second Quarter 2007 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions].

Thank you. It is now my pleasure to turn the floor over to your host, Mike Haase, Director of Investor Relations. Sir, you may begin your conference.

Michael Haase, Director of Investor Relations

Thank you and welcome to AMD's second quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman and CEO; Dirk Meyer, our President and COO; Bob Rivet, our CFO; and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at amd.com. The telephone replay number is 877-519-4471. Outside of the United States, the number is 973-341-3080. The access code for both is 8926606. A telephone replay will be available for the next 10 days starting later this evening.

I would like to call to your attention that our third quarter 2007 earnings quiet time will begin at the close of business Friday, September 14th. Also, as a reminder, next week we are hosting our Technology Analysts Day on Thursday, July 26th, from our Sunnyvale, California campus. It will also be video webcasted on amd.com.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements are based on current beliefs, assumptions and expectations, speak only as of the current date and involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements.

Semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from those in our forward-looking statements.

You will find detailed discussions in our most recent SEC filing, AMD's Quarterly Report on Form 10-Q for the year ended March 31st, 2007.

With that, I will turn the call over to Dirk Meyer.

Dirk Meyer, President and Chief Operating Officer

Thank you Mike. In a seasonally down second quarter, we grew our revenues and regained CPU market share and while pleased with our progress in the top line, our bottom line results are obviously unacceptable. We will improve these results going forward. We did make significant progress on the game plan that we outlined last quarter. We grew the top line by winning new customers like Toshiba who selected AMD-based platforms for an exciting new line of Satellite notebook PCs, and now for the first time ever each of the world's five largest PC OEMs offer AMD-based platforms.

We also expanded our business with existing customers like Dell who expanded their AMD-based commercial offering with the addition of 10 new PowerEdge servers, as well as two new Dell Inspiron desktop systems. Sun introduced its new Blade 6000 server built on AMD Opteron processors and HP launched two new AMD Athlon based Blade PCs in the quarter.

In addition, LG Electronics selected our AMD Imageon 2282 media processor to drive their stunning new designer phone, proof of our ability to empower meaningful differentiation in our customers' offerings. We made good progress in the channel. We restored our value proposition, established positive sales momentum and managed our overall channel inventory to appropriate levels. We continue to execute on our platform, product and technology roadmaps.

Our Fab 36 conversion to 65 nanometers is complete with yields exceeding expectations and we now turn all our attention to 45 nanometer. Our recently launched ATI Radeon HD 2000 CPU family has been very well received by our distribution and OEM customers. Barcelona, the industry's first native x86 quad-core processor will ship this quarter in both standard and low-powered versions, and our next-generation Puma notebook platform design is generating a lot of customer excitement for its value and media-rich platform features.

We are on a path to bring our gross margins and operating expenses back into a reasonable balance and improve our cash flow. We will continue to grow our revenues. The new R600 family will fuel growth of our GPU business.

Our digital TV division enjoys a great footprint with top-tier CE companies, entering the seasonally strong second half of this year, and in our Computing Solutions business, we enjoy solid customer relationships and a strong position in the fast-growing consumer PC segment and an expanding portfolio of commercial designs. And finally, we have the promise of new product introduction starting with Barcelona this quarter.

Relative to manufacturing costs, as I said Fab 36 output is now all 65 nanometers. Fab 30 winds down output of 90 nanometer, 200 millimeter material in the second half and as a result we will ship an expanded mix of 65 nanometer CPUs from 300 millimeter wafers in the second half of this year. Furthermore, we will lead the GPU industry in our deployment of 65 nanometer products.

Overall, as a company, our spending levels will decrease going forward. And as a result of outstanding execution in Fab 36, we see the opportunity to further reduce our CapEx plans by slowing the rate of ramp of Fab 38. As a result, we expect to significantly reduce our operating losses on a continuous basis with an eye toward breaking even as we exit this year.

In summary, we are a company with great assets, a truly unparallel portfolio of CPU, GPU and media-centric processing IP. Customer and partner relationships with the elite companies in the IT and CE sectors all hungry for partnership, innovation and choice and people with a will and a passion to re-event our industry and bring innovative solutions to our customers and to end-users worldwide.

And with that, I will turn it over to Bob.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks, Dirk. AMD's revenue in the second quarter of 2007 was $1.378 billion, up 12% sequentially and up 13% compared to the second quarter of 2006. We recorded a net loss of $1.09 per share in the quarter. This loss includes charges of $99 million or $0.18 a share from the following.

ATI acquisition-related and integration charges which I call ARC of $78 million, employee severance charges for workforce reductions of $16 million, and debt issuance charges of $5 million associated with the $500 million loan pay down.

Excluding ARC and the severance charges, we had an operating loss of $363 million in the quarter, 7% less than the prior quarter. As detailed in our press release, second quarter gross margin increased to 34% excluding ARC, severance charges and stock-based compensation expense. This compares to a gross margin of 31% in the first quarter of 2007.

The 3 point increase in the prior quarter was largely driven by an increase of 65 nanometer microprocessor shipments. The second quarter gross margin was negatively impacted by an inventory write-down charge of approximately $30 million or 2 percentage points of gross margin associated with older generation microprocessor inventory.

Total operating expenses which include R&D and SG&A were up $73 million from the prior quarter. Increased costs were driven mainly by one; engineering, supporting new product launches, two; marketing, supporting higher sales than the prior quarter in the form of demand generation programs in both the distribution and consumer channels and severance charges. The cost benefits associated with our head count actions will begin to show up in our expenses in the third quarter.

Now switching to the business segments. Computing Solutions revenue was $1.098 billion, up 20% from the prior quarter. Microprocessor unit sales increased 38% quarter-on-quarter. We believe we won back market share on both a unit and dollar basis. Overall microprocessor ASPs were down driven by a decline in desktop ASPs offset somewhat by increased ASPs in mobile and server.

We achieved sequential double-digit revenue increases from our server, mobile and desktop product lines. Chipset revenue declined 13% in the quarter, driven by a decline in our Intel business, offset somewhat by increased AMD chipset revenue. And we recorded an operating loss for the Computing Solutions segment of $258 million in the second quarter, 20% less than the prior quarter.

Switching to the Graphics segment. In a seasonally down quarter, revenue of $195 million was flat compared to the first quarter. Initial sales of the ATI Radeon HD 2000 family of graphics processors were strong in the channel. And design win momentum with key mobile and desktop OEMs continues to grow.

Operating loss in the Graphics segment was $50 million, up $15 million from the prior quarter. And in the Consumer Electronics segment, revenue was $85 million, down from the previous quarter. Handheld sales were significantly lower, offset somewhat by increased DTV sales. Second quarter operating loss increased by $18 million from the prior quarter, driven by the lower sales from handheld products.

Now turning to the balance sheet, cash balance at the end of the quarter was $1.6 billion. During the quarter, we netted $1.5 billion from the $2.2 billion convertible offering. Paying down some debt and putting a cap call in place. In addition, we did not receive any cash from the sale of our 200 millimeter tools, our expansion investment, or from the sale of administrative land and buildings in the quarter. These items represent in excess of $800 million of cash-generating opportunities in the future.

Total inventory at the end of the second quarter was $892 million, down $46 million from the prior quarter. Deferred income on shipments to distributors almost halved in the quarter to $92 million, reflecting the work we accomplished with our distribution business, as Dirk discussed earlier. Second quarter capital expenditures were $414 million.

Now turning to the outlook, AMD's outlook statements for the third quarter are based on current expectations. The following statements are forward-looking and actual results could differ materially from current expectations.

In the seasonally up third quarter, AMD expects revenues to increase in line with seasonality. Operating expenses, which include R&D and SG&A, will be down slightly compared to the second quarter. Employee stock-based compensation expense is expected to be approximately $35 million for the third quarter. ARC charges will be approximately $85 million.

We expect gross margin to improve in the second quarter. We expect to have a tax expense of $25 million in the third quarter. Third quarter depreciation and amortization expected to be in a range of $290 million. And finally, we will continue to fine-tune our capital expenditure plan, and we now expect 2007 CapEx to be approximately $1.8 billion. This is a $200 million reduction from prior guidance.

In summary, we made progress on the top-line in the second quarter, but clearly we are not happy with our bottom-line performance. Aligning our cost structure to our business model is our near-term focus and you will see some progress starting in the second quarter.

With that, I will turn it back to Hector.

Hector de J. Ruiz, Ph.D., Chairman and Chief Executive Officer

Thank you Bob. The second quarter was an important one for AMD, because taking a moment to look past our financial performance the quarter confirmed our convictions about our industry. First, customers want us to succeed. The unit growth and new customer acquisitions just reported are clear indications of this. Large OEMs, distributors, enterprise IT decision makers and users of PCs and other digital technologies around the world agree that competition in the processor industry is good and healthy for our industry. They like what AMD is doing, have a taste of what things are like with a stronger AMD and creates the innovation and choice that we bring to the table.

Second, our industry is going through a major transformation and our acquisition of ATI is perfectly timed to ride this wave of change in our industry. A restructuring like nothing we have seen today. No longer are customers satisfied with generic value propositions and artificial measures of raw processor performance. The business has matured. And even with maturity comes unprecedented stratification of segments, value propositions, and new value creation opportunities. Customers want choice and AMD is hardwired to enable it.

Third, with fair and open competition come the natural forces that unleash real customer-centric innovation, processing solutions to satisfy the needs of what today's consumers are looking to do with their digital technologies, and a healthy mechanism for directing more of our attention to where and how we innovate. And most important, it will lead to a complete recalibration of our business model.

We aren't afraid of this transformation and in fact welcome it as it will lead to a new ways of value creation across the IT&T industries that we serve.

The processor industry has been artificially restrained from this natural evolution. And as I mentioned last quarter, we at AMD are laser focused on enabling it.

I know that I have conveyed our strong conviction that we are driving change for the industry that is good for the industry, good for our customer and good for the end user. Well, let me make something very clear, we are not distracted and we know that at the end of the day these changes must and will result in improving AMD's shareholder value. And in order to position ourselves to accomplish this and benefit from all the changes that we are driving, we are taking the following actions to improve profitability as well as our balance sheet.

We are slowing the ramp of Fab 38 that we will reduce our CapEx requirements by 200 million in this calendar year in addition to the previously announced reductions earlier in last quarter. Building new product momentum starting with our new R600 GPU family and continue with Barcelona and AMD Phenom, growing the unit volumes and improving our mix while keeping expenses flat to our current run rate.

We will be monetizing assets such as the 200 millimeter equipment, buildings and land and the orderly disposition of Spansion stock, all of which are expected to bring nearly $1 billion. Advancing our asset-light strategy with which I am very pleased with the progress to-date but don't believe for competitive reasons that it is in our best interest to share details of our progress at this point. We will do so soon – we will do so as soon as it is appropriate.

Restructuring our sales and marketing efforts to maintain our strong position in consumer, continue our customer acquisition efforts, advance our unique platform advantages to provide customer opportunity for distinctiveness, re-empower the brands, and our shared vision for a computer world where the real user comes first. And empower our regions to more effectively serve our customers and optimize our spending.

I want to thank our customers for their support, our investors for their confidence, and most of all our employees for their unwavering commitment to help us win.

Now, let me turn it back to Mike for our Q&A.

Michael Haase, Director of Investor Relations

Thanks Hector. Operator let's begin the polling for the Q&A please.

callstreet

corrected transcript

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question is coming from Uche Orji of UBS New York. Please go ahead.

<Q – Uche Orji>: Hello, thank you very much. Can you hear me?

<A – Dirk Meyer>: Yes.

<Q – Uche Orji>: Okay, I have just a couple of questions. When I, the first is for Bob, when I looked at your gross margin guidance given the strong jump we've seen in sequentially in the second quarter, how should we calibrate the statement that you expect it to improve in the next quarter, what kind of improvement that we are expecting? And also if you can give us some clarity as to how you view what this is as seasonal growth in the third quarter, and how do you explain what seasonal means, we haven't had regular seasonality in a while, so when you say seasonal what do you mean?

<A – Robert Rivet>: Sure. Let me start at the top, from the market sales and then kind of walk through it. But I think our competitor kind of said the same thing, but seasonality is some place in the 8 to 10% in our current view in the PC space, second half looks pretty strong. So, that's kind of the world that, the way we see the world right now from that perspective, and that's what our big customers and channel is telling us. So, that's a good environment. Clearly, new products – new products in both the CPU world, and the GPU world. As Dirk said more 65-nanometer continues to be a higher proportion of what we ship, and it includes the GPU world, where the more – our 600 type product, we saw in 65-nanometer that helps the equation too. And clearly, the inventory write-off we had in the current quarter, we don't expect to ever happen again.

<Q – Uche Orji>: Okay.

<A – Robert Rivet>: So, add those three things up, I'm not going to give granularity, but we expect gross margin to improve from the current levels.

<Q – Uche Orji>: Let me just turn attention a bit to the OpEx line. If I recall, I think when I look at your statement about OpEx down slightly I – maybe I'm wrong, but I thought we were expecting a big drop in the second half in terms of OpEx, is that a change in guidance?

<A – Robert Rivet>: No, we never said big drop, we said it would be declining...

<Q – Uche Orji>: Okay.

<A – Robert Rivet>: ...at a rate from the first half to the second half, as we took some actions, and we moved some things around. But, I'm not sure I ever said "big drop".

<Q – Uche Orji>: All right. Fair enough. And just one last question then on ASP, is it fair for me to wafer ASPs looks like when we have some drops in the other 10% sequentially, is that kind of the right number? And if we look into the second half of 2007, your competitor was talking about still pricing pressure in the low-end. Can you just give me an idea as to how you look at the pricing dynamics into the second half? And specifically if there is any expectations as to what that dynamic could do for ASPs, if you can give some guidance on that, that would be helpful, please?

<A – Henri Richard>: Hey there Uche, this is Henri Richard. With regards to ASP, we had you know close to 10% decrease in the desktop space, but we had significant stability in the other segment, actually growth in the server market. So there is competition in the desktop right now. And this is a CPU statement. We had actually stability in a lot of the other businesses, and particularly in the GPU business and the in chipset business. And then you were asking about the, the competitive nature of the second half of the year and this focus on potentially the value space.

<Q – Uche Orji>: That's correct.

<A – Henri Richard>: Well, clearly the value space is an increasing percentage of the total shipments. We are very well positioned in that space. You know I have seen a second quarter that was stable relative to the first quarter price pressure. I don't think that the situation has deteriorated. And I think it's going to continue to be a very competitive environment, but of course as Bob was pointing out, we are introducing a whole slew of new products that are better positioned than our existing products in terms of competing and so I think that will afford us some opportunity for at least a stable environment.

<Q – Uche Orji>: Okay. And just one last question on Barcelona. Given that I think the lowest speed version you launched so far and then we are expecting a higher speed version in Q4, any insight as to how your customer base is reacting so far to this phased introduction and I know you are sampling it at the moment. What kind of feedback are you getting at this moment in terms of the customer reception of this product?

<A – Henri Richard>: Well as you know, the – and Hector was pointing out this as well – the focus in the datacenter has switched quite a bit from absolute performance to performance-per-watt. And we were at the forefront of this change. And you will see that the performance of Barcelona in its 68 quad-core version is extremely satisfactory. Our customers can't wait to ship it. They are really excited about the opportunity. We will continue to scale up the performance in the various thermal envelopes that this product will be available through the end of the year. So right now, we are qualifying the product. Customers are working hard at getting their systems to the market in the third quarter. And we are very confident about the future of this product line.

<Q – Uche Orji>: Thank you very much.

Operator: Thank you. The next question is coming from Krishna Shankar of JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes, a couple of questions. Just following up on Barcelona, can you give us some of the – is it the design, is it yields? And then also the initial versions you said would be up to 2 gigahertz, can you give us some of the challenges around sort of the Barcelona performance roadmap and how do you plan to improve that over the next several quarters, both from sort of the design maturations and the manufacturing viewpoint?

<A – Dirk Meyer>: Yes, it's Dirk here. The beginning of your question was, is "it" the design or is "it" the yield, I am not sure what "it" is. Could you clarify?

<Q – Krishna Shankar>: Well, I just wanted to get a sense for, it sounds like there was some delay here, and I wanted to get a sense for some of the challenges and how do you plan to sort of scale up the performance to address the various performance segments in the market?

<A – Dirk Meyer>: Yeah, I better understand, thank you. First of all, we are very happy with our 65-nanometer yields across all products, including Barcelona, so no issue there. The fact of the matter, Barcelona, while being an absolutely great product is complicated, and it's taking a little bit more design work than we anticipated getting the final ramp in place.

<Q – Krishna Shankar>: Okay. And then the second question I guess, coming back to Hector's point in terms of manufacturing flexibility, and looking to slow down capital spending and potentially outsourcing, can you give us a little more clarity on sort of the scope of that program, and whether the slowdown in Fab 38 hinders your market share growth plans?

<A – Hector de J. Ruiz>: Well, first of all let me start at a high level, our manufacturing strategy has not changed and our aspirations for continuing to gain share over time have not changed either. In the near term, we've had an outstanding performer out of Fab 36, the ramp as well as the yields as Dirk mentioned on 65-nanometer have been phenomenal, been outstanding. The flexibility we've had with Chartered Semiconductor as an additional place to manufacture has given us an opportunity to reduce our capital outlays this year, and expand somewhat the rate at which we ramp Fab 38. So, I think we are taking advantage of some good news scenario out of Fab 36 to be able to accomplish that, but in no way have we taken our eye off the goal of continuously increased market share for the foreseeable future. So, that's – in no way has changed.

As far as, as I mentioned earlier, on the asset-lite strategy, I'm very happy with our very – what I believe is a very appropriate strategy for us to pursue, the progress that we've made, but I've come to the conclusion that it is not in my best interest or in the best interest of AMD to share the details of the progress at this point in time, and at the appropriate time we'll disclose what we've done in that area.

<Q – Krishna Shankar>: Great, and my final question for Bob. Can you just walk us through the balance sheet, Bob, in terms of the operating cash burn? How much you actually put on the balance sheet net from the convert rate and how the cash flow looked like?

<A – Robert Rivet>: Okay. Well, clearly, we had negative cash flow from operations with the magnitude of the loss we had. And we continue to invest in the capacity of Fab 36, so free cash flow those two components chewed up some cash in the current quarter. We expect that to decline through the actions that both Dirk and Hector have talked about of modifying the business model, changing the capital expenditures in the back half of the year et cetera to get that more in line to be, I'll call it neutral, less burning from that perspective with a maniacal focus on the profitability part of the equation.

From a balance sheet perspective, just to reiterate what I said is the 2.2 billion convertible we did in the quarter only netted us 1.5 billion because we took some of that money and directed it to pay down loans and also to buy a capped call because of our bullishness in the value of the company. So anyway that kind of walks you through again what I said.

<Q – Krishna Shankar>: Great, thank you.

Operator: Thank you. The next question is coming from Doug Freedman of AmTech Research [American Technology Research]. Please go ahead.

<Q – Doug Freedman>: Great, thanks, guys. If you could sort of focus a little bit longer term, you made a comment about getting close to break even by the end of the year, what are the aspects that are going to help you get there? Is this where we are looking for revenue growth that might be better than seasonal, or is it a product mix? If there are any aspects that you can walk through, that would be very helpful.

<A – Robert Rivet>: Well I think clearly as we have stated in the past we were not wavering from that. Our goal is to gain market share, particularly in the CPU business, but really in every business we participate in. And we believe with the lineup of new products that have launched or will launch, we will be in very good position to continue to demonstrate the kind of performance we had in the second quarter. Not sure it can exactly be as good as it has in the second quarter compared to our competition, but clearly our goal is every quarter we should be gaining share both from a revenue and a unit perspective.

Also with new products becomes more enhancement of gross margin. So, as we have said before we are not going to cut our way to success, but it's a combination of growing the topline through a combination of things I just talked about and modifying and controlling our cost structure so that we get to the right point of having a balanced business model that will throw off the appropriate profits and cash.

<Q – Doug Freedman>: All right. I mean six months ago we had the Winter Analyst Day. I am looking forward to the Analyst Day coming up where you laid out a gross margin plan that was much higher. Is that plan still something that you think you might be able to get to in 2008, is that the type of gross margin expansion we should be looking for, anything you can do on the longer term horizon? And what contributes to that, is it that ATI revenues coming back helped that and any granularity you can offer?

<A – Robert Rivet>: Well, as of right now, we are not prepared to change that business model. Thank you for reminding everyone that's a long-term model, not a short-term model. So the 50% kind of gross margin kind of level we talked about as a corporation is still what we are focused on pre-asset-lite. Asset-lite clearly could change some of those dynamics and we are not prepared as Hector said to talk about that in any specificity. So that's still what we are aiming for is respectable gross margins that will yield the appropriate money to make the appropriate engineering and marketing investments to get the right returns. So I mean we are still focused on that. You know, realities do have to play into the equation though. Clearly we dug ourselves a hole in the first quarter. Hopefully we are demonstrating that we are working our way out of that hole. And you know what I hope we will deliver and you will see is continued progress in sales and gross margin as we walk our way through time.

<Q – Doug Freedman>: All right, and then I mean, the one last thing I would like to focus on is, I was a little surprised to see the expenses come up as much as they did in the June quarter. I recognize that some of them were one-timers and severance charges, but even head count rose. To get back to have the back half of the year have lower expenses than the front, we need to somewhat see a reversal in that, in those trends. Any help you can offer on what magnitude of reversal we should see, and is it going to be very much the December quarter where we see it, and whether it breaks down between R&D and SG&A would be helpful. And I will leave that as my last question.

<A – Robert Rivet>: Sure. Well, obviously, the severance charges that we booked in the quarter was associated with actions we took. They were late in the quarter. Some of that head count is actually still on the payroll and it's working its way out, so the head count reductions that we have done, which is in the tune of around 500 people, will start to yield benefit and to roll off the census as we get into the third quarter.

We are in an interesting balancing act of trying to maintain the appropriate R&D investment, while we continue to trim our cost structure. So you will see, I will call it, in aggregate of those two numbers, some decline in the third quarter, some decline in the fourth quarter, but with, I will call it, some variation of plus, minus between them. I am not going to give you a specificity of how much is in R&D versus in SG&A. But we are not trying to cut our way to success, it's really a combination of both topline and the cost structure and gross margin.

<Q – Doug Freedman>: All right, terrific. Thank you.

Operator: Thank you. Your next question is coming from Tim Luke of Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thanks so much. I was wondering if you might be able to give us some color on when you would see contributions from Barcelona and Phenom, particularly in the higher end of the high performance desktop market, whether that is something that one would be potentially able to see as you go into the calendar fourth quarter? First. Thanks.

<A – Dirk Meyer>: Yes. So Tim, it's Dirk here, your question is specific to desktop, then yes.

<Q – Tim Luke>: Yeah.

<A – Dirk Meyer>: Okay. Yeah, we will be shipping the Phenom variance of the new product in Q4, but frankly that's going to be late enough in Q4 that while there would be some contribution to the bottom line, it won't be substantial.

<Q – Tim Luke>: And in guiding for seasonal improvement in microprocessors, should we think about broadly similar seasonality for the three areas of server, desktop, and notebook, or do you think it will be, there will be some variation there?

<A – Henri Richard>: Well, this is Henri. Clearly, everybody understands the dynamic that exist right now in the mobile space. So, the global marketplace is not following traditional seasonality. I think it's an aggregate, because there is a lot of waterfall effect between desktop and mobile these days. As Bob was pointing out, we are looking at a solid PC industry right now. What I hear from the channel partners is that the inventories out there are healthy, both in the component channel and in the retail channel and that end-user demand so far has been pretty strong. So, I think that we are facing traditional seasonality, and that is the best I can tell you at this point.

<Q – Tim Luke>: If lastly I could just a follow up on the ATI side, it looked like you saw some softness in the chipset, consumer and GPU sequentially, and you also had some management change there. Can you talk about how we should think about the trends there in the second half of the year?

<A – Henri Richard>: Well, the chipset business is a design cycle business. So, our pipeline of design is actually extremely solid. And as Robert is pointing out, we see a decline, because as you know the Intel business is basically rolling off. But we are growing very quickly the AMD base chipset business. So, I'm very confident with the health of our chipset business. With regards to GPU, we started to ship in volume the HD 2000 series towards the end of the quarter. The initial demand is very strong, and, so the third quarter is really where the proof is going to be in the pudding in terms of how much velocity we're going to get, because really we hit the shelf in that marketplace really in June.

<Q – Tim Luke>: Thank you guys.

Operator: Thank you. Your next question is coming from Glen Yeung of Citi. Please go ahead.

<Q – Glen Yeung>: Thanks. Bob, just a housekeeping to start. Did you actually quantify what the write-off – inventory write-off was in the quarter?

<A – Robert Rivet>: 30 million.

<Q – Glen Yeung>: 30 million, okay, thanks. Okay, so, may I ask a question just about the way to think about your mix of products, as we go into the second half, and the impact that has on your blended ASP, forgetting about what may happen on quarter-to-quarter, part-for-part price declines, but should we see the mix just benefit your ASP as we move into third and fourth quarter?

<A – Henri Richard>: Well, clearly today the conversion of some of the business from desktop to mobile is helping our ASP. And the launch of Barcelona will reinvigorate our server business, which will also from a mix perspective – mechanical mix perspective will benefit the ASP. So, I think you're correct Glen.

<Q – Glen Yeung>: But what about things like the move towards Barcelona from Opteron to ultimately Phenom from your other desktop, I mean just as we see the new products roll on, are they coming in at a higher price point I guess is what I'm asking?

<A – Henri Richard>: Yes, but as Dirk pointed out, you will see the benefit of the new generation of Opteron products based on the Barcelona core in the second half of the year. Phenom comes really late and so I think the benefit of Phenom in terms of ASP elevation you will see in the first quarter of '08.

<Q – Glen Yeung>: So in reality we have some legs here, that in other words, we will see some benefit from server, then from desktop, then from notebook over the course of several quarters?

<A – Henri Richard>: Yeah, right, correct.

<A – Robert Rivet>: You kind of stage it out, you know, server first, desktop second, mobile third, with both Puma and Griffin working its way into the ecosystem in the quarters of '08.

<Q – Glen Yeung>: Okay. All right, so let me come away from the pricing/revenue side and look a little bit on the cost side. And maybe just to start with, you made – you made the point that you could be back at breakeven. Exiting Q4, am I to read that at Q4 or you are just thinking you might not actually be breakeven by Q4 but as you turn the year you are on that run rate?

<A – Robert Rivet>: We would really like Q4 to be breakeven.

<Q – Glen Yeung>: Okay, okay.

<A – Robert Rivet>: To be specific, not just month of December...

<Q – Glen Yeung>: Right.

<A – Robert Rivet>: ...but in this Q4.

<Q – Glen Yeung>: Okay. Just wanted to clarify that. And then Bob when you think about that, and you don't, I mean I am not asking you to give guidance for Q4, although if you want to that's fine. But what I would like to know is, what does the breakeven model look like for AMD? How should we think about where gross margins need to be and where operating margins need to be in order for you to be at breakeven?

<A – Robert Rivet>: It's actually too much data.

<Q – Glen Yeung>: Okay.

<A – Robert Rivet>: Glen, I appreciate the question but clearly we have to have quite a bit of altitude in the top-line from where we are today. Gross margin needs to probably get a four in the first position, just to give you a sense of direction. Clearly we want to make both of those big numbers. But it's hard to make the machinery work if you are not pushing a big number with a two and pushing a four.

<Q – Glen Yeung>: Okay, that's interesting. All right. And then, the last I had here was really thinking about SLI as a technology for AMD, and the importance that that has, obviously on the performance of your chip at the high end, but whether or not you feel like it's still important for you at the low end, given that there is obviously a cost penalty so to speak for using SLI at low-end chips?

<A – Dirk Meyer>: Dirk here, Glen. It's a very good question. And through the 45-nanometer generation of classic PC products, there is no question 45-nanometers is our plan and it's a fine plan for SLI, as we always do for the 32-nanometer generation, we are evaluating the choice and mix of SLI versus bulk, and that work is still in process.

<Q – Glen Yeung>: That's really helpful, thanks.

Operator: Thank you. The next question is coming from JoAnne Feeney of FTN Midwest. Please go ahead.

<Q – JoAnne Feeney>: Good afternoon folks. A couple of questions really about your new design wins. So, Toshiba, obviously a major win here. And our contacts are suggesting that your share of Toshiba may even be as high as 35% or more. Can you comment on what kind of ramp you are seeing at Toshiba and for how long you have been shipping product?

<A – Henri Richard>: Yeah, JoAnne, this is Henri, thank you for your question, but, you know, I won't answer that one.

<Q – JoAnne Feeney>: Well I had to try.

<A – Henri Richard>: You had to try.

<Q – JoAnne Feeney>: Okay. Perhaps, so if you could talk about the timing, you have listed several design wins, and, so, the timing of these may help us to better predict your unit growth, and if these are things that are just rolling out now, that does give you quite a bit of legs to carry unit growth into the second half. Can you describe the timing at all of those things?

<A – Henri Richard>: Well, I think that what you are seeing is again a shift of relevance around the PC platform between the various components that make the user experience. And that's why frankly the acquisition of ATI was so important. If you look today, a large portion of our success in the mobile space is tied to the fact that we have got excellent chipsets, both from our company and our partners. They deliver a superior experience. The processors that we install in those platforms are great processors. They provide all the performance you need. And when coupled with discrete graphics, they actually respond to the type of computing experience that the new generation is expecting, for example, for a mobile device. So, this balanced platform has always been a value proposition of AMD's. It's much stronger now that we have the complete portfolio solution. And what you are seeing in our design win momentum since you seem to be very well informed of what's going on in the marketplace is the reality that today people are looking beyond the microprocessor into the entire platform to make choices.

<A – Hector de J. Ruiz>: JoAnne, this is Hector. The only thing I would add is, and I think that was one of the questions that you were trying to address is that we did not shift yet to this new designs but you were referring to for the whole second quarter. So, we got only a partial quarter to take into account in the win, and therefore, we're somewhat bullish about the expectation in the second half.

<Q – JoAnne Feeney>: Okay, that's really helpful. And I guess the second question, it's been a while since you've talked about the lawsuit with Intel, I'm wondering if – how that's progressing, if there is any new information there and how you see it impacting the competitive environment both here and globally?

<A – Hector de J. Ruiz>: We're really well into this process. The discovery is intense, and frankly JoAnne, we are really pleased with the way things are going for us. We are – we believe this is something that we're going win hands down. We feel confident about it, and the feedback from customers around the world, if anything, has strengthened in terms of their desire to make sure that this thing opens even further, this fair and open competitions space, and so, we feel pretty good.

<**Q – JoAnne Feeney**>**:** Well that's great. And I guess finally if I could just on Barcelona, are your OEMs ready for Barcelona? Are they ready with the more modernized motherboards that will take advantage of all the different capabilities like split power point for example? Are the complementary parts out there so that when you do launch customers that desire it can get the full benefit of Barcelona?

<**A – Dirk Meyer**>**:** Yes, it is Dirk here, generally the answer to that JoAnne is yes, although the platforms will generally be released in a staged way. So when we release the initial product this quarter, a subset of the OEM platforms will be released with that and then over the course of the next weeks and months other platforms will be released as well.

<**A – Henri Richard**>**:** If I may add, Dirk, and let's all remember that one of the great attributes of the AMD platform is that it's backward compatible. So, one of the beauty of Barcelona is that you can plug it in existing infrastructure. So some of our partners are going to have actually mixed product lines where they immediately introduce all the new features, the split power point and all the benefits of the new architecture while still leveraging some of the existing product lines so that we will have a much broader set of products available immediately to the market than we had three years ago when we launched our first Opteron product.

<**Q – JoAnne Feeney**>**:** Great, thanks very much.

Operator: Thank you. Your next question is coming from Ross Seymore of Deutsche Bank. Please go ahead.

<**Q**>**:** Hi, this is Bob Djuarte for Ross Seymore, thanks guys for taking my question. Bob, I know you gave guidance for depreciation and amortization, would you mind putting out just the depreciation guidance for 3Q for me?

<**A – Robert Rivet**>**:** How much was depreciation and amortization?

<**Q**>**:** Just depreciation for 3Q?

<**A – Robert Rivet**>**:** No, we don't give that detail.

<**Q**>**:** Okay, okay and a little bit about the write down, could you explain – when are you forced to do a write down? Is it mostly when there are price cuts in the market, and in that relationship to your cost. And if I assume more further price cuts in the second half by maybe your competitor or maybe by yourself, why would I not assume there might be some other inventory write downs in the second half?

<**A – Dirk Meyer**>**:** Yes, this is Dirk here, and it's a good question. The products that we wrote down on the CPU side in Q2 were all DDR1 specific products. As you know our microprocessors have embedded memory controllers. And also as you know the DRAM pricing has become very aggressive and DDR2 prices have plummeted and DDR1 being the older technology less available – actually the price has stayed up there. So we found based on that dynamic in the ecosystem it didn't make sense to try to push the older DDR1 products, so the small amount we had left on the shelf we chose to write off. Looking forward, all the product we have is DDR2 capable.

<**Q**>**:** Okay, makes sense. And if I could just have more of a philosophical question. I guess when – I mean it seems like at least in this quarter I look at the flow through and there wasn't that much, and philosophically running high fixed cost business, low variable cost, what are your thoughts about running the business as cash versus running it for profit, what are the trade offs there?

<A – Robert Rivet>: Well, to be honest we clearly – if you put it in a priority, if I have to pick between 1 and 2, cash is first and P&L is second from that perspective, and we never forget that. Cash is king so you have got to work it from that perspective.

But clearly you are balancing long-term needs of your capital investment to make sure you have the capacity so you can have the topline and enjoy it. I would remind you though that you know a bigger portion of our portfolio is now purchased. We purchase all the manufacturing from our friends, you know, from the TSMCs of the world or the subcons of the world. So it isn't – you can't just use the same model of the past to the company today because it is a blend between the two businesses.

<Q>: Yeah, fair enough. Could I just do a quick follow-up on that comment Bob? So, do you find that when you go in and do a price negotiation with a customer, whoever it may be, that the fact that the Graphics business is variable, do you feel like you are in a better position to kind of push prices higher, or argue, or avoid business you don't think is a fair trade-off for what you are bringing to the table?

<A – Robert Rivet>: Well, you clearly don't want to – again, managing for cash, you don't want to lose cash on any transaction. Clearly, in a GPU business where cash is what it costs to buy the product, you are not going to go below that unless it's really a fringy strategic type thing or it's drawing a lot of volume from your microprocessor side of the house. So you got to balance it between the two occasions. Clearly in the microprocessor side of the house, you can, you have a little bit more latitude from a cash basis, because a fairly large component of the manufacturing, of the product cost is fixed. So, you've got a lot more room to move up and down, particularly if you are in different parts of the cycle or attacking different parts of the marketplace.

<Q>: Got it, thanks a lot guys.

<A – Robert Rivet>: Sure.

Operator: Thank you. Your next question is coming from Chris Danely of JPMorgan. Please go ahead.

<Q – Chris Danely>: Hey, thanks guys. Given the massive amount of market share gain in Q2, why wouldn't you guys do an above seasonal Q3?

<A – Robert Rivet>: We are just cautiously optimistic. I mean, I don't – at this point in time I don't feel like it's worth it.

<Q – Chris Danely>: That makes sense. And I guess if this keeps up where you continue to gain a lot of share but you end up losing money still say in three or four quarters. Would you guys chose to maybe pull back a little bit, and focus more on your more profitable segments, and less on market share, how does that sort of work out?

<A – Robert Rivet>: Well, the only good factory is a full factory. I think I would probably say that every conference call. And so, the mission is to sell the factory out, and get the most revenues you can for that output. So, a mid strategy doesn't work in our business, when you own that kind of machinery, plus it doesn't work against the kind of competitor we are dealing with, and leaving profit pools unattacked. So, we have to work our way through that, clearly our goal is to have unit share, dollar share, and profit share.

<Q – Chris Danely>: And as if the choice comes down to profitability versus market share, would it still be on market share then?

<A – Dirk Meyer>: Well, it's Dirk here. Maybe I can try to answer the question in a slightly different way. Given the FlexFab strategy that we now have employed on the CPU side of the business, the way we look at things really is what sort of R&D investments do we need to make on the product side in order to have the relevance to our customers that we need to. And the conclusion is we have got to have winning and capable server desktop mobile products, GPU products, and media processing technology so as to be a broad supplier. So, really when we think about how much business we need, it is how much revenue do we need to generate sufficient gross margins to cover our product R&D, and maintain an increased relevance to our customer base, more so than filling a particularly factory.

<Q – Chris Danely>: That make sense, and on that note, you guys are trimming the CapEx here, and talking about asset light, can we assume that the plant for the Albany Fab are going to be scrapped?

<A – Hector de J. Ruiz>: Not at all. As I mentioned earlier, our manufacturing strategy has not changed, our ambition – this is tied a little bit to your first question frankly. We are not yet in a two player environment, this is a unique segment of the market where we still haven't yet broken through what we would like to do. I think we have made progress every year, we are getting closer, we are having a real modified two player segment of the market. And in doing so our ambition is to get to a share number that by definition requires more capacity. And we are looking forward to benefiting from our plans in New York but we still have until the summer of 2009 to be able to make that decision.

<Q – Chris Danely>: Got it. Okay thanks guys.

<A – Michael Haase>: Operator we were going to take two more questions please.

Operator: Thank you. Your next question is coming from Michael Masdea of Credit Suisse. Please go ahead.

<Q – Michael Masdea>: Thanks a lot. I think maybe Henri has given us the answer to this question but I will ask it. Intel clearly is pretty much hitting on most of its cylinders right now and you can argue that you guys are shipping more your legacy models with new models coming out right now. It seems despite that you got pretty damn good market share this quarter, what are we really missing about what's being valued out there and what are we overlooking when we compare lot of the specs in manufacturing between the two companies and get what would – should be a different answer for the market share shifts?

<A – Henri Richard>: Well I think, we all look at this industry as experts and the reality is that there is billions of people out there that look at it as something they want to buy and use and they have a very different view of what matters to them. So I don't know of any IT manager that will ask what was the nanometer in his processor and I don't know any student walking into a store and really wondering what's the die size of a processor, let alone in some case what's the frequency. What they do is, they look at more and more what is this machine is going to do for me, how does it look, is it a fashion statement, is it responding to my needs. And so, as you focused on the end-user need and as you focus on the experience and as you focus on empowering your customers to differentiate their brands and bring innovation and distinctiveness in the marketplace, what you do is you help first expand the marketplace, and we were seeing that the PC business right now is fairly healthy. And, you shift away from just technicity to user experience. And that's why despite all the hype on the core technology, and we have great products as well, what really ultimately matters and what you are seeing in the market share is the fact that people appreciate choice, and we help our customers have distinctive products in the marketplace.

<Q – Michael Masdea>: I guess in follow-up, how far along do you feel like you are in coupling the non-CPU part of that whole equation with the CPU part, and how effective do you think you have been so far?

<A – Henri Richard>: Well I think that there is a natural level of comfort for a certain type of conservative customers to have a one-stop shopping experience. On the engineering side, I am not going to talk for Dirk, but clearly there is a lot of things that you can do once you have the entire portfolio of technology and some of the features of the Puma platform will demonstrate that. So, from my perspective, what customers like to do is to have this opportunity to look at a complete AMD solution. But as you know, we are doing this with an open platform state of mind and we continue to welcome our partners adding value to the AMD platform. So that diversity is actually very important, because it allows again our customers to differentiate their products.

<Q – Michael Masdea>: All right, just one quick follow-up for Dirk maybe. Intel made a comment which I guess made my ears perk up a little bit, talking about reducing cycle times, something which they just don't typically talk about as much and maybe they are doing some behind the scenes, but they made a point of saying that this time. I guess my question is what are you guys doing both on the internal side and on the foundry side to try to do that? And does that seem like it is something out of the norm from your competition to make strides in reducing the cycle time?

<A – Dirk Meyer>: Yeah, I heard that comment, and actually it sounded like AMD is making the comment because we actually have been driving Lean into our Dresden factories for several years and are working on cycle time and increased output as well. So you know I think that's actually becoming an increasing trend for the semiconductor business that is to look more carefully at applying Lean techniques in the wafer fabs.

<Q – Michael Masdea>: Is that something you can influence on the foundry side too or is it, are you more stuck there in terms of your cycle time?

<A – Dirk Meyer>: You know certainly in the spirit of partnerships we aim to also deploy Lean back up our supply chain.

<A – Hector de J. Ruiz>: And Mike just to add a little bit as an example of, our factory in Germany has been benchmarked by third-parties that benchmark all of the fabs as being number one in the indices that count and one of them includes the ability to turn the inventory fast in terms of cycle time per mass layer. And, which is another way of saying cycle time efficiency. And it is continuously benchmarked as the best fab in the world. So we believe, as Dirk pointed out, that our efforts in this area have actually been going for quite some time and as a matter of fact this year we are tasking a group of executives to take it to the next level. Maybe you can call it AMD 2.0 relative to cycle time.

<Q – Michael Masdea>: Great, thanks everybody.

Operator: Thank you. Your final question is coming from Kevin Rottinghaus of Cleveland Research. Please go ahead.

<Q – Kevin Rottinghaus>: Thank you. Just to clarify gross margins, up quarter-over-quarter, does that include the $30 million write-down if you strip the $30 million write-down out and margins were 36, would they still be up from there or is it just up from the 34 level.

<A – Robert Rivet>: Up from the 34 levels. So the 34 included the $30 million write-down.

<Q – Kevin Rottinghaus>: Right.

<A – Robert Rivet>: So if we didn't have it, if luck would be in that direction, it would have been two percentage points higher for the total company.

<Q – Kevin Rottinghaus>: Okay, but up from 34.

<A – Robert Rivet>: Yes.

<Q – Kevin Rottinghaus>: Okay. You know the design cycle Henri that you talked about in chipsets, could you kind of talk about where you are and when you expect the new chipsets to start to flow through and maybe see further share gains in the, with the new product launch?

<A – Henri Richard>: Well typically, right now we are active at designing the next-generation chipset which we have a whole new set of platforms coming on the mobile space, code name Puma. We're in the full work on qualifying those platforms. We got our next-generation discrete chipsets for desktop, code name 780, we're in the full, full specs on that one, 780 and 790. And then, of course, we have new technologies coming both on discrete mobile GPU and desktop discrete GPUs and those are – we're starting to work on. So, typically right now we are working on the products that will come to market in the first and second quarter of '08.

<Q – Kevin Rottinghaus>: Okay. What about the just-launched products in the May timeframe?

<A – Henri Richard>: I'm sorry, I am not sure I understand your question.

<Q – Kevin Rottinghaus>: When should we, I mean you talked a little bit about the graphic shipments getting started, I mean how much of that was already done, and how much of that is still to come?

<A – Henri Richard>: Yeah, as I said the new generation Radion products we're really hitting the shelves in June. So, very little contribution towards the second quarter and full production and high demand in this third quarter.

<Q – Kevin Rottinghaus>: And my last question, could you compare the Barcelona launch, kind of being phased with step-ups in the speeds versus how you launched Opteron, was there a phased rollout, with Opteron as well, or could you I guess compare what's different between the rollouts and the two products?

<A – Dirk Meyer>: Yeah Dirk here, on the rollout it can be very different in that when we introduce Opteron we did so with almost no global tier one OEM platform support and we'll be launching Barcelona in 10 compatible form to pre-existing Opteron products into platforms that are ready for it, from every top-tier OEM in the world. So, very different.

<Q – Kevin Rottinghaus>: Okay, thank you.

Michael Haase, Director of Investor Relations

Okay, great, well, that concludes the call, we look forward to seeing everyone next week at our Analyst Day. Thank you.

Operator: Thank you. This does conclude today's teleconference. You may now disconnect your lines at this time, and have a wonderful day.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Cheney and I will be your conference operator today. At this time, I would like to welcome everyone to the Advanced Micro Devices Inc. First Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer period. [Operator Instructions]. Thank you. It is now with great pleasure to turn the floor over to your host, Mr. Mike Haase, Director of Investor Relations. Sir, you may begin your conference.

Michael Haase, Director, Investor Relations

Thank you and welcome to AMD's first quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at amd.com. The telephone replay number is 877-519-4471. Outside of the United States, the number is 973-341-3080. The access code for both is 8584000. A telephone replay will be available for the next 10 days starting later tonight.

In addition, I would like to call to your attention that our Q2 2007 earnings quiet time will begin at the close of business Friday, June 15th. Also, for your planning purposes, we have scheduled the AMD Technology Analysts Day for Thursday, July 26th. More information will be sent out at a later date.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements are based on current beliefs, assumptions and expectations, speak only as of the current date and involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements.

The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from those in our forward-looking statements.

You will find detailed discussions in our most recent SEC filing, AMD's Annual Report on Form 10-K for the year ended December 31st, 2006.

With that, I will turn the call over to Dirk.

Dirk Meyer, President and Chief Operating Officer

Thank you Mike. After 14 consecutive quarters of gaining share in the CPU business, the first quarter was a major setback in the strategic transformation of our company. But we know the only way to get healthy is to fully understand our problems and fix them.

First, it is important to note that with our remarkable success has come much more complexity in our business – more customers, more channels, more products. The game is really quite different and frankly, that complexity has led to some challenges.

In the first quarter, our challenges were caused by a few key things. First, we suffered some major growing pains. Starting roughly the middle of last year, we suffered occasional mix and delivery issues in the course of serving new and expanding relationships with global OEMs. This led to challenges in our properly serving the component distribution channel.

Second, the pricing pressure that started in Q2 last year continued in the mainstream of our CPU business as our competitor did everything in their power to protect their monopoly. Third, we saw an increasingly competitive product environment in both CPUs and GPUs. And finally, weakening demand in the Consumer Electronics businesses added to our pain.

While any one of these problems might have put a damper on our performance in the quarter, the sum total of all four was something of a perfect storm for us.

Our plan to fix these problems is fairly straightforward. We need to grow the top line, change our cost structure in line with the competitive environment, and execute flawlessly on our product and technology roadmaps. To regain momentum on the top line, we have accelerated some key initiatives. We have simplified our sales and marketing organization in order to improve our responsiveness to customer demand. We restored our value proposition in the channel and refocused marketing spending on demand generation programs, and we have increased our emphasis on acquiring new customers and broadening our portfolio with existing customers.

Now, while we know we cannot cut our way to prosperity, we realize we need to make some significant adjustments to our business model in order to succeed in the current competitive environment.

Among the efforts already underway are; reducing 2007 CapEx spending by approximately $500 million, largely by slowing the rate of the Fab 38 conversion. We are reassessing our overall staffing plans, specifically, we are going to limit ourselves solely to critical hires, and to the extent that we add resources, we will focus primarily on doing so in lower cost geographies.

We plan to leave the year with a lower head count than we have on board today. In addition to those staffing actions, we will be reducing discretionary expenses by over $100 million annually. Finally, we need to deliver on our product and technology roadmaps, on time and on budget. Specifically, we need to deliver on the promise of Barcelona later this year. And by the way, our customers are increasingly excited about what they are seeing.

We need to successfully convert Fab 30 to a 300-millimeter tool set. We need to start the ramp to 45-nanometer technology beginning in mid-2008, and by the way 100% of our Fab 36 wafer starts are in 65-nanometer technology today.

We need to and will successfully launch the 600 Series graphics products next month, and over time deliver and maintain GPU leadership in the dimension of performance per watt, per square centimeters of silicon. And we need to continue to deliver leading edge technologies through our best-in-class customer engagement in the CE businesses.

In summary, we know what our challenges are, have a good grasp on what to do, and are well underway with programs to put us back on track. Best of all, our customers want us to win and are expanding our relationship on the basis of our unmatched technology portfolio and commitment to helping them succeed.

And with that, I would like to turn it over to Bob.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks Dirk. As I said in the press release, the first quarter was totally unacceptable, but as Dirk outlined, we have a good plan to address and fix our issues. Before I start, I would like to remind everyone that as a result of the acquisition of ATI in the fourth quarter of last year, first quarter 2007 results do not correlate directly.

AMD's revenue in the first quarter of 2007 was $1.233 billion, down 30% sequentially and down 7% compared to the first quarter of 2006. We recorded a large net loss in the quarter at $1.11 per share.

Three noteworthy items to highlight in these results include: one, ATI acquisition related and integration charges, which I call ARC, of $113 million, or $0.21 per share; two, employee stock-based compensation expense of $28 million, or $0.05 per share; and three, a tax expense of $23 million, or $0.04 per share, primarily due to the need for a deferred tax liability related to the large tax deductions AMD receives for the amortization of goodwill from the purchase of ATI.

First quarter operating loss was $363 million, excluding ARC charges and stock-based compensation expense. EBITDA was a negative $196 million.

First quarter 2007 gross margin was 31%, excluding ARC charges and stock-based compensation expense, compared to 40% in the fourth quarter of 2006. The decrease from the prior quarter is attributable to significantly lower microprocessor unit sales, lower microprocessor ASPs, and the inclusion of the former ATI operations, which generally have lower margins for the entire quarter.

I will switch to the business segments. First, Computing Solutions revenue, which includes the former Computation Products, Embedded Products and the former ATI chipset business, was $918 million, down 38% from the prior quarter, primarily due to significant lower desktop, mobile and server unit sales and revenues.

Microprocessor unit shipments declined in all product categories and ASPs declined in both desktop and mobile.

Chipset sales increased 15% sequentially, reflecting a full quarter of operations. The Computing Solutions segment had an operating loss of $321 million in the first quarter.

Switching to the Graphics segment, revenue was $197 million in the first quarter, a sequential increase of 19%, reflecting a full quarter of operations. Operating loss in the Graphics segment was $35 million.

And in the Consumer Electronics segment, revenue was $118 million, down slightly from the previous quarter and also reflects a full quarter of operations. Handheld and gaming revenue declines were offset by sequential growth in the DTV category. The operating loss in the Consumer Electronics segment was $4 million.

Now turning to the balance sheet. The cash balance at the end of the quarter was $1.2 billion, approximately 600 million above our minimal acceptable levels. We continue to be focused on increasing liquidity for the business and expanding our financial flexibility.

Our plan continues to include: one, selling our 200-millimeter fab equipment; two, monetizing our investment expansion; three, collecting our grants and subsidies from our investments in Dresden; and four, selling administrative land and offices. In addition, we continue to evaluate a wide range of financing opportunities that are available to us.

Total inventory at the end of the first quarter was $937 million, up $123 million from the fourth quarter, driven by our sales miss in the microprocessor business. About 40% of this inventory growth was 65-nanometer microprocessor products.

First quarter capital expenditures were on plan at $586 million, focused on the capacity ramp of fab 36.

Now let's turn to the outlook. AMD's outlook statement for the second quarter are based on our current expectations. The following statements are forward-looking and actual results could differ materially from current expectations.

In a seasonally down second quarter, AMD expects revenue to be flat to slightly up. Operating expenses, which include R&D and SG&A, will be in the range of $750 million, reflecting only a small impact of the restructuring efforts we have undertaken. You will see a much higher impact in the second half of the year.

Employee stock-based compensation expense is expected to be approximately $30 million for the second quarter. ARC charges will be approximately $80 million for the second quarter. We believe we will have a tax expense of $25 million in the second quarter.

As Dirk outlined, our capital plan for 2007 is now $2 billion, down 500 million with the reductions coming out of the back half of the year. In summary, the first quarter of 2007 was a terrible start to the year, but we are confident we have a plan to put ourselves back on the right track.

With that, I will turn it over to Hector for some final remarks.

Hector de J. Ruiz, Chairman and Chief Executive Officer

Thanks Bob. Dirk and Bob have highlighted many of the programs and initiatives that we have put in place to address our near-term business challenges. And while the complete package is strong, including capital spending adjustments, sales and marketing restructuring and head count adjustments, I would like to take time to put all of it on a much larger context. Because I want you to know that this quarter was more than a miss, more than a series of concurrent issues or challenge. This quarter was a major inflection point in our timing of action plans to continue to innovate effectively on behalf of our customers. I want you to know that it has only served to accelerate our efforts to complete our work, that is, to reinvent the dynamics of our industry. The quarter proved that the job is only half done and that now is the time to accelerate our efforts to finish the other half.

Today, what you have heard Dirk and Bob describe is immediate and somewhat tactical in nature, but make no mistake, it is also the beginning of a major restructuring of how we intend to run our company going forward. One that will reflect the natural growth and stratification of the world's processing solutions customer base, accommodate the business model distinctions between good enough entry level markets and performance-hungry mature market solutions, and reduce our capital intensity by exploring deeply more asset light business models in order to fully execute our plan. And most important, it will be based and driven on a single core competency, customer-centric innovation.

We plan to share more details at our upcoming analyst conference this summer. In the meantime, in order to provide intense oversight to this transformational process, and also to ensure a strong support across the company for the various initiatives, Dirk and I are forming an executive task force, including Bob Rivet, Henri Richard, and Dave Orton. I will chair this taskforce and provide a strong oversight of this company-wide effort.

While I expect this task force to be temporary in nature, lasting no more than a year, I expect this transformation to be bigger and more dramatic in impact than the one we undertook in 2002. But as I mentioned earlier, it will be the transformation needed that allows us to fully complete the

transformation of our industry, to put the customer back in charge, to put competition back in our industry, and to put sustainable value creation back in the hands of real innovators.
Now let me turn it back to Mike for our question and answer period.

Michael Haase, Director, Investor Relations

Thanks Hector. Operator, let's start the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question is coming from Tim Luke of Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thanks so much. Can you hear me Mike?

<A – Michael Haase>: Yeah.

<Q – Tim Luke>: Could you just clarify how we should perceive your pace of investment in capacity than – vis-à-vis prior plans? And also, if you could give us any clarity on how you perceive with elevated inventory level, how you would look at potentially clearing that? And then also, if there were any updates with respect to the timeline associated with Barcelona that Dirk was alluding to in terms of the second half of the year? Thank you.

<A – Dirk Meyer>: Sure, it's Dirk here and I will respond to both of those. First of all, going into Europe, our capacity plan was to fully facilitate the Fab 36 building and start the conversion of Fab 30 to its 300 millimeter toolset roughly middle of this year, with the so-called Fab 38 beginning to produce output early in 2008. And then of course we had Chartered as a flex source of capacity. As compared to that change, the only real change going forward is that we will reduce the rate at which we convert Fab 30 to a 200 millimeter toolset. So specifically, we will still completely ramp Fab 36.

Now with respect to Barcelona, we started shipping preproduction – oh, three questions. So with respect to Barcelona, we will start shipping – we started shipping preproduction samples to customers in Q1. We anticipate shipping production samples in the current quarter, and we will see customers shipping their products based on Barcelona in Q3.

And then finally, you had a question on inventory. To the first order, the products that we have in inventory are still products that are good in the marketplace, the markets wants them, our customers want them, so we will just modestly adjust our production plans over the balance of this year and work off our inventory position over the next couple of quarters.

<Q – Tim Luke>: In conjunction with that, your guidance for revenue is somewhat better than normal seasonality and somewhat stronger than your larger competitor. Could you just reconcile how we should perceive the businesses that might be flat to slightly up given the general context?

<A – Robert Rivet>: Sure. Clearly, if you haven't picked up, we're pretty disappointed in our performance. The channel in particular, while we were optimistic we would see more improvement in the first quarter, we didn't. We do see progress toward the end of the quarter and continuing in the second so that's part of the rebounding effort from that perspective to give us confidence that even seasonally down quarter, we can power our way through that. Plus, we launched new products in the graphics business. So we have things, definite things to recover from the first quarter and new product introductions on the ATI classic side of the house that gives us a lot of confidence from that perspective. And also in the C2, we know the design-ins we have and that product will start being shipped in the second quarter.

<Q – Tim Luke>: Thank you Bob.

Operator: Thank you. Your next question is coming from JoAnne Feeney of FTN Midwest. Please go ahead.

<Q – JoAnne Feeney>: Good afternoon folks. I have a question; I'd love to hear a bit more about the restructuring. You mentioned the asset light strategy and with such challenges to profitability going forward, it would seem like Texas Instruments has adopted, perhaps you could also use more of an asset light strategy to lower costs and to give yourself more flexibility during these cyclical times?

<A – Hector de Ruiz>: JoAnne, this is Hector. That's a very broad question and a challenging one because as I mentioned in my talk, the level of restructuring that I'm envisioning is very significant. And so it would be difficult to outline it on a phone call. But let me give it a try as to what we intend to discuss later on in the year.

For example, four years ago we had one product in the company that through tweaking and maneuvering, we could actually make it serve various segments of the market. Today, we have proliferated our product line towards goodness. We have a broad array of products, but now we're serving segments in the industry that each of these segments are large in size and for example, an entry level segment in an emerging market is a very large segment. And all on its own, it actually requires its own separate business model and how to address that segment. Compare that to a workstation or supercomputer segment, which all on its own requires a completely different business model. Today, up to now, we've been running the company well. As a matter of fact, we ended last year at 26% share in units as a result of a fairly successful four-year run that we had in doing it at that way. But now, as Dirk outlined, when we increase the complexity of going from a largely channel company to now one with a very heavy weighting towards OEMs and a complexity of products, we have to restructure how we address that. And the way we manage the accounts is going to be different. As a matter of fact – over the next few weeks, we will be internally announcing those changes methodically, all aimed at managing much more effectively this much more complex world that we live in.

And as part of that, one of the things that's become pretty clear in our experience; we have now for a number of years had some experience in partnering with people, such as for example IBM, in joint development programs. That has taught us a lot about how you can do some asset light strategies since we didn't have to build an R&D laboratory to do that. We have had also an experience now for a number of years with some of our friends in the foundry business and in particular with Chartered Semiconductor; we have learned a lot of that. And through the acquisition of ATI, we now have a perspective into a very asset light model that we are pretty excited about learning more and more about it.

When we look at all these things, we see a tremendous opportunity for us to really do something different going forward. What is unique for us? I think, for example, what Texas Instruments has done, as you said, is very good for them and is uniquely tailored for what they do. Whatever we do is going to have to be very uniquely tailored for us because we have to be on one hand in the workstation, supercomputer environment at the leading, bleeding edge of technology, but on the entry level part of products, it's not quite as necessary. So we have – I think we're in a unique segment in the industry, the microprocessor industry, where an asset light model may require a considerably different look and feel that you might recognize when you look at somebody like Texas Instruments. So we are pretty pumped up about the opportunity. We think it is obviously not something you can do in a quarter or two but we certainly intend to give you a stronger perspective in our summer analyst meeting.

<Q – JoAnne Feeney>: And is this then what you referred to, Hector, when you remarked that the second half of the transformation of the company really will begin now?

<A – Hector de Ruiz>: That is exactly right. We're making the organizational changes needed to address our business models more effectively. We're doing those now as we speak. And the broad action plans to do the much more complex issues, we actually started them some time back and what we're doing today is accelerating them and putting in place an executive taskforce to oversee the execution and implementation of those plans.

<Q – JoAnne Feeney>: Okay. Thanks very much.

Operator: Thank you. Your next question is coming from Chris Danely of JPMorgan. Please go ahead.

<Q – Chris Danely>: Hey, thanks guys. Can you just go through what your rough expectations are for pricing in the rest of the year? Do you think it's going to ease up a little bit? And also, maybe talk about gross margins and how to get those back up?

<A – Henri Richard>: Yes Chris, this is Henri. I think we've seen some stabilization in the domain of pricing since the beginning of the year. And so for us of course there's a lot of dynamics, our mobile business is growing, our commercial business is growing, our channel business as it recovers will represent a larger portion of our shipments. Those are positive factors but of course, we also expect the market to continue to be extremely competitive. So as a result, I think more stability but still a very complex and competitive environment.

<Q – Chris Danely>: Sure. Then how do you expect gross margins to trend given that type of environment?

<A – Robert Rivet>: This is Bob. From a gross margin perspective at a high level, clearly we are very disappointed in where we ended the first quarter. But the plans we have in place, I will call it from the product and technology standpoint of introducing new products, whether it's next month in the GPU world or in the Barcelona category, that's first and foremost. Second of course is just to remind you, we are still in the early stages of 65-nanometer. As Dirk outlined, we've actually got to all the wafer starts but it takes you a good 10 weeks to pull all that product through and get it out the door. Quite a bit of our shipments in the second, in the first quarter were 65, but every day more and more 65. Our inventory is well positioned in 65 and that clearly will give us some margin opportunity because that die is 30 to 40% smaller on an equivalent basis between 90-nanometer and 65-nanometer. So we feel like we'll make progress every quarter to improve the gross margins as we continue through the year.

<Q – Chris Danely>: That makes sense. And then Bob, you mentioned that it sounds like this is not going to be the last of the restructuring. Should we expect OpEx to remain flattish in terms of dollars in the second half of the year, will there be bigger changes?

<A – Robert Rivet>: We are still working a lot of details on that but it will probably be less, in particularly the G&A category in the second half of the year. We are watching ourselves very closely on the R&D investments since that's the pipeline for the future. But in general, we are hoping we can get that bucket to be a little more efficient than it has been there for less in the second half.

<Q – Chris Danely>: I like that. Thanks a lot guys.

Operator: Thank you. Your next question is coming from Uche Orji of UBS. Please go ahead.

<Q – Uche Orji>: Thank you very much. Just on the – if I look on the pricing, a question for Henri, your ASP for servers, did not do so well in Q4. And if I look out, with the launch of Barcelona, how should we think about what that could do for your price or your ASPs on the server front? And you are talking about volume in Q3, will that be significant volume in Q3, how should we think about, what impact that could make?

<A – Henri Richard>: Yeah, Uche; in fact, as I said, the pricing environment has stabilized, a little more complex. Our server ASP went up actually in the first quarter.

<Q – Uche Orji>: Okay.

<A – Henri Richard>: And clearly, the arrival of Barcelona which we know is an extremely competitive product will help us. But we really are more focused on getting back to the volumes that we deserve than just being focused on ASP, those two come together. Of course, you are looking at revenue for the first quarter and those are important but I'm looking also a lot on design-in. And although Q1 has been a very disappointing quarter from a revenue perspective, it's been a very fruitful quarter from design-ins both in the server market and the desktop market and the mobile market. Now, those will materialize in the marketplace in the second half of the year, along with our new products. So, again I feel that – of course, Barcelona can't come quick enough because of the excitement that the customers are showing based on what they have seen of the technology.

<Q – Uche Orji>: Fine, that's very helpful. On the – in the channel, you referred to having lost some share in the channel. What efforts are you making to win that back and when should we start to see that bearing fruits?

<A – Henri Richard>: Well, you know, one of the important things in the channel is predictability and stability. Frankly in the second half of 2006 we have been challenged, particularly because of very rapid shift from desktop to mobile. As you know, on an overall basis, it's still an interesting shift for the industry, but for the channel, it's seldom good news. And we were challenged being as reliable as we used to be. We took the actions really at the end of Q4; those actions started to pay a little bit in Q1 but it was a very difficult quarter for us. And frankly, one of the advantages of having a little more inventory is now I'm in a position to serve my customers on a timely basis and the product mix that they desire. Now, we don't expect this to turn around immediately. I think we will see, as Bob was pointing out, sequential improvement in the second quarter, and I see no reason why we shouldn't be again the franchise of choice that we use to be in the second half of the year.

<Q – Uche Orji>: All right, just a couple of more questions. On the computing side, Bob, are you able to give us an idea of the split between MPU and chipset? Is that something you can tell us?

<A – Robert Rivet>: I don't know, that's not a detail we want to get into.

<Q – Uche Orji>: Okay. And then finally on the – if I look on the detail of the asset-light model you plan to embark on, are there any restrictions as to how much you can stock with your heavy foundries?

<A – Henri Richard>: All of the plans that we are considering are all within the context of making sure that we meet the needs and requirements of all our key agreements that we have.

<Q – Uche Orji>: That's it. Thank you very much.

Operator: Thank you. Your next question is coming from Michael Masdea of Credit Suisse. Please go ahead.

<Q – Michael Masdea>: Yeah, thanks a lot. I guess questions on the pricing strategy; it's a pretty aggressive pricing quarter generally and it did not seem to have a lot of fruit. Clearly, there were some channel issues this quarter. But is that any sort of indication that you should back off the current pricing strategy or is that even an option?

<A – Henri Richard>: Well, our pricing strategy hasn't fundamentally changed. We are pricing our products for what we believe is the value they provide in the marketplace. Now, one of the things – one of the dynamics that is new is that we are now a platform company and that the fact that we now have GPU technology, chipset technology, along with our CPU technology is allowing us to do more interesting things than we did in the past. Furthermore, Vista is placing an increased focus on graphics and that becomes a very important aspect of the BOM of each platform. So as we look at design-in sockets in the future, we are in a position today to have a slightly different pricing strategy than we had in the past because instead of being a point product, we have a complete platform.

<Q – **Michael Masdea**>: I guess that begs another question which is you look in the past and when you were successful and you had real incremental drivers, whether it was power per watt – I think you focused on that earlier – or dual-core 64 bit extensions or what have you. It doesn't seem like it's obvious that that's out there in the future right now. Is it just that we are not seeing it yet or is there something you would point to that really can get you the differentiation to kind of keep decent ASPs and market share?

<A – **Dirk Meyer**>: Dirk here. First of all, we are very excited about the products that we have coming out near term in the dimension of performance per watt per square millimeter of silicon, both in the GPU category and in the CPU category. So I do think we are going to be very compelling in that dimension. Beyond the near term, the whole motivator for the ATI acquisition was one of having the opportunity to deliver a solution with an optimized balance of CPU, GPU, video, and media technology tuned to the task at hand. So we are not announcing any products based on that vision yet but longer term that's absolutely the vision.

<Q – **Michael Masdea**>: Maybe just a quick one for Bob; it looks like there was a little bit of financing that sort of came from the balance sheet in terms of your receivables. Is that – some of that can't repeat. Should we start to think about cash coming down a little bit more rapidly here? And what is that threshold where you feel like you have to go out and raise some money as opposed to doing some of the other things you talked about?

<A – **Robert Rivet**>: Sure. First, I will start backwards, just to remind you what I said. I have always said $1 billion is where I am very comfortable. 600 million, though, is where you really have to go do something just for making all the machinery work appropriately so we are still a little bit north of that at 1.2, 600 million high. Clearly, thank you for noticing, we have been working on working capital except for the inventory part of the equation. So we will continue to figure out how to utilize and get working capital to be as robust as possible from that standpoint. And then, we will start monetizing the four things I listed. Some of that you will see in the second quarter, whether it is the expansion issue or the 200 millimeter tools, selling land, et cetera, collecting grants and subsidies. So – but like I said, we are very focused on making sure we have the appropriate liquidity and I will be opportunistic in the market to go deal with that.

<Q – **Michael Masdea**>: Thank you.

Operator: Thank you. Your next question is coming from Joseph Osha of Merrill Lynch. Please go ahead.

<Q – **Joseph Osha**>: Hi folks. Back to Barcelona, you talked about that being available here in sample form in the second quarter. Are we going to see some of the Barcelona derivatives in the client products, in particular desktop, in the third quarter? I am also curious about this mix of Barcelona and Barcelona derivative versus the existing Brisbane 65 nanometer stuff. How do you see that toggling as the year progresses?

<A – **Dirk Meyer**>: Yeah. So first you will see desktop variance of Barcelona in both two core and four core form in Q3 as well.

<Q – **Joseph Osha**>: On the desktop side?

<A – **Dirk Meyer**>: Yeah, on the desktop side. And relative to mix, we are not going to go to that level of detail.

<Q – **Joseph Osha**>: Okay, that makes sense. May I ask a follow up?

<**A – Dirk Meyer**>**:** Sure.

<**Q – Joseph Osha**>**:** If I look at the mobile business, there you are going to be with Turion obviously on 65 but clearly that area is up for refresh. Can you talk a little bit about when we might see a new architecture show up in that segment of your business?

<**A – Dirk Meyer**>**:** Yeah, we have got a product lined up for the refresh cycle in 2008, which is a 65 nanometer product and we will introduce both a new CP and a new platform.

<**Q – Joseph Osha**>**:** So that would – that will show up later this year but effectively it doesn't really become part of the plan until 2008?

<**A – Dirk Meyer**>**:** Yeah, it hits the OEM chassis refresh cycle in the first half of '08.

<**Q – Joseph Osha**>**:** Okay, thanks very much.

Operator: Thank you. Your next question is coming from Mark Lipacis of Prudential. Please go ahead.

<**Q – Mark Lipacis**>**:** Great, thanks for taking my questions. A couple one, first on the cash flow side, Bob, could you remind us how much, how many grants and subsidies you could expect to get for Dresden and anything on the timing there, and how much you think you could get for the 200 millimeter tools?

<**A – Robert Rivet**>**:** Yeah, both of those, just in broad terms, both of those are north of $200 million each so from that perspective. On the grants and subsidies, each of them actually we have started so we have collected a little bit in the first and we will collect additional money in the second, third, and fourth, so it gets spread out throughout the year.

<**Q – Mark Lipacis**>**:** Okay great. And then on going to the asset light and the stratification comments Hector that you were making, are there limitations on how much you can outsource and can you help us with parameters for us to think about – when we think about the options that you guys have there? And when you talk about stratifying your product sets, does that suggest that you could be developing microprocessor technology on both SLI and bulk CMOS, does that even make sense? Thank you.

<**A – Hector de Ruiz**>**:** As I said a little bit earlier, we have a broad array of IP licensing agreements with many people in the industry and everyone of the options that we are considering for an asset light business model takes all those into account and incorporate those into the agreements that we have. We have a lot of flexibility in those agreements. As a matter of fact, I would put it in the category of damn near infinite. But they – and our plans are to start really narrowing down the choices and exploring the opportunities with the various possible partners that we could have in exploring that. And it covers a whole gamut of opportunities from everything, like I mentioned earlier, we already have a joint development agreement with IBM which we view that as an asset light strategy from the point of view that we don't have to build an R&D facility, and all the way in to any aspect of the rest of the work that we do.

The rest of it that you referred to as a stratification of our products is really more along the lines of the business models that we intend to focus on, to be able to structure the organization such that it optimizes what's important for each of those business segments. And as I used as an example which is a good one to use, is perhaps an emergent market entry level product. It is a segment that needs to be managed with a very low level of overhead and an 'N minus 1' or 'N minus 2' technology, perhaps even consider a bulk solution, and on top of that perhaps the whole business can be run out of parts other than the United States. So, we are really going all across the possibilities and aggressively making those plans and we will share more of that with you as the year develops.

<Q – Mark Lipacis>: That's very helpful. Thank you very much.

Operator: Thank you. Your next question is coming from David Wong of AG Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. Could you tell us what mobile's ASPs look like, you said that servers were actually up sequentially in the March quarter. Were mobile ASPs also stable throughout?

<A – Dirk Meyer>: They were marginally down.

<Q – David Wong>: Right, and could you give us any quantification of sequential microprocessor unit growth or declines in any of the segments?

<A – Henri Richard>: No, we typically don't give you those indications.

<A – Robert Rivet>: I mean the only comment I'd make to give you the best color would be ASPs were the small piece of the equation in the sequential movement quarter-to-quarter. It was mostly units. ASP were a piece of the equation, but the driver was the unit drop quarter-on-quarter. And that was in all segments, whether it's desktop, mobile, server.

<Q – David Wong>: Right.

<A – Henri Richard>: I would like to add one point. I think, we need to wait a couple of weeks until all the analysts are publishing the sales out figure for the quarter, because we know that customers really dispose off inventory that they had built in the fourth quarter and so you might be actually surprised by our sales out market share numbers versus what you are looking at today which is sales-in.

<Q – David Wong>: Okay, great. And last thing, can you tell us what your current schedule, expectations are for 45 nanometers?

<A – Dirk Meyer>: Yeah, we will be starting 45 nanometer production in Dresden in the first half of next year and shipping product early in the second half.

<Q – David Wong>: Thank you very much.

<A – Dirk Meyer>: Working everyday to pull that in.

<Q – David Wong>: Great. Thank you very much.

Operator: Thank you. Your next question is coming from Krishna Shankar of JMP Securities. Please go ahead.

<Q – Krishna Shankar>: As you look at the quarter, did you see the pricing pressure both in the consumer and the corporate market? And can you give us some sense for the success you had in the corporate notebook and desktop market now that you have ATI under your fold?

<A – Henri Richard>: Sure. So, the first part of your question which is – there was no real significant difference in terms of the overall pricing environment, but of course we have different participation. So I would say that in the consumer market, there is a broad level of competition in both mobile and desktop across all geographies, where today in the enterprise market, the bulk of our freight is in the server segment.

Now that leads to the second part of your question which is what is going on with our commercial clients? We are, as planned continuing to increase quarter-after-quarter the number of platforms offered by our key OEMs in increasing number of channels and increasing number of geographies and sales are growing quarter-after-quarter. Furthermore, there is another indicator which is the leading indicator of success, which is the latter part of your question which is, since now we have ATI and therefore are able to offer a more complete platform, is that giving us some traction? As I indicated earlier in the call, I am very pleased with the level of design-in wins in the first quarter, even though I am not pleased with the level of sales in the quarter.

<Q – Krishna Shankar>: Thank you. And Hector, a somewhat more I guess strategic question, there has been some speculation about private equity investors looking at AMD. And what are your thoughts on getting out of the public spotlight and really working on this major restructuring Phase II that you talked about out of the public eye, and what does it take for AMD to do that? And would you seriously consider that?

<A – Hector de Ruiz>: Well, as Bob has pointed out many times, we have absolutely no prejudice or bias towards the source of capital as long as it makes sense for us, and we are very open to any of those ideas. Bob is continuously looking and alert as to any opportunity that might come up for us to take advantage of it. As for the difference between – I think that your question was being a public company versus a private company, it is like everything else, if it is something that we think makes sense for our shareholders, we will certainly consider and look at it.

<Q – Krishna Shankar>: Thank you.

Operator: Thank you. Your next question is coming from Glen Yeung of Citigroup. Please go ahead.

<Q – Glen Yeung>: Yeah. As you come through this first quarter, and obviously it's a difficult one, and you go through this restructuring, have you given any thought yet to what the target model for AMD is going to be? Has anything changed if we look one, two, three years out?

<A – Dirk Meyer>: Actually no. I mean when we – we have looked at that pretty hard. Clearly, depending on, I will call it the extent of the asset light model, that could change the mix of how you deliver the end result, which I still believe needs to be in that 18% range. But clearly if you have no assets that number would change, so that – so it will be worked and we will disclose that as soon as we have more specificity on the asset light strategy, but right now I would say, it's business as usual. We are still driving to the model that I showed right after Thanksgiving.

<Q – Glen Yeung>: Okay, that's helpful. And then the other question I had is so you are now slowing down the transition of Fab 30 to 38, which essentially means you are going to have a bit more 200 millimeter than you might have thought. What's the change to your output that we should expect from this? I think you have talked in the past about a unit potential in terms of your capacity, what's the change we should expect there?

<A – Dirk Meyer>: Yeah. Dirk here. First of all, we are not going to change our plan relative to 200 millimeter output. So we will still start taking down 200 millimeter starts in Fab 30 in the current quarter. We will simply lower the rate of 300 millimeter tool insertion into that shell. So that, the plan relative to unit output capacity is not going to change at all in 2007, it is going to change only modestly in 2008, and represents about a 10% potential change in 2009, if we stick to the plan which of course we have the opportunity to reevaluate.

<Q – Glen Yeung>: Okay. And then the last question is just thinking little bit near-term on Barcelona, between now – I guess we are now mid-second quarter and you are expecting first ships out in the third quarter, are there any milestones you have to hit? Are there any critical points we are going to need to see between now and then?

<A – Dirk Meyer>: Well, there won't be things that you will necessarily; I mean of course we will be demonstrating Barcelona later on in the summer. As I said, we will be shipping production group – production samples to customers this quarter, but what really matters is customers turning around and shipping the systems based on that technology.

<Q – Glen Yeung>: So, just, it sounds like you guys are ready and it is really is just getting sort of designed and moving the thing off-the-shelf?

<A – Dirk Meyer>: Simply want to agree, qualifying our customers' systems and getting those systems out the door. Next question.

<Q – Glen Yeung>: Okay. Great, thanks.

<A – Dirk Meyer>: Thank you.

Operator: Thank you. Your next question is coming from Michael McConnell of Pacific Crest. Please go ahead.

<Q – Michael McConnell>: Thank you. Regarding the asset-light model, are there any restrictions to the amount you can outsource due to any covenants within the x86 license that you brokered with Intel back in the day?

<A – Henri Richard>: We have a number of broad IP licensing agreements with many companies including Intel. And every one of the models we are looking at to implement takes all of that into account. And we have an awful lot of flexibility I said that earlier, so we feel pretty confident on what we want to do.

<Q – Michael McConnell>: Are there any restrictions in terms of percentage of production that you could quantify?

<A – Henri Richard>: We don't talk about the details of IP licensing, so that the asset-light model we're talking about is well within all of the guidelines that we have.

<Q – Michael McConnell>: Okay, fair enough. And then any chance so we could get some comments on the breakout in Q1 between units and pricing?

<A – Hector de Ruiz>: As Bob pointed out, we're disappointed that the pricing was not as stable as we would have hoped. And although, it has firmed up as Henri pointed out, the main issue we had frankly was volume. The volume was significantly below where we wanted and that is 80% and so of the driver of the challenge.

<Q – Michael McConnell>: Okay. And then looking at the graphics business, any way we could get an apples-to-apples comparison between Q4 and Q1? I know there is a limited amount of revenue in Q4. But is there any way we could kind of get an idea what the growth was quarter-to-quarter there?

<A – Henri Richard>: Well I can give you...

<Q – Michael McConnell>: Full quarter to full quarter?

<A – Henri Richard>: I will give you – I mean basically the revenue was slightly down, units was up, and ASP were slightly down. And frankly it's logical, since we are waiting for the launch of our brand new R600 line of products, which will enable us to restore the price positioning in the marketplace.

<Q – Michael McConnell>: Okay. Just on that note, last question and I will go away. The R600 stack coming out in the late May, is that enough time for the window before back-to-school or should we be thinking about this in more for the holiday season?

<A – Henri Richard>: Well, you know, when you think about back-to-school, a large majority of those machines use integrated graphics, so there is very little impact of discrete graphics. And as you know, the launch of the R600 is essentially a discrete graphics launch. Those cores will find their way into integrated chipsets later in the cycle. So, I feel that when you have the right technology, particularly in the enthusiast space, it gets gobbled up pretty quickly and those people don't actually march their purchases based on cycles.

<Q – Michael McConnell>: Okay. Thank you.

Operator: Thank you. Your next question is coming from Sumit Dhanda of Banc of America Securities. Please go ahead.

<Q – Sumit Dhanda>: Yes. Hi, Bob and Hector. I had a couple of questions. Your outlook for the second quarter, up slightly in the face of weak seasonality, but your channel inventory, at least for what your deferred revenue line would suggest, does not seem to have improved. So, can you help us reconcile that discrepancy? And then I had a couple of follow-ups.

<A – Hector de Ruiz>: Henri you have been on top of this channel inventory issues, perhaps you could comment on that business.

<A – Henri Richard>: Yeah, so if you will recall, as we indicated, starting at the end of the second quarter of '06, really into the third and fourth quarter, we ran our business with really depressed channel inventory situations. We were able in the first quarter to restore that, so what you see as an increase is really in absolute just getting back to what we need to have out there to have, as I pointed out, consistency and predictability of supply. I am not concerned whatsoever with our inventory position, either with our channel partners or our key OEMs, to be frank.

<Q – Sumit Dhanda>: The other question I have, I know you talked a little bit, Bob, about restructuring efforts, et cetera, but can you help us understand why the R&D line was up so significantly on a sequential basis for the first quarter?

<A – Robert Rivet>: Yeah. The part you have to remember is we only had nine weeks of the ATI Corporation that we purchased on October 24th in the fourth quarter, so there was an unnatural 9-week to 13-week comparison. And ATI is a very engineering-centric corporation that we purchased. That is what we really wanted in that acquisition, so that is why you saw that line move so much.

<Q – Sumit Dhanda>: Okay. And the last thing in terms of the restructuring, you are in a difficult position, as you pointed out on the call. Your competitor, when it was in the same position last year, took some very aggressive actions but it doesn't seem to suggest anything as aggressive from a head count reduction perspective. So, help us understand why that is not the case, or is this something you are going to flesh out in more detail on the Analyst Day?

<A – Hector de Ruiz>: Well, first of all, let me make sure we put this in perspective. Our hats off to our competitor. They have done a good job in closing the gap in their product line. It took them four years to do it and I think they have done a good job. And I think they were into some difficult challenges and I certainly am sympathetic and understand them. In our case frankly, we had four years of continuously every quarter outperforming our competition, and then to use the analogy of football, we had an undefeated season and lost the first game of the play-offs. Well, we are not going to change dramatically what we were thinking of doing as a result of one lousy quarter. We do have to make adjustments, as Bob pointed out. I think we are going to take advantage of this opportunity to accelerate our performance management culture. That is going to drive some people out. As a result of the further understanding of the integration with ATI, we now have ideas on how to better manage the company and therefore the results are more efficiencies. And when you combine all that between now and the end of the second quarter, we know we are going to have 500 plus people out that will leave the company.

So – now, going beyond that, we have not changed our goals, our objectives, our strategy, our technology plans. Our customers like our roadmaps and to execute those, we need the top talent in our engineering organization, which is really our company. We are an engineering company and we need the best and brightest, which we have, and we intend to execute. And that is the difference.

<Q – Sumit Dhanda>: One final question for you, Dirk, you said 100% of the wafer starts are 65 nanometers. Can you give us a sense of what the proportion is within microprocessors from a shipped product perspective?

<A – Dirk Meyer>: Yeah, I don't think we want to be specific, other than to say it's not – in Q1 it wasn't quite half, and I will remind you that comment was a Fab 36 specific comment relative to the wafer start at 65 nanometers.

<Q – Sumit Dhanda>: And what percent of your 65 nanometer starts are through Fab 36 at this point?

<A – Dirk Meyer>: 100%.

<Q – Sumit Dhanda>: Okay. Thank you.

Operator: Thank you. Your next question is coming from Jim Covello of Goldman Sachs. Please go ahead.

<Q – Jim Covello>: Good afternoon guys, thanks so much. Quick question – the guidance for Q2, does that assume share gain, share loss, or no change in the microprocessor segment?

<A – Henri Richard>: From which quarter, from Q1 or from a year ago?

<Q – Jim Covello>: No, I'm sorry, the sequential guidance of flat to up slightly?

<A – Henri Richard>: By definition, given the guidance of our competition, it means share gain.

<Q – Jim Covello>: Okay, I wasn't sure what the mix was relative to some of the other segments as opposed to pure microprocessor. So you think you will gain share in the second quarter?

<A – Henri Richard>: Yes.

<A – Hector de Ruiz>: Yes.

<Q – Jim Covello>: And what gives you confidence in that after the last couple of quarters?

<A – Henri Richard>: Well, again, if you look at the third and the fourth quarter, despite some of our challenges, we were gaining share. As Hector pointed out, we had a very difficult quarter. But as I also told you, our design win pipeline has never been stronger. And what is selling in the market is one thing. How many systems are your OEM proposing, how many countries are they offering your products in, how many customers are having access to your programs, all of these things are not changing and we are seeing – particularly in the mobile space, we had a 30% year-on-year growth when the competition actually went down. So, we are continuing to see good momentum on design wins and that is why we are expecting that we could have a decent second quarter.

<Q – Jim Covello>: And from a philosophical perspective, maybe you could help us. Obviously as you said, tough quarter. You did not see it coming. Any thought about maybe taking a little bit more conservative approach to the guidance, given it has been a few quarters in a row that you have had some struggles meeting the top line guidance?

<A – Hector de Ruiz>: Believe me, we are not happy with having to miss their numbers. Let me make it clear that we are doing all we can to make sure that on one hand, we are not ridiculously conservative, but on the other hand, although we are pleased to see – to have confidence that we are going to do better in the second quarter, frankly it is increasing share off a really lousy quarter, so I would not put a big flag on top of that and wave it.

So what I would like to point out, because again we have to be careful to put one quarter in perspective, is that we had gained unit share for 14 consecutive quarters, and last quarter, yes, there was a meltdown, we collapsed, we are very upset about it, we understand it, as Dirk pointed out. We know exactly the things that led to the perfect storm. We are going to fix them and we are making progress as we speak. Therefore, from such a lousy beginning, we expect to improve and throughout the year, we expect to improve quarter by quarter.

<Q – Jim Covello>: Okay, and then Bob, depreciation for calendar Q2, can you help us with that?

<A – Robert Rivet>: Sure, depreciation will take another increase, upwards in the tune of 25 to $40 million quarter-on-quarter.

<Q – Jim Covello>: Great, thank you very much.

<A – Mike Haase>: Operator, we are going to take two more questions please.

Operator: Thank you. Your next question is coming from Kevin Rottinghaus of Cleveland Research. Please go ahead.

<Q – Kevin Rottinghaus>: Thank you. Could you help us out with just your thoughts on just general PC demand, and maybe channel inventories of PCs?

<A – Henri Richard>: Yeah, I think that in general, the first quarter was not a great quarter. Particularly, we saw a lot of softness in the enterprise market in North America. By contrast, I think greater China continued to show some robust demand. Overall, I would say not a stellar quarter, and certainly some pockets of heavy pressure, particularly North America and to a lesser degree, Europe.

<Q – Kevin Rottinghaus>: So did you say your enterprise segment grew again in 1Q sequentially?

<A – Henri Richard>: I am sorry, I didn't get that question.

<Q – Kevin Rottinghaus>: Did you say your enterprise segment grew again in 1Q sequentially?

<A – Henri Richard>: No, the answer would be no. Enterprise did not grow.

<Q – Kevin Rottinghaus>: Okay. How about, on the platform wins, you are talking about a very strong pipeline, is that, when does that start to convert into revenues? Is that a 3Q event or how far along are you with that?

<A – Henri Richard>: Yeah, in terms of some of the – we just announced a new series of chipsets. You will start to see platforms based on those chipsets sometime in the third quarter. It is driven mainly by the rapid adoption of HD standards in a lot of the consumer devices and it is widely known that with ATI we have a very strong position in the video space, and so we are seeing a lot of success with that particular aspect of what this platform offers.

<Q – Kevin Rottinghaus>: On the core PC side, is that – should we expect acceleration in that business in 3Q based upon platformization starting to take off or when should that really start to hit?

<A – Henri Richard>: Well you know, you have to remember that in that particular segment of our business we have two contradicting trends. We obviously are increasing our business on AMD platforms but we also have some Intel business that will continue to ramp down. So it's difficult for me to predict exactly how those two are going to gel into a total.

<Q – Kevin Rottinghaus>: Okay. And then just lastly I know there are still OEMs you are not working with currently, particularly on the notebook side. Anything you could tell us there as far as traction you've gained or any expectations you might have for this year as far as new OEMs or new platform additions?

<A – Henri Richard>: No, other than repeating what Dirk said in his statements, which is we have an increased focus of continuing to not only deepen our relationship with existing customer but also create new relationships.

<Q – Kevin Rottinghaus>: Thank you.

Operator: Thank you. Your final question is coming from Gurinder Kalra of Bear Stearns. Please go ahead.

<Q – Gurinder Kalra>: Hi, just a question on your R600 launch. Can you just provide us more details in terms of the timing, whether it will be a hard launch or a soft launch? How much product do you expect to have? And in what categories, I mean would that be a performance product or a performance main stream product?

<A – Henri Richard>: Well we are going to announce those products in the second part of May. The location has been fixed. It's a series of 10 products covering the entire stack with DX10 capabilities, leading-edge performance, and more importantly, a solution that works with little qualified drivers.

<Q – Gurinder Kalra>: And would you expect to have sufficient quantities of product available at the launch?

<A – Henri Richard>: Absolutely, we don't do soft launches.

<Q – Gurinder Kalra>: All right, thank you.

Operator: Thank you. I would like to turn the floor back to Mr. Mike Haase for any closing comments. Please go ahead sir.

Michael Haase, Director, Investor Relations

No, thank you very much for participating on the call today.

Operator: Thank you. This concludes Advanced Micro Devices, Inc. first quarter earnings conference call. You may now disconnect your lines at this time and have a wonderful evening.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jeannie and I will be your conference operator today. At this time, I would like to welcome everyone to the Advanced Micro Devices Inc. Fourth Quarter 2006 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a Question and Answer period. [Operator Instructions].

Thank you. It is now with great pleasure to turn the floor over to your host, Mr. Mike Haase. Sir, you may begin your conference.

Michael Haase, Director, Investor Relations

Thank you, and welcome to AMD's Fourth Quarter 2006 Earnings Conference Call. Our participants today are Hector Ruiz, our Chairman and CEO; Dirk Meyer, our President and COO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at AMD.com. The telephone replay number is 877-519-4471. Outside of the United States, the number is: 973-341-3080. The access code for both is 8264808. Telephone replay will be available for the next 10 days starting later tonight. In addition, I would like to call to your attention that our Q1 2007 earnings quiet time will begin at the close of business Friday, March 16th. Before I begin today's call, I would also like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements.

The semiconductor industry is generally volatile, and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from those in our forward-looking statements. You'll find detailed discussions in our most recent SEC filings, including AMD's annual report on Form 10-K for the year ended December 25th, 2005 and AMD's quarterly report on Form 10-Q for the quarter ended October 1st, 2006.

With that, I'll turn the call over to Bob Rivet.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks Mike. Good afternoon. First I would like to point out that as a result of AMD's acquisition of ATI, fourth quarter financials include results from the former ATI operation beginning October 25th, 2006. Because comparison of the fourth quarter consolidated financial results to previous periods do not correlate directly, AMD has provided non-GAAP financial information for historical AMD in our press release. Management believes this non-GAAP presentation will aid investors by presenting current and historical results in a comparable format.

In addition, financial comparisons to 2005 do not include the results from our former memory product segment.

Let's start. AMD's revenue in the fourth quarter of 2006 was $1.77 billion including approximately $50 million in royalty and patent license revenue.

Loss per share for the fourth quarter was $1.08. This includes 550 million or $1.04 per share from ATI acquisition-related and integration charges. From here forward, I will report [sic, refer] to them as ARC charges, and another 27 million or $0.05 per share from employee stock based compensation expense.

Fourth quarter operating profits were $50 million excluding ARC charges and stock based compensation expense. Fourth quarter 2006 gross margin was 40%, excluding ARC charges and stock based compensation expense, compared to 52% in the third quarter of 2006. The decrease from the prior quarter was largely due to significantly lower server processor ASPs and the inclusion of ATI operations.

AMD historical business generated revenue of $1.37 billion, up 2% from the fourth quarter of 2005 and up 3% from the third quarter of 2006. Operating income for the period was $63 million compared to $142 million in the third quarter.

Now I'll switch to the business segments. Computation Product revenue was $1.34 billion, up 3% from the prior quarter, and units increased by 19% sequentially. Our mobile and desktop processor sales were strong, and we believe we gained unit share. Mobile unit shipments and revenue increased 41% sequentially. Desktop processor unit shipments increased 14% and revenue 8% sequentially. The drop in desktop ASPs were driven primarily by a shift in customer mix. Server processor unit shipments were essentially flat quarter-over-quarter, and ASPs declined significantly. Operating income for Computation Products was $73 million.

For the former ATI operation segments, revenue for the period October 25th through December 31, 2006, or 68 days of the fourth quarter, totaled $398 million, at the high end of our guidance. Revenue in the Graphics and Chipsets segment was $278 million with an operating loss of $33 million. The Consumer Electronics segment achieved revenue of $120 million and an operating income of $20 million.

Now, I will turn to the balance sheet. After completing the acquisition of ATI through a combination of cash, debt and stock, we ended the quarter with a cash balance of $1.5 billion. Total debt of $3.8 billion includes $2.2 billion associated with the ATI acquisition.

Total inventory of $814 million includes $314 million from former ATI operations. Inventory for the historical AMD business increased $34 million as we continued to ramp Fab 36, 65-nanometer products. And fourth quarter capital expenditures were $668 million.

As I laid out at our Analyst Day last month, in the fourth quarter, AMD's reported segments include Computation Products, Embedded Products, Graphics and Chipsets, and Consumer Electronics. Beginning in our first quarter of 2007, we will report three business segments: Computing Solutions, which will include Microprocessors, Chipsets, and Embedded Products, Graphic Solutions, and Consumer Electronic Solutions.

Now let's turn to the outlook. AMD's outlook statement for the first quarter are based on current expectations. The following statements are forward-looking and actual results could differ materially from our current expectations.

Because the first quarter will be our first full quarter including the former ATI businesses, we are providing you ranges for revenue and operating expenses for the period. In the seasonally down first quarter, AMD expects revenue to be in the range of 1.6 to $1.7 billion. Operating expenses, which include R&D and SG&A, will be in the range of $710 million to $760 million. Employee stock based compensation expense in the first quarter is expected to be approximately $32 million at the current share price. And first quarter ARC charges will be approximately $120 million, of which $30 million will be cost of sales.

In summary, 2006 was a very good year. We made significant strides in taking additional market share in our Computation Products business and our customers are responding positively to the acquisition of ATI.

With that I will turn it over to Dirk.

Dirk Meyer, President and Chief Operating Officer

Thank you, Bob. We are not satisfied with our financial performance in Q4 and we need to improve our results in the future. But it is important to acknowledge the strategic success that 2006 represented for AMD. We gained processor share in every quarter, finishing the year with another record quarter for unit shipments. Compared to 2005 we grew our annual processor unit shipments 135% in our server business, 78% in our mobile business and 35% overall. Clearly, the marketplace demands choice.

We make good progress in our customer acquisition strategy. In greater China, Founder and Tongfang chose to became AMD customers, and Lenovo expanded their business with us. IBM expanded their AMD-based platform portfolio. HP broadened their business with us and Dell began shipping AMD-based server, desktop and mobile products.

All of this great progress in the marketplace has allowed us to fund some new investments, one of which was our acquisition of ATI Technologies. We closed the deal in Q4 and the integration is already largely behind us. This new company has phenomenal assets. We have assembled world-class talent in every discipline and the acquisition adds 5000 great people spanning every major area of the business. We have a portfolio of customers and partners that place us at the confluence of the computing and consumer electronics industries, all looking to AMD to support them as a customer-centric processing powerhouse and strategic partner.

We have technology leadership in key product areas; x86 CPUs and associated chipsets, graphics and video processing. We have world-class manufacturing capability and a flex-fab strategy designed to serve the desires of our customers as well as our shareholders. Looking forward, our priorities are simple: to acquire new customers, to serve our current customers increasingly well and to provide long-term value to our shareholders. Understanding what it takes to satisfy our customers is pretty simple. They want good products, delivered in volume at the time and the place they need them.

On the product side, as evidenced by our continued share gains, our customers like the products we are shipping to them today. But they are even more excited about the opportunities presented in our roadmap. Our improved x86 architecture and the family of products which it is based, such as Barcelona – our quad-core offering in the server space – will introduce new levels of performance and power efficiency. Likewise, our GPU technology provides the ultimate Vista experience today. And the R600 family, our next-generation graphics engine, will delight customers and end users worldwide. On the supply side, we will continue to ramp our capacity by building out assets like Fab 36 and by converting Fab 30 to a 300 millimeter toolset. We will complete our conversion to 65-nanometer technology this year and lay the groundwork for a transition to 45 nanometers in the first half of next year. At the same time, we will continue to optimize our supply chain to give customers what they want when they want it.

We need to improve our financial performance relative to what we delivered in Q4. We will do so by delivering improved products, lowering our manufacturing costs, increasing our operating efficiencies across all disciplines, and continuing to grow share. As we look back at the last few years, we feel we have made great progress. The assets we have assembled and our plans to use them with and for our customers together make for a very bright future.

And with that, I would like to turn it over to Hector for some closing remarks.

Hector de J. Ruiz, Ph.D., Chairman and Chief Executive Officer

Thank you, Dirk. You know, I normally read from my prepared script in this conference, and this time, I'm not going to do that, I'm going to talk to you from the gut. And what I want to tell you is a little bit of history and putting into context that I believe will show you why I am incredibly optimistic and excited about the future of this company, more than I have been in the seven years that I have been with this company.

First of all, we made a decision a few years back to really base everything we do in the mantra of our company that we call customer-centric innovation. We started that journey when we launched Opteron in early 2003. And the elegance of that product was in its simplicity, a direct connect architecture that today continues to serve our customers extremely well, and an extension to 64-bit of the x86 instruction set, which was exactly what customers in the market really wanted.

That allows us to go at the most difficult part of the industry in trying to establish credibility and confidence in our team to be able to deliver to them the kind of products and technology they needed. That was very successful. As a matter of fact, we went from being almost nowhere in the server enterprise space to finishing 2006 with approximately a share number in the mid 20s. We believe that is quite an accomplishment. And that credibility that we've built and the confidence that customers began to have in us also led us to an expansion of our business with them in the client space, and that opportunity opened up for us a huge window through which we could acquire customers, and we embarked on a customer acquisition strategy that today continues.

As Dirk pointed out, we were able to convince customers such as IBM, Sun, HP and others, and eventually Dell to really adopt our technologies across the board. And for three consecutive years, we have grown market share from growing in the mid teens back three years ago to end in 2006 also in the 20s.

This strategy turned out to be pretty simple. All it meant is that we had to focus on innovation that was truly relevant to our customers, the marketplace and the industry. And in doing so, we came up with customer specific metrics, customer specific products and customer specific technologies. Some of the example of this is the tremendous opportunity we saw in the large urban data centers when their consumption of power was increasing at a non-sustainable pace. That opportunity allowed us to redefine the data centers value proposition and turn into being just from raw performance, to performance per watt, and [inaudible] upturn and direct connect architecture establish a leadership position. And just as an example of customer specific products, we used this wonderful architecture to also address a very unique space of the enthusiastic gaming community and our technology led us to the creation of a family of products that we would refer to as FX. And that technology and those products has been so successful for several years that it allowed us in the fourth quarter of last year to ship a record number of FX products into that segment.

We also had customer-centric technologies because we recognize that the industry's addiction to single-core clock frequency was something that was past due and that we had to introduce the industry and our customers to a new way of looking at how to innovate by looking at workflow in application-specific performance, and therefore we introduced the first ever dual-core server product into the marketplace on x86 instructions. I have to say that that was such a major change in the industry that the competition has followed suit and created also their own extension to x86 and their own multi-core technology roadmaps. But it's more than just about core. It really is about mapping technology to specific usages. For example, GPGPU, Torrenza and Fusion, those are the technologies that you have heard us talk about in our Analyst Day. And by now, you can see how beautiful the ATI acquisition fits in our long-term strategy.

We see the opportunity to exploit Moore's Laws in a very intelligent fashion, by focusing on what's relevant to our customers, and because of the acquisition of the ATI cadre of people, technology and products, we are the only company that is positioned to truly be able to deliver on this.

And as I said before, it is more than just about core. It is true that Moore's Law 1806 is allowing some people to claim that putting 64 cores or even 128 cores on one piece of silicon can be the future of this industry. I'd bear [sic; beg] to differ. As a matter of fact, I think those products and technologies are going to find the rightful place in the pantheon where Pentium 4 at 10-gigahertz lies.

Our customer-centric innovation strategy is working. And the ATI acquisition is a phenomenal asset that's going to allow us to take it to another level. And as we said in our analyst meeting, we are really intently focusing on continuing to drive energy-efficient leadership in computing, to delivering the ultimate visual experience and to enable affordable internet usage across the world.

The demand for our technology is greater than our current share of the business. And largely the limiting factor has been the monopoly behavior that's been abusive by our competition. Our customers want us to win and increase the share of their business. They like choice and demand more choice and they want us to have the capacity to offer that choice and continue to offer the kind of innovation that we have provided, and of course to help drive growth. They are demanding that we fight for share and we will. So, we will continue to expand our capacity to response to this customer need.

You know, the interesting thing is that in doing these things that I just talked about we've actually forced the competition to become more efficient. But in doing so, it makes us realize that we have to raise our efficiency to a higher level. So, we are focusing a flawless execution on completing our 65-nanometer transition by this summer, and we are looking at accelerating 45-nanometer and closing the gap with our competitor. We will carefully manage costs but we also believe that we are going to have to tweak our business model because we believe we have to achieve prosperity in an environment where pricing competition is going to be tougher than perhaps we had originally planned. We will do whatever it takes to continue in our path to deliver customer-centric innovation this year and beyond.

You know, after all we have been, are and will continue to be the company that offers the best value proposition to our customers. We will accomplish this by continuing to attract and retain the best and brightest people in the industry, and by having our now 15,000 or so AMDers intensely focused on customer-centric innovation. We thank our employees. Now, let me turn it back to Mike for a Q&A.

Michael Haase, Director, Investor Relations

Thanks, Hector. Operator, let's start the polling process for Q&A please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question is coming from Uche Orji of UBS New York [UBS Warburg]. Please go ahead.

<Q – Uche Orji>: Hello, can you hear me?

<A>: Sure.

<Q – Uche Orji>: Yes, just a couple of questions. First of all, for Bob. If I look at the gross margin you reported this quarter, can you just give us an idea how to think about gross margin for next year, and if you can also tell us what that means for your cash flow given that you gave us a guidance of negative $500 million free cash flow for 2007 at the Analyst Day.

<A – Robert Rivet>: Sure. First, I would like to start to answer that question. Everything we talked about at the Analyst Day, we still truly believe. So, I mean there is no backing off of that from that perspective. So, a lot of the guidance I gave at the Analyst Day, we are still trying to execute as we begin this year. So, the 50% gross margin, plus or minus a few, is still our goal for 2007. As we talked about, that will take a while to get there, as we integrate the ATI operation and adjust accordingly. And as we transition in our microprocessor business to full 65-nanometer, fill up the factory, we will continue to show improvement in our cost structure to improve our gross margin. We also see improvement in our mix of products. So, we are not backing off anything we talked to you about at the conference with the maniacal focus as Hector said of even maybe turning up the notches, a couple more notches in cost reduction efforts to make sure that we can achieve those targets.

<Q – Uche Orji>: All right.

<A – Robert Rivet>: From a cash flow perspective, the same thing. We are still going to spend $2.5 billion on capital expenditures this year to increase our capacity based on our, what our customers are telling us they want us to do. That will generate a negative cash flow, but as you can see from the balance sheet, we are prepared for that.

<Q – Uche Orji>: Right. Just one more question. Given that you are getting a full quarter of API, is it possible for you to kind of give us more color on the revenue guidance for Q1; given – we had just basically two months of ATI in Q4 and now we have a full quarter. It's a bit hard for me to reconcile where – what ATI is going to do next quarter and how – what that means also for AMD core business?

<A – Hector Ruiz>: This is Hector.

<Q – Uche Orji>: Yeah.

<A – Hector Ruiz>: First of all, the ATI business is, when you look at it from the perspective of the customers, they are customers that are heavily involved in the Consumer Electronics business.

<Q – Uche Orji>: Sure.

<A – Hector Ruiz>: Digital television, handsets, et cetera. And – in that – from that perspective, their strongest quarter that ATI normally has is the fourth quarter that we just finished. And so looking at that fourth quarter and trying to do some extrapolation and analysis for the first quarter frankly becomes very difficult, because historically, the first quarter is their weakest quarter those particular segments also have. So, we've done the best we can in trying to anticipate how we think the first quarter might look. Frankly, we are getting mixed signals from our customers both in the Consumer Electronics space as well as the PC space. The market seems to be a little uncertain, the uncertainty around Vista is still there even though we are very, very bullish on what Vista is going to do for the whole year, but the first quarter impact is rather questionable. And the other piece is that pricing is incredibly challenging. We expect it to be for at least all of the year, and, but in particularly for the first half of the year. When you combine all of that, we are taking a very cautious approach in the first quarter.

<Q – Uche Orji>: Now, this is kind of slightly different from what you said at the Analyst Day about the benign pricing scenario. In our assumption, should we then assume that ASPs will be down for 2007?

<A – Hector Ruiz>: No. As Bob pointed out, there are a number of things occurring. One of them is our product mix continues to move to spaces in which we did not participate before, and these are particularly the client commercial space. The Consumer Electronics business has got a lot of potential and we believe it has a phenomenal opportunity to grow at decent margins. Also, the….

<A>: Mobile, conversion to mobiles…

<A – Hector Ruiz>: The commercial, the momentum to convert to mobile continues. We believe that what occurred in the fourth quarter will continue throughout 2007. And when you combine all those things, we believe that we still have the opportunity to be slightly up in ASPs in 2007.

<Q – Uche Orji>: Okay. And finally can you just remind us of the timing of the delivery of the R600 products from ATI?

<A – Henri Richard>: Yeah, this is Henri. We are still planning to bring to market the R600 product in the first quarter.

<Q – Uche Orji>: Okay, thank you very much.

Operator: Thank you. Your next question is coming from Adam Parker of Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: Hi, I just have two questions or two general areas here. One Hector, your customers, or Bob, I guess, either one. Can your customers are telling you to spend CapEx, I mean, how will you know when you are at the point that customers just want you to add capacity to create excess? I mean are they really ever going to tell you to stop adding capacity?

<A – Robert Rivet>: I certainly understand why you asked that question Adam, but I think what our customers are asking us is that they want to increase their share of the business that they do at AMD. They are not necessarily just saying capacity period. They want an AMD portfolio that is expanding. And as we've mentioned earlier that we've been on a customer acquisition strategy for quite some time, but we are not through it. As a matter of fact, we still have major customers around the world that have yet to buy the phenomenal value that AMD offers, so we still even other customers yet to acquire. So we believe that these customers, what they're telling us is, we want to increase the share of our business with you, we want to buy more products from you. It is good for us, it's good for the industry, it's good for our customers. And I think we are a long way from ever being able to see a scenario where we think we should back off.

<Q – Adam Parker>: All right. Maybe just then the default for the question related to that would be on the server business. I mean it seems pretty clear at least for the last two quarters that Intel has gained a lot of revenue share in server, and their pricings are way up and yours is way down. To what do you attribute that, how can you remedy it? What's your sales picture in the 1- and 2-way 2823 server space? Can you help at all with that? Because I think the surprise here is just, relative to 6 months ago, is how your server ASPs have trended versus Intel's in the second half of '06.

<A – Henri Richard>: Adam, this is Henri. Well, first I would like to remind you that our ASPs in the server space were higher than Intel's. So, there was a correction, certainly as they came with a more competitive product. Secondly, it's clear that, particularly in the fourth quarter, the competition became very severe in the last month. As you know, it's an entry price-driven business; some of the deals are back-end loaded. And there was a lot of headwinds in terms of closing some of the large businesses that were out there. Coupled with the fact that we had some new product introductions that frankly were not executed by the customers as well as we expected, and the fact that we will introduce a new architecture next year and some customers are waiting for that to….

<Q – Adam Parker>: Next year you said….

<A – Henri Richard>: We mean this year. Sorry. And some customers are waiting to see what sort of performance improvements they are going to see from that introduction.

<Q – Adam Parker>: So, you do expect this trend to last at least one more quarter in server, is that fair or…

<A>: I think that as we stated at the analyst meeting, we expect the first half of the year to be extremely competitive. Now, yes you pointed out there are segments where we have opportunities to grow. I mean clearly, we still have a, in a lot of the markets outside the Europe and the US, a growth opportunity in the traditional server space, we have a very little footprint in the 1P server space. So, we have some opportunity to grow, but we expect the environment to be extremely competitive, and just clearly a targeted action from the competition on that segment.

<Q – Adam Parker>: Henri, what's the sales pitch in the first half of the year in the 1-way server space?

<A – Henri Richard>: Best value in the industry.

<Q – Adam Parker>: All right, I'll leave you guys alone. Thanks.

Operator: Thank you. Your next question comes from Mark Edelstone of Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Thanks guys, couple of questions, first on, there is obviously some of the charges that you are taking for ATI that were pulled out of non-GAAP gross margin, so I just wanted to get the review of that if I could in terms of what of the charges listed there are actually being pulled out to come to that 40% number?

<A – Robert Rivet>: Sure, Mark. It's the $62 million we highlighted, which is part of the acquisition-related charges associated with the gross up you need to do in inventory for GAAP. That will burn off over the fourth quarter and first quarter as the $30 million I just talked about in the – in my script a little bit a while ago.

<Q – Mark Edelstone>: So 60 okay, and then the other 72 million in the…

<A>: So 62 and the 430 and the…

<Q – Mark Edelstone>: ...charges that you have for amortization and integration charges, where are those showing up in the P&L?

<A – Robert Rivet>: They're all in a separate line item. The rest are all in a separate line item as you see in the P&L just before operating income.

<Q – Mark Edelstone>: Okay, got it, perfect. Then can you just walk us through maybe Henri or Hector what type of decline you saw in server ASPs in the quarter, and then also what type of decline you might have seen in the PC client side of the business as well?

<A – Hector Ruiz>: Henri will comment on the server piece. We did not see any major shift in the desktop client pricing. We actually saw a marked improvement in the mobile space. So, all of our issues with pricing were related to the server segment. We, as Henri pointed out, it was a very competitive scenario, we expect it to continue to be, we are making plans to adjust to that for at least the first two quarters of the year. And as Henri also pointed out, we think that will also begin to change as we introduce our new architecture in the summer.

<Q – Mark Edelstone>: And Henri then what was the actual decline you saw in server ASPs?

<A – Henri Richard>: I am not going to there, Mark, but I'll add something to what Hector described which is, we did start a strategy, we have an architectural advantage in four socket servers. And it's also a direct plug in of our new technology in those four socket environments. So, we have a, we have an aggressive commercial strategy to move a certain portion of the market that's been impaired until now by both hardware cost and software licensing cost to move from 2P to 4P. And some of the ASP decline is related to that strategy of moving the market to four socket systems.

<Q – Mark Edelstone>: Okay, maybe just one last final question on the environment, again either for Hector or Henri. Hector, you sort of talked about some of the near term uncertainties in the PC market, but maybe just give sort of your broad sense of how you think the health of the market looks right now especially coming off of 19% sequential unit growth for you in Q4, maybe some thoughts on how inventories look out there in the broad marketplace of your products?

<A – Hector Ruiz>: I will make a general comment Mark that we are frankly, unit-wise, we are quite bullish about 2007. I acknowledge that there are a number of reasons why the first quarter is a little whacky, but 2007 to us looks very healthy. We actually, we truly believe and as we have had our own experiences ourselves, that Vista will provide impetus to unit demand in 2007 and beyond. We think it's going to be a great innovation that will bring a lot of value to the marketplace. We see an expansion of PCs in spaces where we are beginning to see a, 2007 will be the beginning of that to start to occur. An example of that is, we believe that this year will be the first time that our 50x15 initiative will actually ship several million pieces in 2007. And so all in all from unit perspective we feel pretty bullish.

<A – Henri Richard>: And if I may add just on the question on inventory. Mark as you know we were lower than we would have liked in terms of channel inventory in the third and fourth quarter. We were able to restore that the very end of the fourth quarter in order to position ourselves in a much better velocity for the first quarter. But at the same time, we also took a prudent approach to the channel inventory in the Graphics business where we think that there is modeled improvement that we intend to execute in the first and second quarter of '07.

<A>: Thanks a lot guys.

Operator: And your next question comes from Tim Luke of Lehman Brothers. Please go ahead.

<Q – Timothy Luke>: Thanks very much and for Bob. With the sequentially lower revenue guidance that you provided, we should be thinking about the gross margin moving sequentially lower before improving through the year, is that the right framework?

<A – Robert Rivet>: No, I think you have that backwards. Even though revenue, we are guiding to be lower than fourth quarter, with the improvement of 65-nanometer, more of that output continuing to come on board, servicing the channel as Henri just talked about a minute ago, we believe gross margins will actually improve quarter-on-quarter, in particular in the microprocessor business. And we also believe so in the former ATI businesses too as we continue to execute the game plans there.

<Q – Timothy Luke>: So, how about, do you have a framework for sort of think about the basis point degree we should think about improvement?

<A – Robert Rivet>: Probably not ready to give that kind of guidance. I just would say it will improve from the current level.

<Q – Timothy Luke>: And just a clarification on the tax rate we should be thinking about.

<A – Robert Rivet>: Still holding to the guidance I gave at the analyst conference, which we are working desperately to figure out how to lower that guidance, but at this point, the guidance is unchanged. It will be a little choppy of course. But, so unchanged at this point.

<Q – Timothy Luke>: Some of the market maybe for Henri, just to follow-up on Mark's question, with respect to units in the first quarter, could you give us some sense of how you have historically seen the seasonality, and obviously, Hector was talking about a little bit of uncertainty in the first quarter as to how you think it would compare to normal seasonality in terms of the units, given what seems to have been for you a pretty descent unit number in the fourth quarter, thank you.

<A – Henri Richard>: Yeah. Tim, I will place your question in the context of microprocessor right?

<Q – Timothy Luke>: Yeah, yeah. Okay.

<A – Henri Richard>: So, typically the seasonality in the first quarter is down about 4% at the midpoint.

<Q – Timothy Luke>: Yeah.

<A – Dirk Meyer>: And I think that one of the factors that I want to underline that Hector mentioned is that, there is a certain amount of added uncertainty with regards to Vista – its rapid adoption, any problem at launch, how will it affect inventories, and so that's another factor that makes the first quarter a little more complex than I would say the average first quarter, because Microsoft doesn't launch any operating system every other year. So, that's the guidance I can give you. I think we're going to have a seasonal quarter from that perspective, but there is certain uncertainties in the marketplace in terms of the impact of Vista and how will it drive consumer behaviors.

<Q – Timothy Luke>: Okay. I would say that the notebook ASP was up actually, can you say that – can you just clarify what that the desktop ASP did?

<A – Dirk Meyer>: Well, the mobile ASP was slightly up and the desktop ASP was slightly down.

<Q – Timothy Luke>: Thank you.

<A – Dirk Meyer>: but marginal.

<Q – Timothy Luke>: Thanks very much.

Operator: Thank you. Your next question comes from Michael Masdea of Credit Suisse. Please go ahead.

<Q – Michael Masdea>: Yeah, thanks a lot. I just want to ask you, your competitor seems to be talking a lot about using a strategy of basically offering more silicon, more cores at the same prices of prior generation. Is that fundamentally something that's got to change before you can sort of drive your profitability or are there other ways to get around that?

<A – Dirk Meyer>: Yeah. It's Dirk here. I don't know what you mean by "got to change," but if you look at what's happening in the marketplace, it's similar to what's always happened in our business; that is to say new features, new capabilities get introduced at the top of the price stack and slowly over time get rolled down the price stack, and that's in fact what you see with dual-core. And that's what we've been doing, that's what the competition is doing. So, from that perspective, nothing new.

<Q – Michael Masdea>: Maybe another way to ask, what do you – what steps are you taking to drive that mix? What should we – from a tangible perspective look for, what do you do in the enterprise side and what else are you doing to really improve the mix over the course of the next year and a half?

<A – Dirk Meyer>: Yeah, improve the mix is again a funny one. I mean, just for reference, the dual-core mix in our product line in Q4 was roughly about a third. And we've got an opportunity to accelerate that as a percentage of our overall product line going forward probably more rapidly than the product gets pushed down the price stack as we go to an increasing fraction of 300 millimeter manufacturing and 65-nanometer technology. So, I actually think that increased dual-core mix for us represents an ASP and margin upside in the near term.

<Q – Michael Masdea>: Got it, and then any update on the legal front that we should be looking out for – any timing in terms of the various legal actions that have been going against Intel from your perspective?

<A – Hector Ruiz>: No, other than to repeat that we are in discovery. We are continuing to – the process continues; it's slow, but we continue to be very confident of where we want to go and that the outcome will be very positive for us.

<Q – Michael Masdea>: Got it, thank you.

Operator: Thank you. Your next question comes from David Wong of AG Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. In terms of your attitude to the pricing environment, do you anticipate that you will have to take pricing actions to maintain market share, or are you saying that you are going to be focused on profitability, and therefore you'll back away from taking a lot of pricing action?

<A – Hector Ruiz>: There is no backing away from anything. We are committed to serving our customers. Our customers want our product, and we will fight hard to continue to provide them the opportunity to enjoy AMD technology.

<Q – David Wong>: And related to that, have there in the recent quarters been any special initial pricings you've given to big customers to capture initial business that might help you in pricing going forward, once the initial pricing agreements sort of pass by?

<A – Hector Ruiz>: We can't comment on specific agreements. On the general comment, I would like Henri to comment on that, but on specific by customer, we can't.

<A – Henri Richard>: No, I would just like to reiterate what Dirk said, which is we have an opportunity in terms of increasing our dual-core mix as a percentage of total, we can accelerate that. That will help ASPs. And also, we have had a certain number of strategic customer acquisitions through the year, which probably brought our channel business to a lower percentage than it's historically been, and we have an opportunity to grow our channel business. So those are two positives in the overall environment.

<Q – David Wong>: Right, fine. A final question, will you bring out quad-core servers first or quad-core desktops?

<A – Henri Richard>: Servers.

<Q – David Wong>: Thanks very much.

Operator: Okay, your next question comes from Joanne Feeney of FTN Midwest. Please go ahead.

<Q – Joanne Feeney>: Good afternoon, folks. Couple of questions if I could, please, following up on the last one, really, about the servers and the quad-core. There are certainly a lot of questions about the potential for AMD to reacquire the performance lead. I know there are some disputes about whether that lead exists currently, but let's suppose that in a number of applications your competitor does have a performance lead. And we are all looking to see whether Barcelona and the follow-ons will enable you to recapture that performance lead, in enough of a degree really to offset the marketing push of your competitor. I suppose, since you are reluctant to give away a lot of details on the roadmap, understandably, perhaps you could shed some light on what you think your OEMs would say about your potential in that regard?

<A – Hector Ruiz>: Well, I don't want to speak for our OEMs, and of course you know who they are, so I encourage you to ask them. However, based on what we know about our product and everything we understand about our competitor's roadmap, from all sources, we are very bullish that when we introduce our native quad-core in the middle of the year, we'll capture, definitively, the performance and performance per watt crown. And, by the way, do so in a way that doesn't require new platform investments on the part of our OEM customers. The platforms are there today.

<Q – Joanne Feeney>: Then, if I could follow up sort of separately on the cash and financing situation, perhaps for you, Bob. Obviously 2.5 billion of CapEx is a pretty big number, and given this past quarter's higher than expected cost, lower than expected ASPs, and next quarter's sort of muted outlook, I guess one might be a bit more concerned about the cash flow implications over the year. And I think we are all wondering whether you will feel the need to go back and do some more financing, really, to help you get through this rather large capital expenditure over the next year.

<A – Robert Rivet>: Well, Joanne, as I have said before, I have kind of outlined our process to fund the corporation and the appropriate investments, starting with cash flow from operations, monetizing the Spansion investment and monetizing the tools in Dresden, Germany at the 200-millimeter level. We think that will be sufficient to keep the appropriate cash balance levels and fund the capital expenditures. In addition, as I also pointed out, there is grant money associated with spending that $2.5 billion we will collect also.

So we still feel pretty comfortable with our game plan. Clearly, my job is to make sure we have got the appropriate funds to execute the strategies of – whether it's additional customer acquisition, design teams, or capital.

<Q – Joanne Feeney>: Is the grant money you just referred to from strictly Dresden, or does it also include some of the New York State incentives?

<A – Robert Rivet>: Just Dresden – just from Europe and Dresden.

<Q – Joanne Feeney>: And so I suppose we might, if we were to look at a contingency of, if, say, operating cash flow did not materialize in Q1 and Q2, then we might be – anticipate a situation where you would need to go do some financing?

<A – Robert Rivet>: I am not going to speculate with you on that. Like I said, we have a good game plan.

<Q – Joanne Feeney>: Okay, thanks, Bob.

Operator: Thank you. Your next question comes from Glen Yeung of Citigroup. Please go ahead.

<Q – Glen Yeung>: Thanks. When we look out into the first quarter, you've talked about a – what you characterize as still a competitive environment. In that statement, are you expecting incremental pressure on server pricing or do you think it's going to stay down where it is?

<A – Hector Ruiz>: It's very difficult for me to speculate on what the competition is going to do. But it's going to remain a very competitive environment, and I won't give you any more guidance than that.

<Q – Glen Yeung>: Okay. How about on desktop and notebook, inasmuch as, clearly you are going to see some benefit here from a mix shift towards more dual-core. Within that sort of outlook, how about sort of part-for-part pricing in the first half or in the first quarter? Can you comment on that?

<A – Henri Richard>: Yeah, I think, there is, to elaborate a little bit on what Dirk was saying, there is a bifurcation, from my perspective in our market, where the server market is going to continue to be driven by introducing new features, faster better processors in a very traditional way. But I think in the client space, Vista is introducing a lot more of a platform and balanced performance opportunity. So, think of what the best platform is, maybe in the past was whatever the best processor was, it's not going to be true anymore. And as such, I think AMD is uniquely positioned to provide customer with great value proposition around the portfolio of products that enable them to first differentiate in the marketplace and second bring the best user experience.

<Q – Glen Yeung>: When we look at the bundled solutions that we could see from various vendors and we think about how that bundling – I mean, the pricing looks pretty attractive – how that impacts AMD. Is that actually good margins for you to bundle that way, if you were to sort of collectivize all those parts?

<A – Henri Richard>: Yeah, we are not, we are not planning to do any bundling, but we are obviously offering some synergies simply because it's a lower cost of engagement for an OEM to look at a complete platform.

<Q – Glen Yeung>: Right, okay, that makes sense. Okay, just one more last question, which is I think I heard somebody mention that, second half '07, no, first half '07, obviously a competitive environment, but somebody that second half '07 may be not quite as competitive. And I think you were alluding to the fact that you'll have different parts to be competitive with in the second half of the year. Wanted to just confirm that that's an accurate read. And secondly, is that to suggest that if you just – if you have a better part ,you feel like that may ease some of the concerns that we are facing in the first half?

<A – Dirk Meyer>: Yeah, it's Dirk here. I would certainly say that what you say is true in parts of the markets we participate in, and in particular in server, as Henri said, where it's still much more of a CPU-centric performance buy in some of the server segments. And clearly, relative to product technology, we've got good products as evidenced by our share gains. At the bleeding edge, there is an ebb and flow back and forth as to who has the best in any given quarter, so that's driving some of our statements about the back half of the year.

<Q – Glen Yeung>: Okay. That makes sense. Thanks, I appreciate it.

Operator: And your next question comes from Chris Danely of JP Morgan. Please go ahead.

<Q – Christopher Danely>: Okay, thanks guys. Just a few quick housekeeping items. What – have you given out a depreciation target for '07?

<A – Robert Rivet>: Yes, I did at the conference. I will reiterate it – 1.3 billion for '07.

<Q – Christopher Danely>: Okay. And then can you give us a sense of what percent of revenues were ascribed to server, desktop, and laptop in Q4?

<A – Robert Rivet>: No, we don't give that kind of granularity.

<Q – Christopher Danely>: That's fine. How about a breakout of AMD versus ATI gross margins in Q4 and what you expect for Q1?

<A – Robert Rivet>: No, I am not breaking those out either, but I did, in the press release, at least, try to get you to a true operating-type-level gross margin for the company.

<Q – Christopher Danely>: Yeah, that's fine. And so, if depreciation is going up and pricing is going to remain competitive, do you expect gross margins to go up by switching to 65-nanometer, and also a mix – is that how we should look at it?

<A – Robert Rivet>: That's correct.

<Q – Christopher Danely>: Okay, thanks.

Operator: Thank you. Your next question comes from Jim Covello of Goldman Sachs. Please go ahead.

<Q – James Covello>: Thanks very much. First question, does the OpEx guidance that you gave include or exclude those restructuring charges you were talking about?

<A – Robert Rivet>: Exclude.

<Q – James Covello>: Okay. So the 710 to 760 excludes the 120 million, or whatever, 90 million in restructuring charges.

<A – Robert Rivet>: Yeah. It excludes, just to be perfectly clear, it excludes stock option expense and it excludes the ARC charges I talked about.

<Q – James Covello>: Great, thanks. And then second question, and I hate to be so theoretical, but I think it's kind of important. Seems like your goals as a company are at a little bit odds here. Getting new customers and creating value for shareholders hasn't been something that worked well with one another for the last few quarters. And it's not going to turn around as long as both you and Intel continue to add so much capacity and fight one and other. What is it going to take for you to change the strategy? How bad does it have to get before the strategy can change? I understand that you guys aren't changing the strategy today. But for shareholders that are looking for the answer of how it's going to turn around, other than you guys gaining a lot of share, which Intel is going to try to fight, how does it turn around? And if it doesn't turn around soon, what would cause you to change the spending strategy?

<A – Dirk Meyer>: Well, we have been pretty clear for – Dirk here – we have been pretty clear for quarters and years. And that is that we compete against a monopolist who has a dominant share, and long term, the best returns we can generate for our shareholders involve breaking that monopoly. Is that…

<Q – James Covello>: Can I ask a question about that, you guys were doing incredibly well when you – before you really decided to ramp the spending and gain share. I mean your model was incredibly profitable, your balance sheet was great. You were picking up share in small segments. And then you decided to really ramp it in a big, big way, and now the spending is such that you are losing a bunch of money. I mean you have been very profitable competing against the monopoly before. Now you are not. So is there any thought of going back to the model that allowed you to be so profitable over the last 18 months, excluding the last couple of quarters?

<A – Dirk Meyer>: Well, we've thought long and hard about this and concluded that there is no model that's stable over the long-term that allows us to be profitable in a niche. The level of investment required is too large and the only way for us to maintain profits on a sustained basis is to be large and engage in a material way with strategic OEM customers. That's what they want to see from us, that's what they demand from us, and that's what we are going to do.

<Q – James Covello>: Okay, so then the second part of the question, though, is there a point at which you say well, I can't afford to do this even if it's what the customers want?

<A – Robert Rivet>: Well, I think what hopefully you picked up from both Dirk's comments and Hector's comments too, is we are manically focused on cost. And you will see us continue to push what it costs to make a XYZ product within the portfolio at lower and lower levels. We've always been lower on the ASP totem pole. We understand that environment. We will push that cost equation even harder. And so we will have a business model that will enjoy and deliver the appropriate returns on a long-term basis – this is not a short-term game – on a long-term basis, as we continue to provide choice in to the marketplace and the marketplace gets to the appropriate balance.

<Q – James Covello>: Terrific, thanks so much.

Operator: Okay, your next question is coming from Krishna Shankar of JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes, can you give us an indication of your process and mix in terms of corporate versus consumer clients? And what types of programs do you have, now that ATI is part of AMD, to tackle the mobile and corporate desktop platform market with sort of the bundle solutions that your competitor does?

<A – Hector Ruiz>: Yeah, I am not going to give you a precise answer but suffice to say that obviously our commercial segment is growing faster than our consumer segment. And with regards to the second part of your question, I mean we have a much deeper engagement model in the enterprise and the commercial space in the former AMD than ATI had. And obviously, there is going to be a benefit, and particularly in the workstation marketplace, where the relationship that we've established with Global 2000 companies that use workstation-type technology are going to afford us some opportunities for presenting our new core product portfolio.

<Q – Krishna Shankar>: And can you also elaborate on, you didn't call it bundling, but you've said some synergistic areas where you can provide a complete solution for the customer? Can you elaborate on that some more please?

<A – Hector Ruiz>: Yeah. I mean, if you look at the environment today, you've got companies that really believe that they're best served by transferring the most amount of BOM [bill-of-materials] cost to the CPU. Other companies think that the best model is when the GPU takes most of the BOM cost. And there is one company that's uniquely positioned to offer the customer a portfolio of balanced technology that enable them to A) differentiate and B) have the best end-user experience, and that's us.

<Q – Krishna Shankar>: Okay. Thank you. And finally Bob, can you give us an indication of interest payments over the next four quarters?

<A – Robert Rivet>: Well, let me give you just a framework. The current quarter – fourth quarter that we just completed, was not a full quarter in the interest payments, because obviously, we didn't borrow the money until the 24th of October. So, that number will scale up a little bit from the current number that you see recorded, but not by a lot, there is not that many days left in the quarter. So, it will be a little bit higher than the fourth quarter is the answer.

<Q – Krishna Shankar>: Great. Thank you.

<A>: Operator, we are going to take one more question please?

Operator: Okay. Your final question is coming from Ross Seymore of Deutsche Bank. Please go ahead.

<Q – Ross Seymore>: Thanks for squeezing me in guys, a lot of the questions have been asked, but given the importance of the server market to your overall profitability, as we look forward to Barcelona and what your competitor looks like they are doing in pricing quad-core at the same level as dual-core, how should we think about the profitability going to Barcelona can really deliver to your server product line heading into the second half of this year?

<A – Dirk Meyer>: Yeah, Dirk here. Of course, it's hard for me speak to precisely what the pricing environment will be, but from a cost basis, you can think about Barcelona being not that much different than the introductory dual-core Opterons.

<Q – Ross Seymore>: Okay, but if you really are…

<A – Dirk Meyer>: Won't rush high level.

<Q – Ross Seymore>: Okay, but I guess directionally from that, then would it be safe to say given the price competition has been so severe, as this last quarter illustrated, that the price points you are going to be able to get through Barcelona, even though the cost is the same, the price point is going to be much lower than you got in the first round on the Opteron side, is that a fair assertion?

<A – Dirk Meyer>: The pricing environment is so dynamic that it's hard for me to speculate what will happen as we introduce new products.

<Q – Ross Seymore>: Okay. And then I guess the last question here more for Bob is getting from that 40% to the 50% gross margin, you talked a little bit about what's going to happen you believe in the first quarter. Are there any other dynamics throughout the year that are going to kick in, that are going to allow you to get up from that 40 to 50% level?

<A – Robert Rivet>: Well, I think we've kind of hit on them all from mix of the business more toward commercial, more dual-core, less single-core, servicing the channel, more Consumer Electronics business, better penetration in both Graphics and AMD chipsets. I mean I think it's, through the Analyst Day and what we've covered today I think we've covered it all, but it's a waterfall of things I will call it on products and ASP. And then maniacal focus on cost reductions primarily through the 65-nanometer node, but there is plenty of other things in packages, test time reductions, et cetera that you will see take place. And last but not least, is the synergy of the two companies.

<Q – Ross Seymore>: So if I put it altogether, and nothing has really changed since the Analyst Day, given the fact that you talked about pricing being a little more aggressive than you had thought, is it really that you think you can take more costs out than we talked about at the Analyst Day? Or what kind of is the lever that allows that sort of flexibility given that pricing has been more competitive?

<A – Robert Rivet>: I would probably have to handicap that that's where we are focused right now, just not knowing where pricing will land at different moments in time, is we will control what we know how to control which is our cost structure.

<Q – Ross Seymore>: Okay. Thank you.

<A>: Right. Thank you very much. We will conclude the call now. Operator, are you okay?

Operator: Yes, this concludes today's Advanced Micro Devices, Inc. Fourth Quarter 2006 Earnings Conference Call. You may now disconnect your lines at this time and have a wonderful evening.

MANAGEMENT DISCUSSION SECTION

Operator: Good evening. My name is Jenny and I will be your conference operator today. At this time I would like to welcome everyone to the Advanced Micro Devices Third Quarter 2006 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer period. [Operator Instructions] Thank you. It is now with great pleasure to turn the floor over to your host, Mr. Mike Haase, Director of Investor Relations. Sir, you may begin your conference.

Michael Haase, Director, Investor Relations

Thank you and welcome to AMD's Third Quarter Earnings Conference Call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; Bob Rivet, our CFO; and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at AMD.com. The telephone replay will also be available for the next 10 days starting at 8:00 p.m. Eastern Time tonight. The telephone replay number is 877-519-4471. Outside of the United States the number is: 973-341-3080. The access code for both is 7952575. I would also like to call to your attention that our Q4 earnings quiet time will begin at the close of business Friday, December 15th. Also as a reminder our next Analyst Day is scheduled for the morning of December 14th in New York City.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from those in our forward-looking statements. You'll find detailed discussions in our most recent SEC filings, including AMD's Annual Report on Form 10-K for the year ended December 25, 2005 and AMD's Quarterly Report on Form 10-Q for the quarter ended July 2, 2006.

With that, I will turn the call over to Dirk Meyer.

Dirk Meyer, President and Chief Operating Officer

Thanks Mike. In the third quarter, our microprocessor unit shipments were up 18% sequentially. We had unit growth in all 3 of our product segments, most notably with our mobile processors. Sales were up 9% from the prior quarter and 32% year-over-year. Overall, it was a solid quarter, but I think we could have done still better.

We completed a major transition from DDR1 to DDR2 based products while ramping 2 new factories and their associated supply chains. This coupled with increased customer demand put an unprecedented burden on our operations. While we responded reasonably well to this challenge, we learned a lot and will do even better in the future.

Overall, our manufacturing strategy remains on track. Fab36 continues to ramp to plan and we've begun to transition that factory to 65 nanometer technology on schedule. We will begin 65-nanometer shipments this quarter and will begin our transition to 45-nanometer technology output by mid 2008. In addition we continue to ramp Chartered Semiconductor and will convert its output to 65-nanometer technology next year. Our cost structure will improve as we move to 65-nanometer technology and complete our transition to 300 millimeter facilities.

The industry is encouraged by the global anti-trust scrutiny of our competitor and our customers continue to take advantage of the benefits of innovation, choice and growth that we offer. Examples in the third quarter include: Dell launched its first AMD64 processor based Dimension desktop system for consumers and small businesses. Founder joined Lenovo and Tongfang as leading customers of AMD in China with their announcement to launch a full range of AMD64 based desktop, notebooks and server systems. IBM unveiled five new quad-core ready Opteron-based mainstream server platforms. And HP and Lenovo launched their first AMD client systems targeted at large enterprise customers.

We are looking forward to launching our next generation microprocessor core in both native quad-core and dual-core implementations next year. Our acquisition of ATI continues to progress as planned. We expect the transition – transaction to close next week and are pleased to have received all regulatory and shareholder approvals necessary to close that transaction.

In summary while we're pleased with our results for the quarter, we know that we could have done better. But despite that, we remain optimistic on both the short-term and long-term and are very excited about the opportunities customers are offering to us. With that I would like to ask Bob to review the results of the quarter as well as the outlook.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks Dirk. Before I get started I would like to remind you that as a result of the Spansion IPO, year-over-year comparisons do not include the results of our memory product segment. Third quarter AMD sales of 1.33 billion were up 9% compared to the second quarter of 2006 and up 32% compared to the third quarter of 2005 driven by strong demand for server, mobile, and desktop processors. Server and mobile ASPs were up and desktop ASPs were down sequentially. We established a new record for total microprocessor shipments, up 18% sequentially and up 34% year-over-year driven by increased server, mobile, and desktop shipments. Further, customer adoption of AMD Turion 64 processors resulted in a greater than 50% sequential growth and 70% year-over-year growth in mobile dollar sales and units. Gross margin was 51.4% down from 56.8% in the second quarter of 2006 largely due to lower desktop ASPs as prices declined faster than cost reductions primarily in the desktop area.

However, this cost pressure will be relieved as we move to 65 nanometer and begin to fully utilize our 300-millimeter facilities. Total operating expenses, which include R&D and SG&A, were down 25 million from the prior quarter, better than our previous guidance.

Net income for the quarter was $134 million, or $0.27 per share. These results included the non-cash employee stock based compensation expense of $16.5 million or $0.02 per share, a $10 million loss or $0.02 per share associated with our 38% ownership in Spansion LLC and a tax credit of $20.9 million or $0.04 per share reflecting a lower effective tax rate for the year.

Now let me turn to the balance sheet. Capital expenditures were $425 million in the third quarter as we continue to build out Fab36 and associated final manufacturing capacity. We continue with our lean manufacturing methodology for inventory management and in preparation for a strong fourth quarter we built inventory by $60 million. The build primarily comprised of dual-core products. Days of inventory outstanding at 66 days declined 10 days from the second quarter.

Now let's turn to the outlook. AMD's outlook statement is based on current expectation and excludes ATI operations and ATI related acquisition charges. The following statements are forward-looking and actual results could differ materially depending on market conditions. AMD expects demand for its products to be seasonally strong in the fourth quarter and sales to increase sequentially.

Operating expenses for the fourth quarter are expected to be up approximately 10% from the third quarter. Non-cash employee stock-based compensation expense in the fourth quarter is expected to be approximately $20 million at the current share price. Our 2006 tax rate is now expected to be between 5 and 10%, down from our prior guidance of approximately 15%. Capital expenditures for the fourth quarter are expected to be approximately $700 million.

As previously mentioned we are not providing any guidance today that includes ATI operations. We look forward to providing you with additional financial details for the combined company at our December 14th Analyst Day in New York. At that time, we will provide fourth quarter acquisition charges and 2007 guidance. We look forward to seeing you there. Now I will turn it over to Hector.

Hector de J. Ruiz, Ph.D., Chairman of the Board and Chief Executive Officer

Thank you, Bob. Less than 100 days ago at the recent announcement of our groundbreaking acquisition of ATI Technologies, you might remember that I said that we were determined to drive growth, innovation, and choice for our customers. And in this recent quarter I am pleased to announce that we are approaching this acquisition with a full head of steam on each of these key dimensions. The AMD growth story continues across customers, geographies, and across our product families. Our third quarter was the 13th consecutive quarter of over 20% year-over-year revenue growth.

AMD Turion 64 processor sales are accelerating, a sign of growing customer demand for best of breed solutions in the mobile segment. AMD Opteron processor sales are strong and growing, the reflection of our system level power per watt leadership, and seamless operability to native quad-core in the same thermal envelope. And our desktop franchise continues to expand with continued adoption of AMD-based commercial class systems and AMD Live! PCs where as industry analyst current analysis reported in less than half a year AMD Live! PC systems surpassed the competition in US retail sales. And we look forward to the launch of Microsoft Vista early next year, a mainstream operating system that will finally allow users to exploit the full potential of AMD64, the industry's first 64-bit capable x86 platform.

While impressive, we know that growth like this is really an end product, the result of a lot of hard work and a continuous stream of innovation. Innovations like our Torrenza, our open innovation initiative which we announced during the quarter. Torrenza is our industry's first open x86 innovation platform allowing our customers and partners to capitalize on the unique capabilities of AMD's direct connect architecture. The world class customers including SUN, Cray, Fujitsu, Siemens, Dell, HP and IBM all announced their support for this unprecedented effort. Our manufacturing team has been recognized for innovation for many years and the Fab36 team in Dresden continues to deliver on their promise to begin 65 nanometer revenue shipments this quarter and we are on target to be largely converted by the summer of 2007

And in the meantime we continue to aggressively grow the world's best and brightest team of design resources highlighted by the opening of our new Shanghai R&D center and a new advanced microprocessor development facility in Fort Collins, Colorado. Which leads me to choice: as I have said many times, without customers who feel completely free to make a choice, innovation and growth inevitably stall. We are reassured by the courage of our customers to provide real choice to their customers.

AMD continues to offer a better, more customer centric value proposition for our customers and their customers and still our value proposition to the industry is artificially constrained by the abusive practice of our industry's monopoly. So in addition to being optimistic about the continued vote of confidence among our customers I remain optimistic that global anti-trust regulatory bodies will work to create a fair and open competitive environment in the microprocessor industry. And of course, we believe strongly that our US litigation will result in a very declaring that Intel engaged in all of the kinds of illegal contract that our complaint details. The microprocessor industry is a growth industry, perhaps one of the most exciting and dynamic in the technology arena. As an emerging leader in this category, we're dedicated to creating a sustained flow of meaningful customer-centric innovation, creating downstream opportunities, growth and choice for all customers and end users worldwide.

I want to thank the nearly 10,000 AMDers worldwide who are committed and working hard to continue our progress. In addition, I look forward to welcome into the AMD family the 4,000 or so ATI employees who will continue their fine work in helping the new AMD create value for customers and shareholders. I would like to now turn it to Mike Haase for the Q&A.

Michael Haase, Director, Investor Relations

Thanks Hector. Operator, let's begin the polling process please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. Your first question is coming from Adam Parker with Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: Hi. You said there is flat revenue in desktop, so this implies I guess your server plus notebook revenue combined grew quite a bit, can I assume your server business grew more than 20% sequentially on a revenue basis and also can you comment about maybe did notebooks units grow 30 to 40% sequentially or more, can you just give us some color there?

<A – Dirk Meyer>: Well, go ahead, Hector.

<A – Hector Ruiz>: Adam, I know the numbers are not quite in that mix. What we – as you heard from Bob Rivet's comment during his discussion our mobile products experienced a fairly significant growth as a matter of fact it was sequentially greater than 50% for both units and revenue quarter-on-quarter.

<Q – Adam Parker>: 50?

<A – Robert Rivet>: 50

<Q – Adam Parker>: So you gained massive share in notebook in the quarter then?

<A – Robert Rivet>: Yes sir.

<Q – Adam Parker>: Okay.

<A – Robert Rivet>: We believe.

<Q – Adam Parker>: Okay, and then so that implies maybe that you that lost a shade of server revenue share then, is that correct?

<A – Hector Ruiz>: Well we based on the numbers that we see we believe that we did not lose share in the servers space, and we grew of course quarter-on-quarter as well as significantly year-on-year.

<Q – Adam Parker>: Did you go double-digit revenues in server sequentially?

<A – Hector Ruiz>: No.

<Q – Adam Parker>: Okay. So okay, alright. And then the other question would be can you, I guess a little confused about the gross margins because with that kind of revenue growth I wouldn't have expected your actual gross profit dollars to be lower. So can you dimension, I mean I know it's tough desktop pricing but where there other moving parts there? It was just a surprising fall off to get out of your kind of target business model despite pretty good revenue growth?

<A – Robert Rivet>: No it was, you know I really it is mostly characterized by the ASP issue. Clearly, there is a little bit of cost increase as we continue to produce more dual-core products but the lion share of the issue was the price pressure drop in desktop which manifested across the whole portfolio, on the average ASP of AMD.

<Q – Adam Parker>: All right, but I'm – okay, so I how do I think about this going forward then Bob because you grow your revenue whatever you know 100 plus million sequentially into the operating margins, the operating profit dollars are not up all that much. I am just trying to figure out what the new incremental gross margin is here or how do we think about price stabilization or how do I forecast your margins given this kind of pricing volatility?

<A – Hector Ruiz>: Adam, I think maybe one way to look at it perhaps could be as Dirk mentioned in his remarks is we had some what we call it some transitionary hurdles to overcome in the third quarter, with a transition to a new memory technology, with a transition to a new product Rev F. All of that placed a phenomenal burden on our organization and also frankly the demand for mobile product was a lot stronger than we have anticipated. And in shifting a rather complicated system of supply chain logistics, while doing all those products transitions to go towards more mobile and less desktop, we lost some efficiencies. We believe that somewhere in the order of two of the five percentage points that we lost in margin were lost to – lost to just not being able to execute as well as we would had liked, as Dirk mentioned. But the other three points, the 60% or so of the margin really is related to a rather precipitous decline on desktop ASP.

<A – Robert Rivet>: And to your point, thinking forward, clearly we're – we had a situation where everything we shipped was non-65 nanometer, so it's the 90 nanometer variety, we will ship for revenue as we stated in the fourth quarter and every day that goes by that's -will get bigger and bigger beyond the fourth quarter and we continue - we are still not at full utilization of 300 millimeters. Matter of fact, we're not even at half of the productive capacity. So again, every day we'll make the wafer cost go down because we think we have better utilization and the die cost will go down due to conversion to 65 nanometer. So, in what we control, we see a path to continue cost reduction from that extent. ASPs, again, we will manage them the best we can, but that one is the harder one to forecast of the two.

<Q – Adam Parker>: Yeah, I mean, I hear your, but sorry one last thing then, was desktop unit up double-digit but decline in pricing down double-digit or can you give us some kind of balance…

<A – Robert Rivet>: Yeah, that's kind of in the ballpark.

<Q – Adam Parker>: Okay, cool thanks guys.

Operator: Thank you. Your next question is coming from JoAnne Feeney with FTN Midwest. Please go ahead.

<Q – JoAnne Feeney>: Thanks, so just a question please on the memory and the transition difficulties. It sounds like the switchover to DDR2 and the Rev F were a bit of a challenge. You know how much of it – are those going to go away in Q4 first of all and how of a bump up in the gross margin will we expect from that being eliminated?

<A – Dirk Meyer>: Yeah, Dirk here. First of all clearly the product transition complexity that we dealt with in our operations is behind us. As I said in the opening comments we are ramping two new wafer Fabs, Fab36 and Chartered in the context of this product transition and in the context of increased customer demand resulted in us having a hard time matching that customer demand to supply availability in the week the demand was really there. So in aggregate we did a pretty good operationally on a week-by-week basis, we didn't always have exactly the mix of product that our customers would have wanted which is clearly not good from our perspective as a customer centric organization and operating that way doesn't allow us to maximize the value we can draw out of the business. Those issues are largely behind us.

<Q – JoAnne Feeney>: And then in the server space your competitor is claiming to have done quite well there too. Are you seeing particular increase in competition in one area of the server space 2P versus 4P for example?

<A – Dirk Meyer>: Yeah, and Dirk again here. There is no question that if you look at the technological capabilities of our product we are by far the most differentiated in the 4P category and as a result of Intel's announcement of their recent server product we are facing a bit more competition in the 2P category. So I would say that's a fair characterization.

<Q – JoAnne Feeney>: Okay, great, thanks.

Operator: Thank you. Your next question is coming from Mr. Michael Masdea with Credit Suisse. Please go ahead.

<Q – Michael Masdea>: Yeah, thanks a lot. I guess what I want to clarify is sort of the strategy on the desktop side. It sounds like you are talking about cost reductions helping you out there but competitor is being a little bit more aggressive with their manufacturing plan, what's you longer term view especially in terms of trade-off between market share and profitability?

<A – Dirk Meyer>: Well, first of all relative to desktop we're going to serve the demand that our customers expose to us. Over time I would expect that as we grow into a broader part of the marketplace, namely commercial, we've got a huge opportunity to grow our gross margin pool in aggregate. As Bob said the ASP issue is a little harder to have direct control over because we respond to a competitive environment. We do so in a way that allows us to make our relationships with the customers we care most about broader and deeper while at the same time managing profitability.

<Q – Michael Masdea>: Okay, I understand, so, on the server side maybe that's a place where you spend a little bit of time, where is your kind of customer – excuse me, on the enterprise side and the mobile and desktop where is your customer traction now, where do you expect it to be about a year from now?

<A – Hector Ruiz>: Well, as you have noticed we're continuing to add not only customers that are playing in that space but within the customers that we already are doing business with we're seeing a broadening of their product portfolio. And so that alone is enabling us to looking forward to hope to gain share in that particular segment of the market. We've clearly seen a strong demand on the mobile side and you now have on the Turion platform enterprise class mobile platforms that we didn't have last year. So I expect this to grow both desktop and notebooks but Turion is definitely proving to be a very valid platform for the enterprise market with all the new products that have been introduced frankly in the first and second quarter now coming to the life.

<Q – Michael Masdea>: The last quick one for me is really on the capacity side. If you listen to the call on Intel last night and since you guys look at your forecast it seems like both companies are building capacity in the future based upon on market share, at least gains for you and at least folding for Intel? Now how does that ultimately play out, why is that not going to be a problem for the overall pricing dynamics for many years to come and is there some point when someone yells Uncle and pulls back a little bit?

<A – Hector Ruiz>: Well, one – we have outlined before that our strategy on capacity has been to continuously on a steadily gain share over time and we have engaged – we have gone from a significantly skewed profile of our customer base a few years ago towards distribution and consumer to one that is shifted over the year rather significantly towards OEMs, particularly tier 1 OEMs and beginning to make inroads to improve their commercial space.

We carefully plan that out with our customers and we plan it out over a period of more than just a quarter or two, period of – an outlook of 2 years or so and based on that we put our plans for capacity in place. So far every capacity plan that we have and that we have outlined has been based on inputs from our customers. Those that we have had for quite sometime in addition to the newly acquired ones to continue to execute to that and the plans that you have heard us talk about is the expansion of Fab36, the conversion of Fab30 to 300 millimeter, the use of Charter as well as a potential new factory in New York are all based on all those plans that we have collected from our customers. So we don't base it on just a guess in our part and hoping we can sell it later. So they are really carefully brought out in conjunction with our customers.

<Q – Michael Masdea>: That make sense and I guess just a really quick follow-up would be, even if you have that environment, you take that share, is the extra capacity in the industry going to cause the problem and sort of takeaway, drive us into a profitless kind of prosperity environment for the industry? What keeps that from happening if Intel has all this extra capacity?

<A – Dirk Meyer>: Well, here again I will just reference and reiterate Hector's comment that we are putting capacity in place based on what our customers tell us their plans for us are. And there is no question as we expand in a new segments, example, commercial desktop, we will introduce price competition into those segments where previously there was none because those segments were dominated by monopolists. We are not afraid of that and in fact that's our strategy.

<Q – Michael Masdea>: That helps, thank you.

Operator: Thank you. Your next question is coming from Mr. Glen Yeung with Citigroup. Please go ahead.

<Q – Glen Yeung>: Thanks, I guess this is a question for Dirk, you saw a lot of inventory build in the quarter and I recognize at the beginning of the quarter you said you wanted to do that. But I wonder if the inventory build was exactly what you wanted, particularly given that you referenced you thought you could have done things better during the quarter?

<A – Dirk Meyer>: Yeah. Actually most of the inventory build that we did was WIP – that's being built in preparation for Q4 sales. The issue within the quarter wasn't so much one of building inventory pf finished goods that we couldn't sell but rather having the right product and the right mix available for the right customer at the right time.

<A – Hector Ruiz>: If I could add to...

<Q – Glen Yeung>: Sure.

<A – Hector Ruiz>: Not to argue with the numbers but I think our days of inventory went down by 10 days quarter-on-quarter.

<Q – Glen Yeung>: Right.

<A – Hector Ruiz>: So, I don't – we don't see any of the WIP that Dirk referred to as being anything other than strategically positioning the product for what we believe will be a strong seasonal growth in the fourth quarter.

<Q – Glen Yeung>: So assume that you are better able to manage the mix in Q4 or should we assume that inventories then start to go down?

<A – Dirk Meyer>: Yeah, our normal seasonal pattern would be inventories would drop. We would drain the inventories the fourth quarter. But again, our inventories are based on our projection of continued to service our customers, we continue to acquire more customers, and so – and we continue to ramp Fab36 and Chartered Semiconductor. So, I am actually hoping that we will build inventory a little bit to go out of fourth quarter in preparation of '07.

<Q – Glen Yeung>: It begs an interesting question about gross margin, because I think you talked about some efficiencies that were worth 200 basis points in the third quarter, ASPs which were worth 300 basis points in the quarter, and now we've got potentially rising inventories in the fourth quarter, or hopefully rising inventories. Assuming that inventories go up, assuming that the efficiencies, the inefficiencies disappear. We're already talking about 200 plus basis point increase in gross margin and Intel suggesting that pricing is not as bad, so is it fair to say that, under that assumption that pricing is not that bad that we could see a greater than 200 basis points, maybe greater than 300 basis point increase in gross margins?

<A – Dirk Meyer>: Well, your math logic is fine. The only part I would counter with that I am not sure you got it right. I said, we grow less inventories in fourth quarter than we did in the third and I am trying to grow inventory in fourth, to be positioned for '07. So it's actually less than what we just did. But your math is not too far off.

<Q – Glen Yeung>: Okay, okay. I just have really couple of quick questions. I was just wondering what's normal seasonal growth for you in the fourth quarter, just what's your interpretation on that?

<A – Dirk Meyer>: Well, the market conditions would say this, although I call it recent history of time that it's – on the low end it's 6, on the high-end it's 13 and most likely average is around 10.

<Q – Glen Yeung>: Okay. And then the last question is, and I think this was kind of asked, I am not quite sure I caught the answer, what – if I would think about 2007, just broadly your strategy in the year, what's your position on share versus margin?

<A – Hector Ruiz>: I don't think we looked at our business from that point of view. We look at it more as whatever our customers want. We are very customer centric and we go from there. Overall at a pretty high level I would tell you that just it appears that we are on track this year to grow units somewhere in the order of 35%. Our plans for next year is to grow units approximately at the same amount.

<A – Dirk Meyer>: And to the margin question, I mean we still while this current quarter we bounced for the first time in a long time below our zone I would call it of 55 to 60, that's our goal. Our goal is to live in that zone. Obviously, every quarter is dependent on the situation that appears at hand and we will deal with it accordingly, but our long-term model is to try to get in that 55% to 60% zone for our microprocessor business.

<Q – Glen Yeung>: That's helpful, thank you.

Operator: Thank you. Your next question is coming from Mr. Tim Luke with Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thanks very much. Just a clarification with respect to the pricing environment in terms of the linearity of how you saw that as you moved through the quarter, did environment in terms of ASP movement lower get more challenging towards the end of the quarter, and as I think as Glen mentioned Intel has talked about some firming potentially of the ASP environment going forward. Is that something that you might anticipate or do you think it's somewhat premature to consider that?

<A – Henri Richard>: Tim, this is Henri. I think the third quarter was largely impacted at the beginning of the quarter by the ripple effect of Q2 and the movement of the competition then. I think when the middle of summer was behind us we saw some stabilization in the marketplace. It remains a very competitive marketplace. But, I would agree that there has been some stabilization in the second half of the quarter.

<Q – Tim Luke>: So, perhaps the decline in gross margin given that the ASP are broadly inline with your perhaps in your, with your expectations related to what you are referring to Hector in terms of this mix and match, in terms of what your customers wanted and what you are able to deliver maybe you could expand a little on that mix and match point you made?

<A – Hector Ruiz>: I am not sure I got the question?

<Q – Tim Luke>: I think you mentioned the ability to match demand with what you had available as a factor influencing your margin or perhaps you were relating to the efficiency perhaps you could just expand on what you meant by that?

<A – Hector Ruiz>: Well I think one of the things that happened as we did more skew towards having a higher mix of tier-1, tier-2 customers, we have a better understanding of what the expectation are from the, in terms of the forecasting. But frankly one the challenges that we had in the third quarter is that a lot of people that are involved in the go-to-market channel on retail for example. We did not anticipate such a rapid move towards mobile, just as an example and therefore when you take roughly in round numbers the 100 days from the time you get an order to the time you can actually produce it, it is a very challenged environment to try to adjust mix within a quarter.

So we are learning from there in the third quarter, we spent a considerable amount of time with customers anticipating the fourth quarter being strong, trying to understand their needs better. We think we have done a better job as Dirk pointed out in anticipating what we are going to need to do this quarter and we expect that mix to be better managed and make our customers a lot happier this quarter than we did last quarter

<Q – Tim Luke>: And to be clear in terms of the revenue Bob when you are saying seasonality, the average is 10% so stronger than normal seasonality would imply that your target would be above 10% revenue. Is that how we should basically figure that?

<A – Robert Rivet>: I mean that's a good characterization. The average is 10.

<Q – Tim Luke>: And lastly just on your OpEx, it went down a lot in the quarter and now you're guiding it up 10% could you just give us some color on that volatility there?

<A – Robert Rivet>: Well clearly, always fourth quarter is a heavy consumer quarter, a lot of merchandising and I'll call market development funds are associated with that. So I am signaling Christmas is going to happen, we're going to have that kind of activity from that perspective. And then on the other side we continue to expand these design centers we just opened. We're trying to ramp and hire the appropriate engineers to continue to accelerate, keep our roadmaps where they need to be and accelerate roadmaps and add new things to the roadmaps. So it's a combination of both, we were a little bit under to be honest in the current quarter and so it's kind of balancing your way through it.

<Q – Tim Luke>: Thank you very much.

Operator: Thank you. The next question is coming from Joe Osha with Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Hi guys, I am wondering if I can drill down a little bit on the manufacturing output. Can you give me some sense roughly for the current quarter and then for the fourth quarter what portion of our outputs coming from 25, excuse – Fab30 versus Fab36 versus Chartered? Obviously units, you probably don't want to talk about but maybe just in 200 millimeter equivalent?

<A – Dirk Meyer>: Yeah, it's Dirk, here. I can certainly give you a feel for where the wafers are coming from our internal factories. We started ramping Fab36 in Q4 last year and it's roughly a 2-year ramp to get to the 20K a month point. We're on schedule, which says that we're at about the 10-K a month output level now.

<Q – Joseph Osha>: And that's 300 millimeter. That's 300 mil you're talking?

<A – Dirk Meyer>: That's right, it's 300 millimeters. Fab30 has really produced stable at now I'm going to have go to 200 millimeters starts a week around 10-K.

<Q – Joseph Osha>: All right, so 7 that's around 28, 30K at the moment.

<A – Dirk Meyer>: 28 to 30K, 200 millimeter.

<Q – Joseph Osha>: All right.

<A – Dirk Meyer>: And we don't, I don't think want to be too specific on how we are loading Chartered at this time.

<Q – Joseph Osha>: But it's a much smaller number yeah?

<A – Dirk Meyer>: Very much smaller, very much smaller.

<Q – Joseph Osha>: Okay, now are you all still thinking that, I know you talked about Fab30 maybe being kind of incrementally brought down or at least partially brought down and converted to 300 millimeters starting in late '07, is that still on the table or?

<A – Dirk Meyer>: Yeah, actually we will start taking Fab30's 200 millimeter output down in about the second quarter of [inaudible].

<Q – Joseph Osha>: I am sorry second quarter of '07?

<A – Dirk Meyer>: '07.

<Q – Joseph Osha>: Okay.

<A – Dirk Meyer>: And then we will begin a 300-millimeter output back out of that facility in very early '08.

<Q – Joseph Osha>: Will Fab30 continue to produce for that, will it completely go away or…?

<A – Dirk Meyer>: The total utilization of this floor space doesn't really dip any lower than about 40% over the course of the transition.

<Q – Joseph Osha>: Right, but I could see Fab30 drop to say 10K, 12K a month while you are in the midst of this, yes?

<A>: A quarter.

<Q – Joseph Osha>: I am sorry quarter,

<A>: Absolutely.

<A – Robert Rivet>: Yes, no yes. Just to remind everyone we built an additional facility on the site to kind of deal with I'll call it the transition facility. So there will be a dip but are not actually shutting down the facility. We continue to run it, it will take it down a bit, transition to 300 millimeter and in '08 be completely flipped over to a 300-millimeter facility again roughly the same size as Fab36 and the 20,000 wafer per month level.

<Q – Joseph Osha>: In '08?

<A – Robert Rivet>: In '08.

<Q – Joseph Osha>: Okay, last question then Bob, does that, while that Fab is being converted, how does that work financially? Does that create any kind of unabsorbed overhead or material – sort of period costs that aren't correlated with output?

<A – Robert Rivet>: No we, we think between the needs of Fab36 and the needs of Fab38 we are going to call it we will actually have the appropriate staffing. The tools on the 200 millimeter are almost all fully depreciated anyway, so to some degree we will actually be able to – and the chemicals and gases of course will flex down with the appropriate volumes. So we actually feel like it's not actually a big cost penalty to do the transition.

<Q – Joseph Osha>: Okay and you mentioned Fab38, I am sorry Bob, since you kind of put that on the table, can you give us….

<A – Robert Rivet>: Yeah, Fab30 is being – is going to be renamed to be called Fab38 and that was part of a strategy to actually get more grants and subsidies on the new toolset going in there because we are really recasting to a new facility, a 300 millimeter facility.

<Q – Joseph Osha>: Okay, so no comments on New York state than?

<A – Robert Rivet>: That's still in the plan as Hector said but it's – I will call in the sequence its Fab36, Fab38, New York.

<A – Hector Ruiz>: And Joe one thing that you were alluding to I think and I just want to make sure you understand is that the combination of these conversions as well as the 65-nanometer that is occurring as we speak and the ramping up of Charter leads us to plan our capacity next year or so. While Fab30 has a dip in the wafer starts in 200 millimeter the overall unit output throughout the year increases, so we expect next year to as I mentioned earlier to still be approximately 35% up in units from this year.

<Q – Joseph Osha>: Understood. Thank you, Hector.

Operator: Thank you. Your next question is coming from Cody Acree with Stifel Nicolaus. Please go ahead.

<Q – Cody Acree>: Thanks, maybe a point of clarification. The 200 basis points of inefficiency, do you expect to fully get those back in the fourth quarter, or is that a ramp, a bleed back in over the next few months?

<A – Hector Ruiz>: We expect to fully get them back in the fourth quarter.

<Q – Cody Acree>: Okay, great. Can you talk about the differential in gross margins as you've talked about the tier-1 and tier-2 higher mix of revenue? Is there anything meaningful in that gross margin line that we saw this quarter as you've had more success with Dell in some of these tier-1 OEM's?

<A – Hector Ruiz>: No, I think that's the – it is more complex than that and I think it would not be productive to go into it, but just to give an example a customer that buys an awful lot of product is more likely to get a better pricing than a customer that buys lot less products so and so it's very, it's much more complex than just saying tier-1, tier-2 and Channel.

<A – Dirk Meyer>: It's a function of mix and all...

<A – Hector Ruiz>: Yes.

<Q – Cody Acree>: Yeah.

<A – Robert Rivet>: The only other color I would add, one remind you the strategy is still server/mobile desktop in the priority sequence and gross margin will fall in that direction too. Although desktop and mobile at moments in time will be equal, they will continue to flip positions. But clearly server is where the higher gross margin is. We see that today and on a continuous basis.

<Q – Cody Acree>: Okay, great and then lastly, average revenue growth in the fourth quarter around 10%. Are you allowing any assumptions for Vista for Q4 and what would you expect as we push into '07 for normalized Vista impact?

<A – Robert Rivet>: Well, we are not prepared to talk about '07 at this point in time. We'll do that at our Analyst Day on December 14th.

<Q – Cody Acree>: And for the fourth quarter are you allowing anything for kind of a delay of purchases because of Vista?

<A – Robert Rivet>: No we don't see Vista as a negative issue in the fourth quarter.

<Q – Cody Acree>: Great, thanks.

Operator: Okay, your next question is coming from Mr. Sandeep Panjikar from Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Hey, guys Mark Edelstone. I had a couple of questions, the first one Hector was just to get a sense for how big the OEM business is for you now. So can you give us a sense as to what percentage of your units is coming out of OEM and how you expect that maybe to trend here as you go forward.

<A – Hector Ruiz>: I am not going to be too specific Mark but I would tell you that it's flipped from what it was 4 years ago. It is more than 50% today. I think we are beginning to approach a stable mix you know give or take a little bit so we are pleased with the position that we have and especially of course with the latest customer acquisitions I think that gets us to where we would like to be.

<Q – Mark Edelstone>: And just as a follow-on using the third quarter could you just give us what maybe the percentage breakdown would look like on units between notebook, desktop, and server?

<A – Hector Ruiz>: I don't think we are prepared to give that kind of detail Mark.

<Q – Mark Edelstone>: Okay fair enough thanks a lot Hector.

<A – Hector Ruiz>: Okay.

Operator: Thank you. Your next question is coming from Mr. Chris Danely with JP Morgan. Please go ahead.

<Q – Christopher Danely>: Thanks guys. You talked about gross margins popping back up in Q4. Can you just give us a sense of the trends in start-up costs and depreciation going into '07? Can we expect those to increase with the ramp of 65-nanometer and the CapEx going up?

<A – Robert Rivet>: This is Bob. I will break them into two. CapEx as I signaled last time I didn't talk about it this time but therefore I didn't change it. It is a large number next year, 2.5 billion, that's the continued as what Dirk said to fill out the equipment set in Fab36 and start the conversion of Fab30 the 200 millimeters facility to Fab38 the 300 millimeter facility. And then of course the associated back-end capacity needed to turn that die into finished goods, so capital will be – continue to be at a fairly high rate next year as we build out capacity.

From a cost standpoint we're – as I said to Joe Osha's comment we believe there's not a huge penalty in the conversion of Fab30 to Fab38. And we're actually paying most of the cost today to develop the technology and put the 65 nanometer into production, so it actually gets better as time goes on, not worse from that perspective.

<Q – Christopher Danely>: Okay. Thanks a lot. And then on the gross margins, I remember last quarter you guys said you don't want to participate in any I think it was deeply discounted opportunities, but it seems like you might have participated in some of them in Q3. Can you just talk about that? Is that a true statement?

<A – Henri Richard>: Yeah, that's a fair assumption, as Dirk was pointing out we completed a transition from Rev E to Rev F and as we did that, we felt that it was appropriate to be a little more competitive at the low end of the market as we completed that transition, but we are going to continue to be very selective going forward in the business that we participate in.

<Q – Christopher Danely>: And it sounds like pricing got a little better at the end of the quarter. Can you just talk about why it got better at the end of the quarter and do you anticipate pricing to be I guess competitive in Q4 or getting a little bit better because it's a stronger seasonal time period?

<A – Henri Richard>: Well you know as Einstein always said everything is relative, after the disaster applied by the competition on the industry in the second quarter effectively Q3 was somewhat mild.

<Q – Christopher Danely>: Got it and the last question, going into the first half of next year, why wouldn't we see the price wars crank up again and how long or how low would you get profitability go before you would start to pull back, or will you just keep going and try and gain market share?

<A – Dirk Meyer>: Well, here again, the way I would think about this is, the market is not a homogeneous blob, there are segments, right? And where we've historically competed or been present in the market, we've always had price competition. And as we've had the opportunity to compete in new areas we've brought price competition to those areas. So, from the AMD perspective, our share growth doesn't imply increased price competition on our business because we've always had it. Does that make sense?

<Q – Christopher Danely>: Yeah, I guess. I don't remember when the last time you guys had 51% gross margins in processors. So, my concern is that we could go lower in the first half of next year. Does that make sense?

<A – Dirk Meyer>: No. I would say, I think that's being fairly pessimistic. That's saying we wouldn't execute 65 nanometer, because 65 nanometer is a fairly steep cost reduction that takes place and continued utilization of Fab36 to fill it to the 20,000 wafers per month. So, in what we control we feel like we have clearly a great path to pretty sizable cost reductions in our manufacturing capability for our output.

Price is, to me, is a market-dependent issue. We think - a question that came up before, we think Vista is a good environment, not a bad environment and so to some degree '07, it doesn't look like a bad year, it looks like a good year. So, we believe we are in pretty good position again to get back to the zone we want to be in, which is a gross margin of 55 to 60%.

<Q – Christopher Danely>: That makes sense. Thanks a lot guys.

Operator: Thank you. Your next question is coming from Mr. David Wong with A.G. Edwards. Please go ahead.

<Q – David Wong>: Thank you. Further on the question of inventory and your inventory plan, will you be required to build the bare amounts of finished goods inventory stage for customers that have just-in-time manufacturing in the future or is your inventory profile as it is at the movement likely to remain unchanged?

<A – Dirk Meyer>: All our customers have different requirement to have inventory staged or in their hubs or whatever. Clearly, as we continue to acquire new customers those dynamics continue to change, and I'd say probably the big OEMs do like more product to be staged for them, so they can pull it as they see their market demands move around. But that's also why we have lean manufacturing type thought process and organization put into the system so that we can keep it as lean as possible even still, but still servicing what the customer wants.

So the bottom line of that is we are maniacally focused on inventory management, we'll grow it where we see necessary strategically but make sure it's fresh and just as much as we need to run the business.

<Q – David Wong>: So you won't have to do a significant inventory build in the December quarter to meet your customer's need, therefore staged inventory?

<A – Dirk Meyer>: Correct.

<Q – David Wong>: Thank you.

Operator: Thank you. Your next question is coming from Krishna Shankar with JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes, as you look at two of the areas with the highest gross margins you had in the past, sort of the high end enthusiast in the gaming PC market and also servers, it appears that the competition is more aggressive and perhaps has a better product lineup there. Can you outline your product plans to sort of regain the leadership in the high-end PC gaming market and also regain your leadership in DP servers?

<A – Henri Richard>: Yes Krishna, this is Henri. Well first, there is a lot being written and said about the high-end gamers market. We actually saw a double digit increase in revenue in that segment in the third quarter despite all the hype coming from the competition so you have, again I want to insist on the fact that it's the platform that matters in that market not just the core performance. And from that perspective we're going to launch in the next few weeks a new platform that for the first time was built from the ground up with the needs of the gamers in mind. Not only the processor needs, but basically the cooling needs, the power supply needs and the space on the motherboard needed to have a world class platform. And that platform will be out of the chute optimized for Vista operation.

As far as the server market is concerned, the strength of the Opteron architecture remains intact as demonstrated by our continued growth in that segment and the particular strength of our 4P offering and I think Fortune 500 companies that are looking at the two offerings are recognizing that although the competition has improved their relative performance they still haven't answered the question of what is their future architecture and they are shipping obsolete products.

<Q – Krishna Shankar>: Okay and as a follow on can you also outline your relationship with NVIDIA with the ATI deal really closing up can you talk about the relationship with NVIDIA going forward?

<A – Henri Richard>: You know we're standing for open and fair competition in platform innovation and I will give you an example of that, our launch partner for our upcoming gamer platform is NVIDIA. So our relationship with NVIDIA is excellent and we are very happy to have them as a partner.

<Q – Krishna Shankar>: Great, thank you.

Operator: Thank you. Your next question is coming from Mr. Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello>: Hey guys, thanks so much. A lot of good questions have been asked so I just kind of have one big picture question. If I take a step back over the last couple of years you've done a terrific job executing versus your plan and gaining share. Over the last couple of quarters though, last quarter was the first quarter in a while were we had a revenue miss, this quarter is the first quarter in a while where we had a margin miss. As we head into next year the bar for execution goes higher, because of the debt you're bringing on and because of the incremental depreciation. How do you get comfortable that you can get back to executing versus the plan when admittedly some of the things like ASPs are kind of out of your control and your competitor now has a little more incentive to try and hurt the market a little bit, because of the debt and the depreciation that you guys are ramping? How comfortable can you feel around that?

<A – Hector Ruiz>: Well we're very – first of all we're very confident in the roadmap that we have which we continuously share in intimate detail with our customers. And we are excited about that roadmap and we're executing to that, and as Dirk pointed out next year we're introducing products that are going to continue to enhance that.

And in terms of managing to the bumps relative to ASPs that are artificially created by an event in the marketplace such as a competitor perhaps building way too much inventory, being late on their products and therefore having a lot of old products to unload. Frankly, we don't agonize over that, we don't control that, we felt terrible in the second quarter that, that was the way it was handled, but we had complete confidence that we – over the long run that would not be a sustainable situation.

<Q – James Covello>: I guess my question Hector, if I can interrupt I mean unfortunately the shareholders and stakeholders do agonize over that, because you're leaving yourself not as much room for error by ramping the debt, and ramping the depreciation. So I understand it's a long-term plan and you have had an excellent roadmap, you continue to have an excellent roadmap, but that hasn't prevented outside influences from causing you guys to have issues the last two quarters. So how can we know that those outside influences aren't going to have continued issues over the next couple of quarters given that the bar is going higher?

<A – Hector Ruiz>: Well I think we're credible in the things that we tell you we are doing and one of the things we are, is as we have gone through this challenging couple of quarters for different reasons we've become better at learning how to deal with those and we're better planners. We have a better idea of how to anticipate and move in those directions that are necessary in the marketplace.

But the best answer I can give you frankly it doesn’t come from me, it comes from our customer. Our customers have spoken, you have the products that IBM's launched that are outstanding to penetrate the enterprise are based on our products today and future existing products, because I mean the enterprise in particular the products are quad-core already.

You have one of the fastest growing companies in the server segment today, which is Sun, is totally committed to our product line. You have a new customer that just signed up named Dell who is also committed to working with us going forward. And frankly, we are not through with customer acquisitions. We still have a number of customers around the world that have yet to sign and we're confident that in 2007 we'll see additions to that too.

So we have – yeah, I recognize and I admit that there'll be some short-term shareholders who are going to experience some concern and agony over a quarter or two where things don't go perfect, but we are confident. And as we – we are hoping that we can convey that to you. We already convey that to our customers and that is why they are signing up to use us long-term and in big ways.

<Q – James Covello>: Thank you very much.

<A – Michael Haase>: Operator we're going to take two more questions please.

Operator: Thank you. Your next question is coming from Mr. Doug Freedman with American Technology. Please go ahead.

<Q – Doug Freedman>: Great, thanks guys. If you could comment a little bit on any impact that you might have seen over the DDR1 pricing rises in the marketplace and what impact that might have had on your business and if you could give us some insights into the percentage of products that are presently supporting DDR1 versus DDR2?

<A – Henri Richard>: Yes, this is Henri, so first the DDR1 and DDR2 prices have been kind of switching back and forth position over the course of the quarter. I don't think there is a real trend there. It's very spotty, frankly my insight in that market tells me that NAND has bigger impact on DDR pricing than anything else because a lot of the switching back and forth on the line is between Flash and DDR memory.

As far as the second part of your question there is still a large portion of the server sales that were executed in the third quarter that are based on DDR1 technology because as you know the cycles on those products are longer. And so, even though there has been a lot of announcements from all our key partners of Rev F based products, the reality is that those products will not hit the market until Q4 and in some case Q1, and that's all per the plan.

<Q – Doug Freedman>: Okay.

<A – Henri Richard>: For the client side it's essentially converted and going forward we're shipping DDR2 enabled products almost exclusively.

<Q – Doug Freedman>: And we have talked quite a bit on the call so far about the Fab38 plan and expansion and moving in to 65 nanometer, can you – would I be correct in believing that Fab38 will be your first 45 nanometer facility. And any thoughts on how quickly we will be able to move from 65 into 45 nodes?

<A – Dirk Meyer>: Yeah, this is Dirk. Our plan is to begin to ramp 45 nanometer products from an output perspective in roughly mid-2008 and for the current plan we will actually start to do that more or less simultaneously between Fab36 and Fab38.

<Q – Doug Freedman>: Okay. Thank you.

Operator: Thank you. Your final question is coming from Mr. Ross Seymore with Deutsche Bank. Please go ahead.

<Q – Ross Seymore>: Thanks guys. Just one quick question returning to the OEM versus channel side of the equation. You talked about the OEM business getting up to now greater than 50%, is there any difference in the margin structure either on the gross margin line or with some sort of co-marketing dollars below COGS in the SG&A line that would create different profitability for the customers on the OEM versus the channel side of the business?

<A – Henri Richard>: Well, this is Henri. As we indicated we had a long-term plan to stabilize our business by having a greater percentage of it derived from OEM. But even within the OEM of course there is large market makers that are very important in order to secure long-term visibility on the markets. We've made a lot of progress in that direction. Now, these customers as Dirk was pointing out are participating in various market segments. Typically, they have a wider product range and participate in many more segments and in some case many more geographies. So again, there is no simple answer to your question, because it's a matter of mix, mix of products and of course mix of geographies and within those mix of commercial versus consumer segments.

So, overall it's very clear that the largest customers in the world want to command a premium over the smaller customers in the world. But the reality is that again, you have to go case-by-case. As far as the cost of supporting those customers frankly, we put dedicated teams on all of our key accounts. But we also have dedicated teams in the channels. So there is not real large deltas in terms of cost of support between OEMs and channels.

<A – Hector Ruiz>: And the channel by the way the channel continues to be and will be for a long, long time an incredibly important part of our go-to-market strategy. We – over the time Henri and his team have reduced the complexity of working with the channel and is – we have now a very – what we believe is a very strong proficient in that space. And when we are growing the units, as I mention earlier 35 plus percent a year we have an opportunity for those channel partners to still grow despite the fact that mix continues to change over to OEM.

<Q – Ross Seymore>: Again, in that balance, how do I think about the substitution effect possibly kicking in where your OEM business is ramping very nicely, we are all well aware of the Dell side of the things? I would imagine some of that is going to be targeted to areas where you already have current success. That 35% unit growth you are talking about, how do we get our arms around what sort of substitution effect might be impacting you within that 35?

<A – Henri Richard>: Well, I think first to assume that one customer ramping is automatically going to cannibalize existing business is a place where I am not right now. It's too early to tell anyhow how things are going to shake out from that perspective, and again, and go back to Dirk's point, we are participating in a lot of new markets whether they are geographies or segments of the market and so that's where most of the growth is going to come and we are very careful in working with our partners to position each of the new platforms that we are bringing to market to maximize our opportunity.

<Q – Ross Seymore>: Fair enough. And then the final question to go back to a topic that has been hit on a couple of times. You've mentioned about your customers dictating the expansion in your capacity and you are building along the lines of their desires. Given the capital constraints that that might put you under, what sort of reassurance or assurances can they give you on the pricing side of the equation? I would assume there has got to be a point at which they want capacity but they also want the lowest priced microprocessors they can get, so there has to have a balance with you begin profitable. How do you, help us understand how that trade off works?

<A – Hector Ruiz>: Well, I am not aware of any plan that we have built with any customer, any partner that over a period does not show a reasonable return to our shareholders and is financially sound. If that were not the case, we would not be able to do it.

<Q – Ross Seymore>: Okay. Fair enough. Thank you.

Michael Haase, Director, Investor Relations

Great, thanks. We will conclude the call. Look forward to seeing everyone at our Analyst Day on December 14th.

Operator: Thank you. This concludes Advanced Micro Device's third quarter 2006 earnings conference call. You may now disconnect your lines at this time and have a wonderful evening.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. My name is Jeanie and I will be your conference facilitator today. At this time, I would like to welcome everyone to the AMD Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer period. [Operator Instructions].

It is now with great pleasure to turn the floor over to your host, Mr. Mike Haase, Director, Finance and Investor Relations. Sir, you may begin your conference.

Michael Haase, Director, Finance and Investor Relations

Thank you and welcome to AMD's second quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; Bob Rivet, our CFO; and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at AMD.com. The telephone replay number is 877-519-4471. Outside of the United States the number is 973-341-3080. The access code for both is 7600579. The telephone replay will be available for the next 10 days starting at approximately 5:00 p.m. Pacific Time tonight. In addition, I would like to call to your attention that our third quarter 2006 earnings quiet period will begin at the close of business Friday, September 15th. I would also like to remind everyone that our next Analyst Day is scheduled for the morning of December 14th in New York City. We'll provide you with more information closer to the event.

Before we begin today's call, I would like to caution everyone that we'll be making forward-looking statements about management's expectation. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and the risk factors that could affect us. You'll find detailed discussions in our most recent SEC filing, AMD's quarterly report on Form 10-Q for the quarter ended March 26, 2006.

With that, I'll turn the call over to Dirk Meyer.

Dirk Meyer, President and Chief Operating Officer

Thank you, Mike. In spite of our continued strong year-over-year growth, the second quarter leaves us unsatisfied as we did not meet our sales objective. On the positive side, we achieved 53% year-over-year sales growth, 57% gross margins, and recorded the 12th consecutive quarter in which the year-over-year microprocessor sales growth exceeded 20%. Even in this challenging market environment, we saw significant progress towards our goal to expand and strengthen our relationships with our largest global customers. Highlights of that progress include: Dell announced their intention to offer Dual-Core AMD Opteron-based servers by the end of the year. Lenovo announced plans to offer AMD-powered ThinkCentre commercial desktops. Fujitsu Siemens Computers launched two new AMD-based commercial clients. And we continue to enjoy strong commercial growth across all product categories with Hewlett Packard.

Our strong gains with our biggest global customers were due in large part to the continued adoption of AMD Opteron processors. Once again, we set a record for AMD Opteron revenues with increases of 26% sequentially and 141% year-over-year. ASP has increased and we believe we continue to gain unit and dollar share as the server market continues to embrace AMD solutions across a broader industry footprint.

We made further progress in manufacturing, allowing us to efficiently balance customer demand with the unique dynamics of our industry. More specifically, Fab 30 operations continue to perform at industry-leading levels. Fab 36 is ramping ahead of plans. We commenced shipment of products out of Chartered Semiconductor, and we're on plan to ramp 65-nanometer production in the second half of this year and we expect to do so at mature yields. Furthermore, we have announced plans to further expand production capacity at Fab 36, convert Fab 30 from a 200-millimeter to a 300-millimeter tool set, and accelerate our processor technology roadmap with an aggressive transition to 45-nanometer within 18 months of 65-nanometer production. AMD also received a non-binding $900 million cash incentive package from the State of New York to build a wafer fabrication facility in Luther Forest, New York. On behalf of AMD, our customers, and partners, I want to thank the State of New York for its tremendous commitment.

In early June, many of you attended our Technology Analyst Day, where we detailed our "Torrenza" strategic initiative. "Torrenza" represents a significant shift for our industry. It is the industry's first open x86 innovation platform, enabling processor and hardware vendors to innovate within a common ecosystem. For our customers and partners, "Torrenza" will create an opportunity for differentiation in value that is unprecedented in our industry. Leveraging the scalability of the direct connect architecture, we also plan to demonstrate our next generation microprocessor core in a native quad-core implementation before the end of the year.

In summary, while we cope with short term disruptions in the market, we did not and will not lose our focus on executing our long-term strategy. Our global customer base is growing, supported by our industry-leading manufacturing execution and truly game-changing technology. Now, I would like to ask Bob to review the results of the quarter as well as to provide the outlook.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks, Dirk. As we stated in our press release and as Dirk just commented, we're disappointed that we didn't hit our top-line guidance. However, we were very pleased with several elements of the quarter. As a result of the Spansion IPO, my comments comparing the second quarter of 2006 to the second quarter of 2005 do not include the results from what was our memory product segment. Second quarter sales of 1.22 billion were down 9% compared to the first quarter of 2006. Sales were up 53% compared to the second quarter of 2005, driven by growth in all segments. Geographically, processor sales were sequentially higher in China, offset by lower sales in North America and Europe. Consistent with normal quarterly seasonality, our total microprocessor unit shipments were down 4% sequentially, driven by lower shipment of client units and lower client ASPs. High volume desktop processor ASPs were challenged in the quarter due to deep discounting in the marketplace, and in some cases we walked away from that business that didn't make sense.

We were pleased by the growth in our server processor business, recording sequential double-digit percentage unit growth and single-digit percentage ASP growth. We believe we once again took market share in the server space with 141% year-over-year AMD Opteron sales growth and sequential growth of 26%. We are well on our way to achieving our year-end goal of more than 30% server market share.

Gross margin was a solid 56.8% and was within our long-term guidance, down slightly from the record of 58.5% in the first quarter of 2006. This was largely due to the lower desktop processor ASPs. Total operating expenses, which include R&D and SG&A, were up 13% from the prior quarter primarily due to the extra week of operations in the quarter and increased marketing expenses in support of our long-term goals to acquire new customers, expand business with existing customers, and increase commercial sales.

Operating income of 102 million was down from the prior quarter, and increased from the second quarter of 2005. Net income for the quarter was 89 million or $0.18 per share. These results included non-cash employee stock-based compensation expense of $18 million or $0.04 a share, a $12.5 million loss or $0.02 per share associated with our 38% ownership in Spansion LLC, and a net gain of $10 million or $0.02 per share associated with Spansion LLC -- repurchase of its 12 3/4 senior subordinated notes.

Now, let me turn to the balance sheet. Our cash balance was $2.5 billion in the quarter, down 100 million from the first quarter due largely to increased capital expenditures associated with investments in Fab 36. Inventories increased 68 million as planned from the first quarter driven by the outstanding ramp of capacity and mature yields of Fab 36. Days of inventory ended the quarter at 76 days.

Now let's talk about the outlook. AMD's outlook statement for the balance of the year is based on current expectations. The following statements are forward-looking and actual results could differ materially depending on market conditions. AMD expects demand for its products to be seasonably strong in the second half of 2006, and we expect third quarter sales to increase sequentially. As a reminder, we will return to our typical 13-week quarter for third quarter.

Operating expenses for the third quarter are expected to be flat from the second quarter. Non-cash stock-based compensation expense in the third quarter is expected to be approximately $20 million at the current share price. Depreciation and amortization will be approximately $200 million in the third quarter and $800 million for the year, down slightly from our guidance of 2006 of 825 million. We expect 2006 capital expenditures will remain at our prior guidance of approximately $1.7 billion. 2007 capital expenditures are expected to be approximately $2.5 billion as we expand Fab 36 capacity capabilities and start investing in our conversion of 300-millimeters of Fab 38.

So in summary, we are confident about the second half of the year and we continue to focus on the successful execution of our strategy. Now I'll turn it over to Hector

Hector de J. Ruiz, PhD., Chairman and Chief Executive Officer

Thank you, Bob. In this past quarter, we have entered into a new stage of industry transition. The world has spoken and it's really a new world that is about differentiation. It's a world about choice, about fair and open access to market. It is not about bench marks. However, it is about innovation, innovation beyond the transistor and beyond the core. Innovation based on customers and their needs, and I believe this transformation is irreversible. And the company with its strongest leadership fundamentals will emerge as a partner of choice. We continue to expand our platform footprint with the world's most discerning customers, top-tier global OEMs like Acer, HP, IBM, Lenovo, Sun, and soon, Dell. And with truly innovative offerings in sight like our "Torrenza" open innovation platform, our upcoming 4x4 enthusiast solution, and the industry's only native quad-core, we will continue to provide a new path to differentiation and sustained value creation for companies starved of this choice.

We are scaling our capacity to meet the growing number of companies wanting to work with a more customer-centric partner. Our Dresden and State of New York announcements secure our ability to meet significant increases in demand for our world-class products. Our commitment to internet enable 50% of the world's population by 2015 took another step forward this quarter with our agreement with Microsoft to support flexible business models in the emerging markets. Our industry has recognized that one business model, one technology does not fit all. We continue to be a magnet for the world's best and brightest technical minds, and it is because of our exceptional collection of talent, that I'm confident in our ability to no longer just survive these industry disruptions, but thrive in them.

Our industry is one of the most important in the world and as such, we have that responsibility to evolve and transform along with the needs of our partners, customers, and markets. This quarter we witnessed a few aftershocks from this transformation as our new approach to innovative technology and serving customers continued to take hold. And we're fully confident and look forward to being able to thrive in this environment and continue our momentum to gain share.

Finally I would like to thank AMD employees everywhere for their commitment and excellence. Even in a challenging quarter they remained focus on our most important objective - delivering customer eccentric innovation that enables our customers and partners to win in their markets on their terms. Now let me turn it over to Mike Haase to start the question and answer period

Michael Haase, Director, Finance and Investor Relations

Thanks, Hector. Operator, if we could start the polling please?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. Thank you. Your first question is coming from Mr. Tim Luke with Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thank you so much. Bob, I was wondering if you could give us some framework for some of the different puts and takes we should think about with respect to the gross margins as we move into the third quarter?

<A – Robert Rivet>: Sure. Obviously, we forecasted – we think sales will go up. So, you have to play that through the equation. Fab 36 will continue to ramp, but all the inventory will be valued; it's ramping flawlessly as I kind of said. So, gross margin - we don't give a forecast on gross margin, but to me everything is moving in the right direction.

<Q – Tim Luke>: And with respect to the sales being up, if you could just remind us as how you perceive seasonality and whether within that we should expect this mix of maybe lower ASPs balanced by strong units in everything other than Opteron or whether after such a strong ASP in Opteron in the second quarter, we might expect that to moderate some in the - going forward? Thanks.

<A – Henri Richard>: Tim, this is Henri.

<Q – Tim Luke>: Thanks, Henri.

<A – Henri Richard>: I think it's clear that the environment will probably remain challenging in the desktop. However, I'm confident that our brand positioning and the positive impact of the Dual-Core Turion launch will help us in the mobile space. And as you pointed out, we should also expect some offset with the strong continued success of Opteron.

<Q – Tim Luke>: So, it's the desktop and mobile up with both having ASPs lower and possibly…

<A – Henri Richard>: No, no. I would say units in both mobile and server up with solid ASP

<Q – Tim Luke>: Okay.

<A – Henri Richard>: And frankly the market is uncertain on the desktop as we've seen in the second quarter. I won't make a projection there.

<Q – Tim Luke>: Is it fair to say you've seen your large competitor as aggressive in the early part of this quarter as they were at the end of last quarter?

<A – Henri Richard>: The issue that we're seeing in the marketplace is not so much the level of aggression, but the way it is being communicated and how it is disruptive to the partners.

<Q – Tim Luke>: Thank you very much, guys.

Operator: Your next question is coming from Mr. Adam Parker with Sanford & Son (sic) [Sanford Bernstein]. Please go ahead.

<Q – Adam Parker>: Sanford & Son, I think it's a TV show. Anyway, I know you don't want to talk about benchmarking, Hector, but can you just talk to us about – or Henri, could you talk about your technology in the desktop business a little bit? How do you think your products here stack up against Intel in the desktop space as we kind of head into comparing ourselves to Conroe and what can you do to gain share in desktop here in the next six months?

<A – Hector Ruiz>: Well you know Adam, its very clear that our customers have a much better knowledge than I do of both the existing and future products that AMD and our competitor are offering. And all I can tell you is that I continue to see a strong trend of increasing the number of AMD platforms they will offer to the market. So that tells me that more than ever, we're the smarter choice.

<Q – Adam Parker>: Is that predicated on superior technology or pricing or both or to what do you attribute that?

<A – Dirk Meyer>: It is Dirk here, maybe I can provide some insight there. It is interesting from my perspective, the performance crown in the microprocessor business is something that's been passed back and forth several times over the past 10 years, and I expect that to continue. Interestingly who has the performance crown at a given instant is relevant – is relevant really to a pretty small fraction of the marketplace. That fraction is one refer to as the enthusiast market.

<Q – Adam Parker>: Right.

<A – Dirk Meyer>: And interestingly our 4x4 platform initiative, we think is going to continue to hold the hearts, minds, and wallets of the enthusiasts in the industry. But more relevant really to our business is the so-called mainstream market, where we have always and will continue to provide technology solution that meets the needs of that marketplace. And, we do so frankly without the monopoly attacks of our competitor.

<Q – Adam Parker>: Right.

<A – Dirk Meyer>: Our customers understand that. Their customers understand that. They all want choice, and they're making that vote, they have made that vote, and we think they'll continue to make that vote.

<Q – Adam Parker>: Okay. Lastly, guys, can you talk about what – how this extra week impacted your revenue in Q2 and how you expect it to impact your revenue in Q3? What's embedded in your guidance here about the one less week on a sequential basis in Q3, please?

<A – Robert Rivet>: Well, clearly – this is Bob. Clearly, we didn't get any uplift for the extra week in the quarter - in the second quarter from that standpoint. Clearly, we have the cost side of the equation for the depreciation payroll et cetera, et cetera, associated with the extra week. Third quarter goes back to the normal 13 weeks, and we expect to grow from second to third, period. Costs will come down which is why we're forecasting flat quarter-on-quarter because we lose that extra week.

<A – Hector Ruiz>: But, Adam, this is Hector. Let me just add a couple of points there. One is, as Bob pointed out and I want to highlight it is we expect our revenue to be up in the third quarter and despite the 13-week, one less week of work. But in addition to that, as we said in our press release, we expect the second half of the year to be seasonably strong for us and the reason we feel that way I think it is important to know, this is not just an analysis at a pretty high level. This is based on the inputs from our customers, as Henri and Dirk pointed out, that are telling us that the way they see our product roadmap plans, the availability of product, et cetera, they feel very bullish about their expectations of acquiring products from us. And we feel very positive about the second half of the year. As a matter of fact, I believe that in the third quarter we will be able to be above seasonality.

<Q – Adam Parker>: The reason I was asking you is because you talked about share gain in server and then you didn't mention what you think happened to share in both desktop and notebook in the second quarter. And I just - if Intel is guiding to 7.5% growth in Q3, you guys are guiding the growth via one less week in Q3, I was just trying to figure out if you were taking out that extra week in Q3? Do you really think you are going to grow in line with the market or faster and kind of continue to be a share gainer on the client side in Q3 and…?

<A – Hector Ruiz>: It is clear, probably two or three of us want to make a comment here, but it is pretty clear that we feel very bullish on the server side. It's pretty clear the numbers are big. 26% sequential growth and 141% year-on-year, we are gaining share.

<Q – Adam Parker>: Right. In the desktop and notebook though…

<A – Hector Ruiz>: And we will continue to do that. Now, let's see when the third parties numbers come out in a few weeks relative to the client because frankly, Adam, if you look at the numbers right now it would be very hard for us not to conclude that we might have held or perhaps even gained share on the client despite the rather challenging environment that we saw in the second quarter. And I am going to remind you that we always said is that our plan has – are to always to gain share across the board. That has been our goal. Our goal is to break the monopoly, and we continue to have that goal. And we've had 12 consecutive quarters of growing more than 20% year-on-year for 12 consecutive quarters, and our plans are to continue to do that. So, I feel good.

<Q – Adam Parker>: All right. Thanks for your time, guys.

Operator: Thank you Adam Parker from Sanford Bernstein. Your next question is coming from Mr. Mark Edelstone with Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Hi, good afternoon, guys, couple questions if I could. The first one I guess for Bob or Hector, what does the mix look like in Q3 between 300-millimeter wafers and 200 and then what does that look like in Q4?

<A – Dirk Meyer>: Hi, Mark, it's Dirk here. Rather than give you the specific mix, why don't I just give you kind of the overall ramp of Fab 36 and you can kind of deduce from that. We started the ramp roughly at the end of '05 and we'll complete the ramp to the full 20k per month level roughly end '07, and it's a pretty linear ramp across those eight quarters.

<Q – Mark Edelstone>: Okay, fair enough. And then, maybe for Henri or again for Bob perhaps, I think your OpEx growth in Q2 ended up being more than you had expected. I think the guidance was 8 if I remember correctly. Can you just talk about some of the programs you put in place? And, what if anything was a surprise to drive the overall spending levels above what you had initially anticipated?

<A – Robert Rivet>: Yeah. I'll give you just a high level and I'll turn it over to Henri. He can get into a little more specifics. But basically, we did a fair amount of investing in the future particularly in the marketing area to continue to power our way through this environment with our eyes still set on the market share gains that we've laid out for us in all of the different product categories. But to give you a little more color and specifics I'll turn it over to Henri.

<A – Henri Richard>: Yeah, thank you, Bob. Mark, we've always had an aggressive plan to penetrate the commercial segment in 2006. We've made no secret of that. Fundamentally based on customer feedback, the increasing number of platforms that will be available on the Revision F of our Opteron server platform, which is coming out next month, and the opportunity in front of us in the second half of the year to continue to accelerate our momentum in the enterprise, I made the decision to also accelerate our spending. And, I'm sure you've seen our power campaign and some of the other campaigns that we've put in place. We felt it was the right time to invest in the success of our enterprise penetration. And the bulk of our spending is in that area.

<Q – Mark Edelstone>: And two just very brief ones if I could, one is, what do you expect ASPs to do in the third quarter? And then and Hector, you talked about seeing seasonal strength in the second half of the year. How much of that strength do you think is coming from normal seasonality versus share gain?

<A – Hector Ruiz>: Mark, we believe that because the environment that we call challenging in the second quarter is going to continue in the third, and probably, likely even into the fourth that we're going to be facing the second half where ASP projections are going be challenging to make due to frankly the uncertainty of what our competitor is going to do in the desktop space where a lot of the challenge has been. So setting that aside, therefore, we are planning to say the ASPs are going to be reasonably flat. Okay, as far as our reasons for optimism relative to growth is that, frankly, because our customers are telling us that they expect the demand for our product, so this is not a statement of the market, this is a demand for our product, is healthy. And that, that combined with what we believe are some customer acquisitions strategies for the second half of the year, because we still have customers around the world that are not yet purchasing AMD product, the combination of that is – makes us feel optimistic, i.e. translate that to be is, we're going to gain share

<Q – Mark Edelstone>: Thanks a lot, guys

Operator: Thank you. Your next question is coming from Mr. Eric Gomberg with Thomas Weisel. Please go ahead.

<Q – Eric Gomberg>: Frankly, did you say that you actually expect to be above typical seasonality in the third quarter, and if so, what is typical seasonality?

<A – Hector Ruiz>: No, we don't know what seasonality this quarter is going to be frankly. It changes every year, it ranges from, lord knows what number, I forget. So, the average is probably in the 5…

<A – Robert Rivet>: Typical is four to seven.

<A – Hector Ruiz>: But if, whatever the seasonality is this year which is a function of so many things, if this year happens to be a third quarter that's seasonally up x percent, we expect to do better than that.

<Q – Eric Gomberg>: Okay, fair enough. Could you talk about where you expect inventory on your balance sheet to be exiting the third quarter? And also what you think the status of channel inventory is right now?

<A – Robert Rivet>: Yeah, this is Bob. I would - our plan is to build inventory in the third quarter in anticipation of an even stronger fourth quarter, probably at a slightly lesser rate than we did in the second. Fab 36 will be where that build will all take place. We've been running at full capacity in Fab 30. So, fourth quarter will drain that off. So, the typical pattern is build in second, build a little bit in third and drain off inventory in the fourth. We're pretty consistent on that pattern and that's where we're going. This year might change in the fourth depending on how the customer input comes in for the start of the '07 period of time.

<Q – Eric Gomberg>: And as far as where the channel sits today?

<A – Robert Rivet>: Henri, you want to comment on this?

<A – Henri Richard>: Sure. I would be happy to. The channel is obviously where most of the unrest has taken place in the second quarter, so consistent with our general practice we've kept our inventories as low as possible and then build inventory during the quarter in the channel.

<Q – Eric Gomberg>: And given Intel's behavior in the channel, would you expect to continue to walk away from low end business this quarter or do you expect that to moderate?

<A – Henri Richard>: Well, Hector has always been very clear that our goal is to make profitable growth, so we're going to take business that makes sense for our customers and for us, and we're not going to go chase what I call lighting a cigarette in front of a gas leak.

<Q – Eric Gomberg>: Okay. Fair enough. Thank you.

Operator: Thank you. Your next question is coming from Mr. Joseph Osha with Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Lighting a cigarette in front of a gas leak, huh? So, I have a sense as to how Fab 36 is going to ramp. You said 20K a month by the end of '07, right? But, as I kind of get beyond that and I talk about – I think about the Fab 30 coming down and then coming back up, can you give me a sense of say that end of '07 run rate, what's going to happen? Will 30 be coming down during '07 and coming back in '08? I'm just trying to get my arms around the total output.

<A – Dirk Meyer>: Yes, at a high level what happens is we ramp Fab 36 to 20K and then actually beyond that in '08. Okay?

<Q – Joseph Osha>: Okay.

<A – Dirk Meyer>: In '07, we start to take down Fab 30 and convert to a 300-millimeter tool set.

<Q – Joseph Osha>: Okay.

<A – Dirk Meyer>: And in addition, we've got Chartered Semiconductor which is ramping now.

<Q – Joseph Osha>: So, is Fab 30 offline by say the end of '07?

<A – Robert Rivet>: It never really goes offline. It is a conversion.

<Q – Joseph Osha>: Okay. But, I mean it is a whole different tool set, I would think it would effectively go out [audio gap]?

<A – Dirk Meyer>: Think of it this way, Joe, is we'll probably never go below 50% utilization in the facility as we continue to flip out tools. What we're actually doing is building a separate building to actually augment the capacity to be able to flip the tools through the system. So, we'll never actually go below about 50% utilization of the facility in the worst quarter of time. But again, we also have Charter to fill in the blank from that period of time. So, we see continued capacity expansion through the '07, '08 period of time, not exactly linear but darn close.

<Q – Joseph Osha>: Okay. So, let's just imagine it's the end of '08 and I've got 36 running at let's call it 25,000 wafers a month, maybe the retrofit of Fab 30, at call it 20 and could Chartered be, I mean is Chartered ever going to be that big or would Chartered be maybe 10 or something like that?

<A – Dirk Meyer>: It will be modulated

<Q – Joseph Osha>: Okay. But you could be in enterprise with mid '08, 50,000 300-millimeter wafers a month?

<A – Dirk Meyer>: Yes, sir.

<Q – Joseph Osha>: Okay, thanks a lot

Operator: Thank you. Your next question is coming from Krishna Shankar with JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes, can you comment about the pricing environment here so far in July, do you feel that some of this was based o just your competitor blowing out obsolete inventory, or certain of the architecture getting obsolete, and will we see a more rational environment in the channel going into Q3 and Q4?

<A – Hector Ruiz>: Well, I think there were several factors. But probably the biggest factor was the fact that it seems that the competition decided to throw away one of their brands and completely reposition Pentium. That had a very negative contribution to the environment, particularly in the channel. It is a little early now in July to give you a forecast of what's going on. Our checks indicate that there is still a lot of inventory out there. And that's why in my previous comments I was fairly optimistic about the mobile space and the server space and I'm cautious about the desktop space because that's where the bulk of the channel business exists.

<Q – Krishna Shankar>: Okay. And the follow-up question is I think everybody probably read the reviews on the competitor's new product line. And do you folks have any comments on what you've seen in terms of the trade reviews and what your upcoming Socket 2 - AM2 Socket will do in terms of the advancement in performance and power?

<A – Henri Richard>: There is - of course we're looking at all of those reviews. As you know, the main feature that the AM2 Socket is bringing to the market is the support of DDR2 memory. We've never presented it as a performance improvement. We are going to continue to provide faster products to our partners. I'm not going to disclose at this point in time our Q3 and Q4 plan. We're looking at what the competition is doing and they seem to be innovating at the core, and we're going to continue to innovate both at the core and the platform level.

<A – Hector Ruiz>: And I'd just like to add that when we launched Turion, the first launch of Turion was very successful. If you remember back those days we actually stated that that was the most successful product launch we had and fastest ramp. We are now, when -- are introduced the next two actually is doing even better than that and the reaction from our customer base is very, very strong towards that product.

<Q – Krishna Shankar>: And my final question is Dell, when will Dell actually start to ship the – your Opteron server-based products in volume?

<A – Hector Ruiz>: You should ask them. What they've publicly stated is that they would involve – their plans are to have a product by the end of the year, on the server.

<Q – Krishna Shankar>: Does that mean that there are other products to come? You seem to be hinting at a broadening of the relationship with Dell.

<A – Hector Ruiz>: Our hopes are always to broaden our relationships with all of our customers. We used to be mainly a desktop supplier to HP. We're now a broad-based supplier to HP. That is our plan, our intent, our desire. It is no different with Dell. But at this point in time the only product they have openly announced is the launch of a server by the end of the year.

<Q – Krishna Shankar>: Thank you.

Operator: Thank you. Your next question is coming from Lacey Higgins with Prudential. Please go ahead.

<Q – Mark Lipacis>: Hi, actually it's Mark Lipacis from Prudential. A couple questions, Dirk, I thought in the beginning in your comments you talked something about a native quad-core and I missed that, would you be so kind as to just to review what you were talking about and is that a change in the production schedule for quad-core?

<A – Dirk Meyer>: High level it's not really a change. It's really an amplification to what we said at the Analyst Conference in June. We've got a new core under development. The first instantiation of which will be in a quad-core form to be launched roughly mid '07. And, what I said is we'll demonstrate that by the end of the year.

<Q – Mark Lipacis>: Okay. Thank you. And the – Bob, for the 2.5 billion in CapEx for '07, what's the expectation - is expectation for funding that through cash flow from operations or through some other means?

<A – Robert Rivet>: No, cash - current cash on the balance sheet and cash flow from operations.

<Q – Mark Lipacis>: Okay, great. And last question, as you guys are ramping Fab 36 and -- could you give us a framework for understanding what the – how we should think about the cost structure on products that are coming out of Fab 36 versus Fab 30 right now? Thank you.

<A – Robert Rivet>: Sure. Right now, we're still - Fab 36 is a premium, meaning costing more than Fab 30 because we're still, to Dirk's point, I mean we're still quite a ways away from the appropriate asset utilization in that space. And to decode what Dirk said, we'll go out of this year about 50% utilized from a wafer start standpoint. So, the 300-millimeters as we all know yields about a 30% advantage compared to a 200-millimeter wafer, and we'll start crossing to Fab 36 as cheaper at the same technology node in the fourth quarter kind of timeframe.

<Q – Mark Lipacis>: Great. Thank you.

Operator: Your next question is coming from Mr. Michael McConnell with Pacific Crest. Please go ahead.

<Q – Michael McConnell>: Thank you. Looking at your competitor's balance sheet yesterday, we saw inventory up 22% sequentially. You're now at record inventories. Your inventory on your balance sheet is up 20%. You're both giving indications you're going to raise inventory on absolute dollars again in Q3. Both saying you're going to be gaining share, why shouldn't we be worried about that this could get even uglier right now as we kind of progress into the second half of the year?

<A – Hector Ruiz>: First of all let me – a couple of comments. I believe that the situations are quite different. It is clear from the actions taken in the second quarter that there is an awful lot of aging inventory that needs to be dealt with. And we recognized that's going to be a challenge and creates this very challenging environment that we talked about in the second quarter, that we think will continue in the third quarter. We are not building aging inventory. We're building inventory like Turion X2 which is highly desired by our customers. Our Opteron demand is strong. We've shipped everything we built in the second quarter in Opteron. We – so our view is somewhat different, and even if our competitor's building inventory on the new products that they have announced they still have the very large aging inventory that they have to deal with. So I believe these are very two the different things.

Similarly, when we look at our capacity plans and expansion, they're based again on the inputs our customers give us on their wishes and desires to participate in the products that we build. And I said in my opening remarks which we believe very strongly, is that the sea change in the industry is that customers really have embraced the idea of choice. And that they want and need AMD to be a major player and a major supplier and I believe that our performance over the last three years has earned us the right to be a major supplier to these customers. We believe that's going to increase and the footprint with each of them, it's also going to increase. So, I believe our plans are sound, our expansion capacity is very sound and based on - planning, based on customer needs and from our end we are not worried about having too much capacity.

<Q – Michael McConnell>: Fair enough. And then looking at – in September there are some indications that your competitor is going to be changing their pricing strategy, at least traditionally with the rebate activity, with the OEMs versus the channel. Now, understanding you're taking some share at the OEMs currently but looking at the channel that's historically been a very strong segment for you. With them now looking at potentially evening out the pricing between the channel and the OEMs, are you still comfortable with that change that you can still take share in the third quarter as well as the fourth quarter?

<A – Henri Richard>: The information that you're referring to is supposedly being implemented by the competition on the 24th of July price move, but all our indications in the market are that this is a story or a smoke screen and that there's no fundamental change in the cost – I mean in the price structure of OEMs versus distribution.

<Q – Michael McConnell>: Thank you very much.

Operator: And your next question is coming from Michael Masdea with Credit Suisse. Please go ahead.

<Q – Michael Masdea>: Yeah, thanks a lot. I guess this is the one question to follow-up with, you said already about the competitive environment, it sounds like the real battleground is on the desktop area and the whole idea of going after profitable growth. Is there some tipping point at which you say that the share loss is too much and you're willing to play that game more or with Fab 36 ramping up can you get more aggressive or is that always going to be the case, where you'll walk away from too aggressive desktop business?

<A – Dirk Meyer>: It's Dirk here. I'll start and I think Hector is going to want to add. First of all, our high level approach is to build capacity based on the demand signals that we get from our customers. And within a capacity context, make decisions that maximize the gross margin dollars that we get for this business, and that's what we'll continue to do. Relative to the pricing dynamic in the marketplace, from my perspective it's kind of interesting. We have always had price competition across the entire front of our business. I think what's changing is in our - Intel has not always had price competition across the entire front of its business but is beginning to feel that change. So, frankly, the idea of continued price competition doesn't bother us because it's nothing new to us. Hector?

<A – Hector Ruiz>: Yeah. the only thing I would add is a minor modification which is important. You said that desktop will be the battleground and I think I will add to that is right now, this challenging environment is the desktop in the channel. And that – and as Dirk pointed out, we welcome competition and we thrive on figuring out ways in which we can thrive in that environment. The one thing I do want to point out that Dirk and Bob alluded to in their earlier comments, and they are so important that I want to make sure they don't get missed, is that we managed to achieve in the first and second quarter a gross margin performance that is between 55 and 60% which is quite strong and frankly levels we hadn't achieved in our company for a long time. And, we have managed to do that being at 200-millimeters, 90-nanometer technology and a factory that was small in the relative terms. We're now moving towards - and by the way that was prior to us participating strongly in the server space, therefore our ASPs were even lower. So, we're now moving in this second half of the year aggressively towards 300-millimeter, as Dirk pointed out, aggressively ramping 65-nanometer and because of our stronger participation in both the server space and the commercial space, the improving ASP outlook once we get past this nightmare of a challenging environment. So, everything we're doing now is in the direction of goodness based on an -- already a strong performance based on the parameters that I just mentioned. So we believe that our opportunity to continue to be very competitive even in this very challenging desktop environment is only going to improve and get better.

<Q – Michael Masdea>: Great, thank you. And then kind of in that vein you had some pretty significant wins in the commercial market on the desktop side of Lenovo and the thin client Fujitsu. Kind of walk us through how you kind of got over the hurdle to get into the commercial markets and how do you get these OEMs and some of the ones you haven't gotten so far to expand their commercial offerings so you can have more access to those higher ASPs?

<A – Henri Richard>: Well, we've always told you that for us to challenge is not the demand at the end user level, but the fact that the market would be offered the choice. And it's very clear to me that it's increasingly obvious to companies in our industry that offering choice is a competitive advantage for them, their sales force talking to their customers. And Hector talked about a change in the industry and that's what – there is a tipping point. Frankly the penetration of Opteron in the enterprise space has helped us give those customers confidence that there was true demand for AMD product. Now, we have to continue to ensure that we penetrate all of these OEMs and offer a greater number of SKUs and that will drive a greater market share. It's all about having access to the market and breaking the monopoly.

<Q – Michael Masdea>: Great, thanks a lot.

Operator: Your question is coming from Mr. Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello>: Good afternoon, thanks so much. Quick question on the CapEx, I understand that today you don't believe you have - are adding too much capacity and I understand your '06 and '07 CapEx budgets are a sign of your confidence in the business. But there comes a point at which if you were to miss numbers a couple of quarters again in a row that the capacity and the CapEx ramp would become a problem. The question is at what point would you think about scaling back on the CapEx understanding that today you don't believe there is a problem, under what scenario would you think about scaling it back?

<A – Robert Rivet>: Well, I'm not sure I would lay out at this point a scenario, but I -hopefully, we've demonstrated historically to-date we're pretty flexible in this area. It is not just a build it yourself, build it and damn the torpedo kind of issues. All of those numbers are relatively flexible to flex them up or down depending on the needs of the marketplace based on the signals we're getting from our customers

<Q – James Covello>: Do you think there is a scenario that the CapEx could be adjusted within 2000 – if the 2007 CapEx plans could be adjusted within 2006, or do you think it would need to be a longer timeframe over which you would need to see weakness relative to your plan in order to adjust the planned CapEx?

<A – Robert Rivet>: We think we can affect future periods at any moment in time by pushing and pulling on those numbers. So we could be in '07 and affect '07 numbers just like we're in '06 affecting '06 numbers because we pulled it in and actually have accelerated our spent to put more capacity in place. So we're pretty flexible in that term and then in addition to that we've got the toggle of Chartered Semiconductor to flex up or flex down

<Q – James Covello>: Right. And then final question but same topic, how much near-term pain are you willing to withstand in terms of CapEx or depreciation increasing in a weaker revenue environment? How much of a near-term decision is it versus a two or three quarter decision? In other words, if you started losing money would that be alone enough to cut – make you cut your CapEx plans for the future? Or would even then, it would be dependent upon what your future outlook would be?

<A – Hector Ruiz>: Frankly, we hate hypothetical questions. And I think because we don't know what the environment is going to be when one of those parameters gets met. I think we're prudent in what we do. We demonstrated that in the past. And we, as Henri pointed out, our commitment is to profitable share growth. We're careful with that. Having said that, we're not going to let a quarter or two of challenging environment detract from our long-term vision of breaking the monopoly. And so, we'll put in place and shoot ahead of the duck, and the only thing I can keep the duck from getting there is the monopoly.

<Q – James Covello>: Thank you very much.

Operator: Thank you. Your next question is coming from Mr. Glen Yeung with Citigroup. Please go ahead.

<Q – Glen Yeung>: There was a question earlier that asked whether or not there was some share level at which point you would capitulate. I'll maybe ask the question in another way. Is there some margin level at which point you say, you know what, I don't want to go below that margin level and that's all there is to it?

<A – Hector Ruiz>: No. Again, these are hypothetical questions that have way too many parameters. First of all, we have strategic customers. We have strategic partners. We have regions of the world, where we have an in turn, a strategic intent to do certain things. Those are a rather complex mixture of challenges. In addition to that we have brands that we've created that address different segments, different markets. So, it is not a simple answer. I think what I would like to leave you with is we have a competent executive team here that manages the cause, manages the brand, manages the relationship with customers. I think we do it well, and frankly, I think that's one of the strengths going forward is that that's just not going to change.

<Q – Glen Yeung>: Good point. Next question I have is – and this may sound a bit odd given the environment that we're in. But I'll ask anyway which is do you actually sense that given where you are today as compared to where you were a quarter ago and recognizing that there wasn't a lot of things that you necessarily knew were going to happen in the next 90 days a quarter ago, do you actually feel like your visibility now is a little bit better? You kind of live with a quarter of Intel's craziness, I think you got some interesting share gain opportunities coming up for you this quarter, seasonably it looks a bit better. Does it feel a little more certainty or maybe just your sense on that?

<A – Henri Richard>: So, first let's remember that the second quarter in our industry is always the toughest.

<Q – Glen Yeung>: Right.

<A – Henri Richard>: So for me, to give you visibility to the third quarter and the fourth quarter where you have back to school when you talk about the consumer market, back to school in the third quarter, Christmas season in the fourth quarter things become a little more predictable because those are stronger quarters inherently, assuming industry seasonality would be the usual one. Secondly, there is only so many brands that a competitor can throw away. Our competition has destroyed in less than six months two of the most strong brand they've ever built - Intel Inside and Pentium. I don't know how many brands they're going to throw away, but they're going to run out of them. And I think that therefore as a result of that, there is a little bit of a clearer picture in terms of what could be the strategy.

Frankly, the issue that we're dealing with is that all of this disruption is not expanding the market. There is not a lot of elasticity in some of the pricing action that has been taken, as demonstrated this last quarter in the channel. And the partners are a little bit confused. I think it is time to settle – settle down and give them long-term guidance and that's what we're doing. We don't want our partners to be worried about what they're doing putting our products in the marketplace. And we want to be the predictable, reliable partner. And we're going to be that in the second half of the year

<Q – Glen Yeung>: That's actually very helpful answer. Thanks. I just have one last question which may be a little esoteric here but I actually wanted to get an update on your ZRAM technology and if there's been any progress there?

<A – Dirk Meyer>: Yeah, it is Dirk here. We're continuing to evaluate that technology internally and aren't prepared to comment further.

<Q – Glen Yeung>: Okay. Thanks a lot.

Operator: Your next question is coming from Mr. David Wong with AG Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. 65-nanometer rollout, can you give us an update of when you expect that to be?

<A – Dirk Meyer>: Yeah. We'll start ramping the factory in the second half of this year and produce – and ship into the market our first parts by the end of the year.

<Q – David Wong>: Great. With Chartered, you've mentioned Chartered a couple of times. Can you give us some feel for the gross margin and profitability of profile of stuff that you ship from Chartered?

<A – Dirk Meyer>: I don't think we want to be specific as to profitability and gross margin numbers. The commentary I'll provide is that we're shipping and planning on continuing to ship a mix of client products from Chartered Semiconductor.

<Q – David Wong>: But you can't….

<A – Hector Ruiz>: The only thing I would add, I think it is appropriate to say that we are very, very happy with Chartered and their management team. They've done an outstanding job and the yields and quality of the product is very good.

<Q – David Wong>: But, could we assume that the gross margin of Chartered would – by definition be lower than in house or should we…?

<A – Dirk Meyer>: No. That's a true comment. I mean, there is – they need a taste of the action to be in the game. We have no capital investment in the Chartered Semiconductor business, so we have to pay for the cost of capital in the wafer, but it's all marginally good. It is incremental margin dollars to the company to run the Chartered Semiconductor business. If it wasn't, we wouldn't do it.

<Q – David Wong>: Yes. Yes, that's great. And, my final question, I was interested in your comment that you've got marching orders not to take any unprofitable business and also about shooting at the duck. If you had a big particularly important strategic duck that was quacking at you, would you take unprofitable business?

<A – Hector Ruiz>: The marching orders are that we have to use - be prudent in the things that we did and we had to have profitable growth. Sometimes addressing a unique particular need where the customer is very strategic could be a very narrow segment that may not be profitable, but in totality that customer, or segment, or market has to be profitable.

<Q – David Wong>: Great, thanks very much.

<A – Michael Haase>: Operator we're going to take two more questions please.

Operator: Thank you. Your next question is coming from Mr. Chris Danely with JP Morgan. Please go ahead.

<Q – Shawn Webster>: Hi, this is Shawn Webster for Chris. I had a question on the operating expenses, can you expand a little bit on why they might be flat sequentially compared to a 14-week quarter and then I have a quick follow up?

<A – Robert Rivet>: Sure. We lose a whole week, so a whole week just pick your number, but in round terms that's a 7% type issue. So, there is a 7% of cost that goes away when you transition from a 14-week quarter to a 13-week quarter. So basically, we're saying we'll have a 7% increase in natural cost offset by this 7% decrease of the extra week.

<Q – Shawn Webster>: Okay, can you maybe talk - characterize it then what's driving the sequential assuming there is a 13-week in Q2, what's driving the growth there?

<A – Robert Rivet>: Sure. Continued expansion in Fab 36 and continued investment in strategic programs both in R&D and in sales and marketing to continue to capture customers expand the market, et cetera.

<Q – Shawn Webster>: And then within your spending profile, you've talked a little bit about how Chartered is flexible capacity and you have some leeway there in terms of your capacity growth depending on the demand and order environment. Can you talk about what you are spending for Chartered to enable process reporting and the design work that's happening for Chartered processes, et cetera?

<A – Robert Rivet>: No, we don't disclose that type of information.

<Q – Shawn Webster>: Okay. Then can you give on the capacity front, can you talk about – in the past you've talked about unit processor capacity for 2007, I think in the range of like 65 to 70 million units. Are you still in that range today looking forward or is it - can you give us an update there?

<A – Dirk Meyer>: Yeah, it's Dirk here. I think in the past what we've communicated is unit capability in the 2006 timeframe in the 60 million-ish area and an intention to go more to the 80 million-ish area next year and 100 million the year before that. That guidance stands…

<A – Robert Rivet>: We still have flexibility to push and pull on that. Of course it's die size dependent, that's still a good guidepost at this moment in time.

<Q – Shawn Webster>: Okay. And is Chartered still representing the 5 and 15 million units within those two years as far as the flexibility?

<A – Robert Rivet>: Yeah, it's going to be 10%-ish, 10% of that kind of number upwards of 20. I mean, it kind of depends on a given quarter.

<Q – Shawn Webster>: Okay. Thanks a lot.

Operator: Last question is coming from Mr. John Lau with Jefferies & Company. Please go ahead.

<Q – John Lau>: Great, thanks for taking my question. I wanted to ask you again Henri, Dirk, circling back to servers, there has been a lot of focus there and with the competition – with the Woodpress launch have you noticed any recent pricing action that has been a little more aggressive? Can you give us some color as to how that is entering the market especially in the area that you're very strong at? Thank you.

<A – Henri Richard>: Yeah John, I mean it is a little bit early to see what price is going to be, because frankly, there's not that many out there. It has always been a very competitive environment in the two-piece space. We're seeing a lot of growth in the four-piece space, which is very good for us given the scalability of our platform. And I expect that of course the competition is going to want to be very aggressive in that market. But as you know, those are bid-driven types of pricing environment and so it is very difficult to derive from a few days of availability any sort of trend.

<Q – John Lau>: Okay. And then as a follow-up, Henri, can you characterize what your ratio split is between 2P and 4P right now?

<A – Henri Richard>: I really don't want to give you that level of granularity. But I'm happy to tell you that the 4P space is growing nicely and we're going to make sure it continues that way.

<Q – John Lau>: Thank you.

Michael Haase, Director, Finance and Investor Relations

Okay. That will conclude the call, thank you very much for your participation.

Operator: Thank you. This thus concludes today's AMD's second quarter earnings conference call. You may now disconnect your lines at this time. And, have a wonderful evening.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. My name is Melissa and I will be your conference facilitator today. At this time I would like to welcome everyone to the Advanced Micro Device's First Quarter 2006 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a Question and Answer period. [Operator Instructions] Thank you. It is now my pleasure to turn this over to your host, Mike Haase, Director of IR. Sir, you may begin your conference.

Michael Haase, Director, Investor Relations

Thank you and welcome to AMD's First Quarter Earnings Conference Call. Our participants today are Hector Ruiz, our Chairman of the Board and CEO; Dirk Meyer, our President and COO; Bob. Rivet, our CFO; and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at AMD.com. Telephone replay number is: 877-519-4471. Outside of the United States the number is: 973-341-3080. The access code for both is 7188392. The telephone replay will be available for the next 10 days starting at 5:00 p.m. Pacific Time tonight. In addition, I would like to call to your attention that our second quarter 2006 earnings quiet time will begin at the close of business Friday, June 16th. I would also like to remind everyone that our next Technology Analyst Day is scheduled for the morning of June 1st at our Sunnyvale location. Additional details will be provided as we get closer to the event.

Before we begin today's call I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors, setting forth information that could cause actual results to differ materially from those in our forward-looking statements. You'll find detailed discussions in our most recent SEC filing, AMD's annual report on Form 10-K for the year ended December 25th, 2005.

During the call we will be referencing certain Non-GAAP financial measures. You can find our presentation of the most directly comparable GAAP financial measure together with a reconciliation to GAAP on the Investor Relations page of our website, AMD.com.

With that, I'll turn the call over to Hector Ruiz.

Hector de J. Ruiz, PhD., Chairman and Chief Executive Officer

Thank you, Mike. Today's call we're doing a little bit differently and I have the pleasure of introducing to you our newly appointed President and COO, Dirk Meyer, a University of Illinois graduate and better known in AMD for having led the troops in the creation of our Athlon product line as well as our current AMD64 architecture. So it's indeed an honor for me to share the leadership of the company with Dirk and I am thrilled to introduce him to you today. He will talk about the operations of the company. He will be followed by Bob Rivet, who will describe the financials for the corporation. Then I will come back at the end before our Q&A to give some closing remarks and some comments on the outlook.

With that, let me turn it over to Dirk. Dirk?

Dirk Meyer, President and Chief Operating Officer

Well, Hector, thank you very much for that kind introduction. And I'm very happy to be more actively involved in telling the AMD story to those of you in the investment community. The first quarter was yet another in a series characterized by solid growth and improving fundamental business execution, the result of great across-the-board execution by an increasingly focused and motivated team. In a nutshell, the quarter was highlighted by record AMD Opteron sales, record gross margin, continued strong adoption of our platforms by leading OEMs and key channel partners, solid progress in the strengthening of our balance sheet and continued manufacturing excellence. Once again, we did what we said we would do. We have posted year-on-year growth in excess of 20% for 11 consecutive quarters and in the last two quarters posted greater than 70% year-on-year growth.

Further, continued ASP improvement in the quarter confirms the rise of AMD as a premium brand for both consumer and commercial customers. As an example, it was another quarter of record revenue for the AMD Opteron processor family. With Opteron, AMD set the performance standard that the competition is now chasing. Performance per watt leadership, a more relevant or customer-centric measure of system performance and our unique direct connect architecture will help us continue to set the bar for system level performance for years to come.

We're really very pleased to be named by Fortune magazine as one of the top 10 most admired companies for innovation, and the leader in the category of innovation among semiconductor companies in 2005. And that innovation continues to open up broader market opportunities with global OEMs, regional powerhouses, and channel leaders throughout our growing ecosystem. As examples, HP, IBM and Sun Microsystems incorporated our newest AMD dual-core Opteron processors in their server offerings. China's third largest computer manufacturer and the second largest home PC brand, Tsinghua Tongfang, introduced a new series of computer systems powered by AMD Athlon 64, Turion 64 and Centron processors. We took a very strong step forward in our relationship with Lenovo with the world-wide launch of a new line of professional client PCs. This builds on the considerable success AMD and Lenovo have shared during the last two years in China.

More than 500 new participants have joined the growing ranks of the AMD Commercial Systems channel program, a world-wide community of solutions integrators, value-added resellers, and distributors with over 20,000 channel sales and technical reps. Finally, AMD welcomes Super Microcomputer, Tyan Computer Corporation and Uniwide Technologies to our validated server program, expanding that program world-wide.

In Dresden, our Fab36 team began first revenue shipments in March. Yields are outstanding, and we remain on track for production shipments of 65 nanometer products in the second half of this year. To summarize, we continue to execute successfully against our technology, manufacturing, and customer acquisition strategies. Now I'd like to ask Bob to review the results of the quarter, as well as the outlook going forward.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks, Dirk. AMD had an excellent first quarter. Major highlights in the quarter included 71% sales growth year-over-year, and the 11th quarter with significantly better sales growth compared to our competitor. Our share gains continue. We had record gross margin of 58.5%. We set another new record of AMD Opteron processor unit and dollar sales, generated free cash flow of $275 million in the quarter, and significantly improved our debt to capital ratio to 12%. As a result of the Spansion IPO last December, my comments compare to the first quarter of 2006 to historical periods do not include the results from what was our memory product segment. The first quarter sales of $1.33 billion were flat compared to the fourth quarter of 2005 and up 71% compared to the first quarter of 2005. Server, mobile, and desktop processor sales mix improved in the first quarter, with desktop and mobile ASP's increasing.

We established another new sales record for our Opteron processor family driven by increased customer adoption of dual-core processors. Client sales were seasonally down, however, Turion 64 and Athlon 64 dual-core units and sales increased over the fourth quarter. Geographically processor sales were especially strong in Greater China, Russia, South Asia and Latin America. Overall we believe that once again we took dollar share across server, mobile and desktop product offerings.

Gross margin was a record 58.5%, up from 57.3% in the fourth quarter of 2005, largely due to product mix improvements, increased ASPs, and manufacturing efficiencies. Operating income of $259 million in the quarter remained at approximately the same levels as to the prior quarter and increased significantly from the first quarter of 2005. First quarter operating income comprehends a full quarter of depreciation for Fab36. Total operating expenses, which includes R&D and SG&A, were up 3% from the prior quarter and we continue to make progress toward our long-term goals with R&D and SG&A both approximately 19% of sales in the quarter.

Net income for the quarter was $185 million, or $0.38 per share. These results included a non-cash stock based compensation expense of $15 million, or $0.03 per share due to FASB 123, an expense of $20 million, or $0.04 per share, associated with the redemption of $210 million of senior debt, a 15% effective tax rate, and an $18 million loss associated with our 37.9% ownership in Spansion.

Now let me turn the balance sheet with a few highlights. Our cash balance increased to $2.6 billion in the quarter, up $800 million compared to the fourth quarter due to a few large items; over $560 million of cash flow from operation, including positive free cash flow of $275 million, a successful $500 million equity offering which we partially used to pay off $210 million of our senior 7.75% debt. Inventories were $337 million, and they declined 13% from fourth quarter levels, with days of inventory at 55 days, down 6 days from the prior quarter. We made significant progress toward our long-term debt-to-capital structure target of 20%, ending the quarter at 12% due to the $500 million equity offering, conversion of the $500 million convertible note from debt to equity, and we paid down $210 million of our 7.75 senior note.

Now let's talk outlook. AMD's outlook statement for the second quarter is based on current expectation. The following statements are forward-looking and actual results could differ materially depending on market conditions. AMD expects second sales to be flat to slightly down, seasonally, from the first quarter of 2006. If achieved, this would be approximately a 65% increase from comparable sales in the second quarter of 2005. As a reminder, in contrast to our typical 13 week quarters, the second quarter of 2006 will have 14 weeks.

Operating expenses for the second quarter are expected to increase by approximately 8% quarter-on-quarter. Stock compensation expense in the second quarter is expected to be approximately $20 million at the current share price. Depreciation and amortization will be approximately $825 million for the year with second quarter depreciation increasing by at least 10% from the first quarter.

We are raising our 2006 capital expenditure forecast based on unit demand increases for AMD products. We expect it to be approximately $1.7 billion as we accelerate our 300 millimeter ramp. Based on our forecast, we expect our 2006 tax rate to be approximately 15%. We had a good quarter and in summary, AMD continues to execute its strategies and focus is on sustainable, profitable growth. I'll turn it over to Hector.

Hector de J. Ruiz, Chairman and Chief Executive Officer

Thank you, Bob. AMD's impressive growth story continued in the first quarter and if you look at where the growth has occurred, you'll see that it is in places that represent some of the highest quality revenues in the industry: In enterprise data centers, in power efficient blade servers, in mobile platforms, in our world class dual-core products and in high growth regions such as China, Russia, Latin America and India.

We continue to show the capacity to achieve significant share gains in our industries most important competitive arenas, reflecting a growing loyalty to the AMD brand. Imagine what we could do without a daily interference of monopolistic practices in an environment of fair and open competition.

Our strategy is working. We're well on our way toward reinventing the competitive dynamics of our industry but I suggest you look beyond the numbers. As CEO, these are the things about which I'm most pleased to report.

When you look at this company I would encourage you to examine the footprint that we have created. A footprint defined by an expanded set of world class OEM partners starting with Sun, HP and IBM and growing powerhouses such as Lenovo, Tongfang, and Sahara. AMD's opportunity with these great companies is rapidly expanding, a testimonial to our differentiated value proposition and delivering and our promise of customer centric innovation. We encourage you to monitor this platform expansion as a leading indicator of the quality of our partnerships and the sustainability of our success.

Take a look at the breadth and depth of the relationships we continue to build in the software and hardware community. We have become a top tier partner to many of the world's leading hardware and software companies. Microsoft, NVIDIA, Oracle, ATI collaborating on next generation technologies including virtualization, security, and digital entertainment solutions.

Most important I would encourage you to monitor the quality of the people that we continue to attract and retain. Our executive team is populated with ex-CEO's and other seasoned professionals that have earned their stripes in world class technology leaders.

Our design team has tripled since 2003 and AMD has become a magnet for world class people looking to create the next generation of industry leading innovations. In addition, our manufacturing team continues to set the bar for fab performance on leading edge technologies.

I personally believe we have assembled the strongest talent pool in the microprocessor industry and that trend is only accelerating. Everyone on this team is highly motivated by the once in a lifetime opportunity to truly change the shape of one of the world's most important industries. Our technology leadership remains solid, grounded in real customer needs. Our manufacturing execution continues on track and on time and we're confident in our capacity to maintain our unprecedented momentum.

We remain highly motivated by the promise of a market place that is better for our customers, partners and end users around the world and I'm committed to work with Dirk and the rest of the management team as we strive to deliver great results in the coming years.

Finally, I would like to thank AMD employees everywhere for their commitment and their excellence. Now, let me give it back to Mike Haase for the beginning of the Q&A.

Michael Haase, Director, Investor Relations

Thanks a lot, Hector. Operator, if we could start the polling for the Q&A, please?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is coming from JoAnne Feeney with Punk, Ziegel & Company.

<Q – JoAnne Feeney>: Well, good evening, folks. Congratulations on a great quarter. I have a question regarding the profit sharing relative to Q4, where we thought it was pretty high. I'm wondering how that changed sequentially from Q4 to this quarter?

<A – Robert Rivet>: It's about the same, Joanne. This is Bob. It's about the same. Profit sharing's a function of profit and since profits were about the same, it's relatively the same number.

<Q – JoAnne Feeney>: Okay. So there wasn't an adjustment then of the incentive plan that dictates that pay out?

<A – Robert Rivet>: Well, you asked profit sharing. Profit sharing is what we pay to the general employee base. Incentive bonus clearly is a different angle, if you're asking that question. That's lower than it was in the fourth quarter based upon new expectations we set for the management team.

<Q – JoAnne Feeney>: Can you give us a sense of how much lower that is, how much of an impact that would have on the relative EPS of the two quarters?

<A – Robert Rivet>: No. I'm not going to give you that kind of granularity.

<Q – JoAnne Feeney>: Okay. And then if I could follow up, regarding the expenses in R&D and SG&A, Hector noted that you made some investments to beef up the design team. And so your percentage costs of both SG&A and R&D have gone up around to 19%. Is that something we should expect to see maintained at that level or do you intend to make further investments in the R&D design teams?

<A – Robert Rivet>: Again, this is Bob. Yes, we will continue to play to our attraction of talent to increase the design teams to work on further customer-centric innovations. But we also believe the top line will continue to grow at even a faster rate, so that we will see dilution as time goes on of R&D as a percent of sales.

<Q – JoAnne Feeney>: And given that next quarter is going to be flat, do you expect that dilution then not to kick in until the second half?

<A – Robert Rivet>: Again, that was a long-term statement, not a short-term statement.

<Q – JoAnne Feeney>: Right.

<A – Robert Rivet>: So, flat sales, with the guidance I gave, says that will be challenged in the second quarter.

<Q – JoAnne Feeney>: Okay. Thanks.

<A – Robert Rivet>: Thank you.

Operator: Thank you. Your next question is coming from Michael McConnell with Pacific Crest Securities.

<Q – Michael McConnell>: Thank you, and congratulations on a nice quarter. Looking at Q2, there's been a lot of talk about your competitor's price cuts. Just was wondering if you could comment on the margin outlook for Q2, please, on gross margins and operating margins?

<A – Hector Ruiz>: Let me, and somebody else can chime in after I finish, this is Hector. You know, we think right now we're facing an interesting situation where we believe that our product roadmaps, our technology transitions and our customers' indications to us as we're expanding our footprint with them, continues to be very positive and attractive. What is hard for us to tell, frankly, is what the competition is going to do about the situation that they created for themselves. Therefore, I believe it is prudent at this point in time, despite our highly confident in areas relative to products and customers, that we should be cautious in the second quarter. Bob, anything you want to add on the margin side?

<A – Robert Rivet>: No. The only comment I'd make is the comment that I tried to outline in the November analyst's conference is that our margin goal is in the 55 to 60% range and we will continue to try to live in that range as time moves on.

<Q – Michael McConnell>: So should we think about the margin then on the gross margin line as being closer to that 55% in Q2?

<A – Robert Rivet>: I'm not going to comment on that kind of direction.

<Q – Michael McConnell>: Okay. If we looked at Q2, could you comment on what impact, if any, you feel in the channel and/or at the OEMs on the desktop side, the improved availability of your competitor's chipsets will have, if anything?

<A – Henri Richard>: This is Henri. As far as the channel is concerned, we've seen a lot of activity from our competitor at the low end. Clearly, they seem to have more availability in that space. It doesn't seem to be affecting certainly our demand/supply situation. For the record, we run a very lean channel. Our inventories are between four and five weeks. I don't have any further comment.

<Q – Michael McConnell>: Okay. Thank you.

Operator: Thank you. Your next question is coming from Mark Lipacis with Prudential.

<Q – Mark Lipacis>: Great. Thanks a lot for taking my call. Two questions, if I may. Bob, I think on the January conference call you had a forecast of $825 million in depreciation expense, but it would be front-end loaded. I think you may have suggested that it may have been higher by 10% in the first half of the year versus the second half of the year. Based on what you reported and what you just guided, it seems like that almost is reversing, that the depreciation expense would be back-half loaded. Did I get that right? And can you help me explain what happened?

<A – Robert Rivet>: Well, depreciation is the function of the tools you put in place to run in the manufacturing environment. Clearly it's a complex equation when you're starting up a 300 millimeter facility. So right now, the current expectation is you'll see increased depreciation in the second quarter and beyond as time goes on, as we continue to install more productive capacity in Fab36.

<Q – Mark Lipacis>: Okay. Fair enough. And then, can you quantify or just rank order – you said you had growths in servers, notebooks, and desktops. Could you give us a sense – could you help us by quantifying any of that, and by any extent give us a range or hopefully maybe just rank order which ones grew the fastest? Thank you.

<A – Henri Richard>: Sure. I mean, this is Henri. Obviously server continues to be the leader here, followed by mobile. And we had a very decent quarter in the desktop space, but clearly server is the engine of growth, with a triple-digit growth year-on-year.

<Q – Mark Lipacis>: Great. Thank you very much.

Operator: Thank you. Your next question is coming from Tim Luke with Lehman Brothers.

<Q – Timothy Luke>: Thank you. Bob, I was wondering if, without getting too specific, maybe you'd be able to share with us some of the factors that we should be thinking and framing our expectations for gross margin in terms of maybe the depreciation element or different elements on the gross margin. And I was also wondering whether you might have been able to give out any comment on how you'd seen the linearity as you moved through the March period. Obviously your ASPs were up again in the quarter. Is that something that one should continue to expect in terms of mix? Thank you so much.

<A – Henri Richard>: Okay, this Henri. I'll talk first about the linearity. You know, we run a very tight engine at AMD and have a very linear quarter. We had actually a very robust January and February. I know there was a lot of noise in the marketplace that the quarter had started slowly. We obviously saw the traditional acceleration in March, which I think is a sign of a robust market, at least from our perspective.

With regard to ASP, our ASP continued to increase in the quarter across particularly the mobile segment and our dual-core offering, and we'll continue to manage our brand in order to drive to our long-term objective of crossing the hundred-dollar bar for our ASP.

<A – Robert Rivet>: With what Henri said, so again, in my simple language, server/mobile/desktop, with particular emphasis on the commercial space, and Fab36 always becoming more productive from every day we move through time, clearly that puts us in a range of living within that 55 to 60% zone. Sometime I'd love to signal in the future we'll punch through the 60, but in this world we're in, I'll stay at the statement of 55 to 60.

<Q – Timothy Luke>: If I might also just, Henri, in terms – or Bob, in terms of the guidance, you have your extra week this quarter, and obviously you have a lot of share momentum. Could you give us any sort of elements that you think are key to focus on in terms of guiding what might be perceived as usual seasonality or slightly lower, notwithstanding the extra week perhaps.

<A – Hector Ruiz>: This is Hector. As I mentioned earlier, we actually feel very optimistic about the relationships and the expanded footprint with our customers. We are executing our roadmaps well. Our manufacturing is doing well. So all in that in all points to, I think, a very positive outlook for the year. Quite frankly, it's difficult for us to judge at this point in time given that there are two players in the industry and the other one that has 85% of the market has some issues they've got to deal with, and we need to understand that better before we get more crisper into what we think is going to happen to the near term. Over the longer term nothing changes for us. We still believe we will continue to outpace the growth of our competition, continue to gain share, and we still are bullish in where we think we're going to be in the next three to five years in reaching 30% of the market.

<Q – Timothy Luke>: Thanks so much, Hector. Bye.

Operator: Thank you. Your next question is coming from Adam Parker with Sanford Bernstein.

<Q – Adam Parker>: Yeah, just a clarification. Henri, I think you said you had a 'very robust' January and February and then obviously saw a traditional acceleration in March. So my question is, does that mean the quarter finished in March more strongly than you previously anticipated, meaning you didn't see any impact from Intel at the low end desktop? Or can you just throw a little more color on that statement please?

<A – Henri Richard>: The quarter finished as strongly as we expected.

<Q – Adam Parker>: Okay. So, all three months then were –

<A – Henri Richard>: Once again, I made a statement on our linearity. We're very proud of the way we run our business. So don't see in my comment that March was extraordinarily strong. We had a very good quarter throughout the quarter with the normal acceleration the last three weeks of the quarter.

<Q – Adam Parker>: Okay. In terms of the server, mobile, and desktop breakdown, I mean, if your revenue's flat, you said your ASPs were up in all three segments, correct?

<A – Henri Richard>: No, no. I said they were up in mobile and in desktop. If you – you probably took notice of a change in pricing strategy that was planned in our Opteron lineup that took place in February. We have a strategy to drive a very aggressive penetration of our dual-core 2P offering and that strategy worked with a very sharp increase in units.

<Q – Adam Parker>: Is there any – I'm just trying to get a little more color around the sequential unit growth in server versus the price decline, given that you had record revenues obviously it netted out positive, but is there any extra color you can give on – did you have double digit unit growth and therefore double digit pricing decline, or is there any additional color you can give there?

<A – Henri Richard>: Not really, Adam.

<Q – Adam Parker>: Not really? Okay, last question is in, this is just minor but, a year ago – I'm just trying to understand the depreciation schedule a little bit. I know somebody asked about it but a year ago your depreciation was lower – was higher, I'm sorry, in AMD, excluding memory, than it is now, despite the Fab36 ramp, so maybe I just don't understand what happened a year ago. Was there something different about how you were allocating depreciation to memory versus processors a year ago? Or am I wrong in thinking that the whole new fab should have brought about more depreciation now a year later?

<A – Robert Rivet>: Well, you're kind of thinking, you've got two lines going in different directions. Fab30, which has been our only asset in the microprocessor space, is starting to roll off fairly significantly on the depreciation schedule, and Fab36 is just coming on and, like I said, we put on the first full toolset in the January timeframe and we'll continue to add additional tools to expand that capacity every day, week, quarter here on out. So you should see a crossover between the two.

<Q – Adam Parker>: Okay. Sorry, one last high-level question. I don't know who wants to answer it, but do you think the PC market is setting up for a below normal seasonal Q2? Kind of given your statements and your clear innuendo about Intel?

<A – Henri Richard>: Right, if I do a 360 around the world frankly in the first quarter the only market that was a little weaker than I think everybody expected was Europe. As we walk into Q2, it's always a difficult quarter for Europe, so that's the only uncertainty that I see around the world. The U.S. market was very strong. Of course all the high growth markets continue to look very healthy, so the only guidance I would give you is Western Europe in particular seems to have not completely recovered from a glut of inventory carried over from Q4 frankly from our competitor.

<Q – Adam Parker>: Right. So were just trying to – I think what we're all trying to do is figure out how you guys guide with an extra week that is flat to slightly down. We think Intel is not going to be that great and your guidance implies that you're going to continue to gain share, yet the overall market is still kind of in line with normal seasonal. I think that's – just trying to figure that out.

<A – Henri Richard>: I think you're going to get a chance to probably clarify some of that next week I'm sure when you talk to the other guy.

<Q – Adam Parker>: Okay. All right. Bye guys. Thanks.

Operator: Thank you. You're next question is coming from Jim Covello with Goldman Sachs.

<Q – James Covello>: Good afternoon. Thanks so much. Just a quick question. Can you offer some perspective on how you see the competitive environment in the second half of the year as your competitor introduces some new products which at least from the technical community have gotten some better reviews after several quarters of you having far superior products. Thank you.

<A – Dirk Meyer>: Yeah. This is Dirk. I'll first observe that certainly our competitor's future roadmap has gotten a lot of attention lately and it's interesting, our sales and marketing team have meanwhile been very focused on selling our current products, and hence maybe some of the disparity in noise on the future. I will say that certainly the competition is aggressively trying to follow the lead we've established with the AMD 64 products, and they're a good company and I expect the competitive situation to tighten in the second half of the year. How to quantify that, I can't. The products aren't shipping. What I can say is our customers who have the benefit of seeing both companies' roadmaps have continued to expand their AMD-based platform offerings, which I think speaks very well to our potential in the second half. In addition, Hector mentioned on the call that we've tripled our design team over the last three years, and we'll have an opportunity to share with you the fruits of that investment in our June Analyst's Conference where we'll give you a bunch more detail on our future roadmap.

<Q – James Covello>: Yes, but – a quick follow up to that is would you expect the admittedly increased competitive environment in the second half to result more in a margin issue or more in a revenue issue? In other words, could your competitor theoretically be more aggressive on pricing in the lower end of the market and that maybe has a little bit more of an impact if the product is more competitive or you still don't think the pricing is the real driver of the decision making.

<A – Dirk Meyer>: Well you know it's hard to speculate on that. What I'll remain you that we're such a small part of the market that we believe we've got huge opportunities for growth in areas like commercial where we're way underrepresented. Our opportunity is not solely one of product. Its just ability to compete in the market, which we have increasingly the ability to do.

<Q – James Covello>: Thanks very much.

Operator: Thank you. Your next question is coming from Mark Edelstone with Morgan Stanley.

<Q – Mark Edelstone>: Good afternoon. Thanks and good quarter. Three quick questions if I could. The first one would be for Henri. Henri you talked about the ASP increase. Can you just kind of quantify on average what kind of ASP increases you saw sequentially?

<A – Henri Richard>: Sure. About 7%.

<Q – Mark Edelstone>: Okay great. And then two questions for Bob. First one is the 8% sequential increase in Opex, how much of that is coming from the extra week? So are you having basically a linear increase in expenses to add in that extra week? And if so, what does that imply for your third quarter type of Opex run rate?

<A – Robert Rivet>: Well, you're right, Mark. I mean obviously we will have almost in round numbers a 7% increase due to just having the extra week on the docket for the second quarter, with a little bit more than that as we continue to try to expand in particular our design resource capabilities, and appropriate investments in marketing as we go forward. Third quarter, obviously that 7% issue will go away, but you'll have continued investments for the back half of the year on technology and marketing investments. So it probably won't – you won't see the 7% decline from second quarter to third quarter, but you know I'm not going to give you exactly a number, but kind of give you the flavor.

<Q – Mark Edelstone>: Okay that's great. And just the last question for you, Bob. I'm pretty impressed with the decline in inventory in dollars given the ramp of Fab36. Can you just talk about what factors drove that? I would have thought there would have been some level of inventory build as you're bringing on that type of Fab and basically running material through.

<A – Robert Rivet>: Well, you know, as Henri alluded to, I mean we run our demand/supply very tight, and we will continue to do that as we even continue to exercise Fab36. So, to me we continually want to have as lean an inventory as possible. As a matter of fact, we call it the lean process. So we're just going to run inventories very tight.

<Q – Mark Edelstone>: I guess can you just talk about what the accounting methodology that you use as you are ramping a Fab? Are you taking pretty aggressive write-downs as that material is moving through the Fab?

<A – Robert Rivet>: Yeah, we're conservative in our valuation. We think that's appropriate, and so we shoot ahead of the duck. We value the inventory at a conservative where we think we're going to be, not where we're at exactly at that moment in time. One of the benefits we're having is we're seeing mature yields right from the get-go at Fab36, so that takes a lot of the guesswork out of the equation to figure out how to value the dark. Or value the wafers that are in the light.

<Q – Mark Edelstone>: Yeah, so I guess just lastly then, it would certainly sound like as that Fab continues to ramp, there's obviously going to be leverage as you start reaching more of a steady state in that facility?

<A – Robert Rivet>: Yes. Yes. Just think of it this way for everyone's benefit. It will become a bigger and bigger productive asset for AMD, and it'll be a significant portion of our output when we get to the fourth quarter of this year. So it'll be a highly productive asset as we continue to move through time.

<Q – Mark Edelstone>: Thanks a lot.

Operator: Thank you. Your next question is coming from Krishna Shankar with JMP Securities.

<Q – Krishna Shankar>: Yes, congratulations on a good quarter. Do you have any capacity constraints through the quarter in terms of meeting demand? And can you give us a sense for the ramp rate of Fab36? Will that be set up as step up in output here in Q2 or is this going to be a fairly linear production line?

<A – Dirk Meyer>: Yes, this is Dirk here. Second one first. The ramp will be pretty linear over the course of this year and into next year. With respect to the first question, in aggregate we were not capacity constrained for the quarter. There were occasions where demand for, as an example, leading edge product exceeded our forecast and in our efforts to meet that forecast we were occasionally supply constrained. For example, on package substrates. But in aggregate across the quarter we were not capacity constrained.

<Q – Krishna Shankar>: Okay. And given the sequential, I guess, slight decline in server ASPs was your competitor trying to ship a lot of their existing generation server products before they ramp up the newer generation in the second half, do you anticipate continued pressure on server ASPs as they attempt to work down inventory of their current generation?

<A – Dirk Meyer>: It's Dirk here. My response to that one to remind you that our server ASPs decreased but not as a reaction to the competitive environment, rather, we decided to take an offensive stance relative to our pricing given the capability of the product, the technology leadership in the product, and price in order to gain – to increase the size of our footprint in the marketplace, i.e. gain share. So what we did was not a reaction.

<Q – Krishna Shankar>: Thank you.

Operator: Thank you. Your next question is coming from Tom Thornhill with UBS.

<Q – Thomas Thornhill>: Given that Fab36 is ramping and strongly here, it sounds like, and you're looking for a linear trend there and Fab30's been running, according to some of the trade press, very strong, above some expectations. Do you see demand such that you will need to use Chartered in the second half of the year or do you still intend to use Chartered in the second half of the year?

<A – Dirk Meyer>: Yeah, Dirk again here. Our plan remains to use Chartered in the second half of the year. We expect to get output from that facility in the third quarter. One of the benefits of our approach with Chartered is that we can select our output based on demand as it materializes.

<Q – Thomas Thornhill>: Do you have an estimate of what percentage of your requirements you would expect to satisfy out of that relationship?

<A – Dirk Meyer>: Yeah, we prefer not to give you that level of granularity.

<Q – Thomas Thornhill>: Any granularity all on that or is this going to be token?

<A – Hector Ruiz>: No, it's not going to be token but it's really not something we'd like to discuss today.

<Q – Thomas Thornhill>: Okay. And one question on gross margins, the previous guidance had been a range of 51% to 57%, are you at this point officially moving that range to now 55% to 60% as was mentioned earlier in the call?

<A>: Yes.

<Q – Thomas Thornhill>: Very good. Congratulations on a great performance for the whole team.

<A>: Thank you.

Operator: Thank you. Your next question is coming from Ben Lynch with Deutsche Bank.

<Q – Ben Lynch>: Yeah, hi, guys, I congratulate you as well. I understand that there are reasons to be reluctant to be very explicit on Q2 given the, I think, well known issues at Intel. Could you comment on whether you are seeing some signs of them being more aggressive and that's why you're reluctant to be explicit on commentary or you just suspect that they will be more aggressive?

<A – Henri Richard>: Ben, this is Henri. I'm not going to speculate on what the competition is going to do or not going to do. Frankly we're focused at continuing to execute our strategy which seems to be working well as Dirk pointed out, we did what we said we would do. We're being cautious for the second quarter because again historically it's the most difficult quarter for our industry. As I pointed out earlier, Western Europe seemed to be a little weak in the first quarter. It's an important market and so it's just reasonable to be cautious. Now, this, say it again, we're going to continue to execute the strategies that we had in the first quarter and we think it's differentiated from our competitor.

<Q – Ben Lynch>: Okay. So Henri, yeah, if you are already seeing actions then it wouldn't be speculative to comment on them. If you're not seeing any then it would, of course, be speculation, so I take your answer to mean that you're not seeing actions.

<A – Henri Richard>: I'm seeing – no, that would be unfair. I'm seeing a lot of low end products and I'm seeing drastic price cuts on products that people don't want to buy.

<Q – Ben Lynch>: Okay. Great. And then Bob this may be a question for you. You have bumped up by a healthy amount the '06 CapEx and left the full year depreciation unchanged. Is this just, ramp rate or this is something which would more affect the '07 depreciation number?

<A – Robert Rivet>: Yeah, it's mostly, I mean, based on our current expectation and requirements we're getting from our customer for our products we feel it's appropriate to accelerate the ramp and so we actually take off in '07 at a little bit faster pace. Most of that depreciation will all happen in '07 when it's actually put in place and turned on.

<Q – Ben Lynch>: Great. And then just this is the last question I have. We've seen some reviews on the AM2 socket which as far as we know – maybe you'll give us more information on the Tech Analyst Day, seems to be the major upgrade to the desktop offering this year. It doesn't seem to be in those independent reviews showing any performance improvement. Is this something which we should think about in terms of your competitiveness in desktop this year?

<A – Dirk Meyer>: Yeah, this is Dirk. So we'll be transitioning our desktop mobile and server offerings all from DDR1 based technologies to DDR2 based technologies. We feel that's the right time because that's the rough timeframe where the price transition will occur between DDR1 and DDR2. To your point, there's not a huge incremental performance benefit as a result of that transition, though there is some. We will be, along with the transition, introducing higher capability products as well, that are independent of the DRAM technology.

<Q – Ben Lynch>: Great, okay. Thank you.

Operator: Thank you. Our next question is coming from Michael Masdea with Credit Suisse.

<Q – Michael Masdea>: Thanks a lot. There were some comments earlier about the commercial market and to me, it seems like that's a real important piece here, what you're doing there and one way to kind of get around some of the tactics of Intel. Walk us through kind of how you get from A to B there. I know you talked a little bit about your commercial systems channel, but what do you guys plan to do to actually execute and get these OEMs to actually built boxes in the commercial market based on AMD?

<A – Henri Richard>: Hi, Michael. This is Henri. First thing, as we pointed out in our last analyst's meeting, there's a very sharp increase in the number of platforms being made available by our strategic OEMs in both clients and server. To give you a little color let me maybe do something we haven't done yet, which is give you more granularity on the segmentations of our business. I'm thinking some of the verticals out of the Forbes 500 list.

We have as customers eight of the top nine aerospace and defense companies. In that list ten of the top 12 conglomerates; 18 of the 19 consumer durables companies on that list; 12 of the 14 drugs and biotechnologies on that list; 10 of the 12 media groups on that list; 30 out of the 44 oil and gas operations on that list; 15 out of the 18 technology hardware equipment on that list, and 22 out of 29 telecommunications services companies on that list.

That's the type of footprint that Hector is talking about, and this is in a very short, by enterprise standards, two and a half years of presence. And I believe that we will continue to gain steadily across those segments, and we're being very methodical and going down the list and looking at the verticals, putting the software stacks and the hardware stacks together to address the needs of our customers in collaboration with our key OEM.

<Q – Michael Masdea>: Those are pretty big numbers. Are we pretty earlier in those deployments at those various different verticals?

<A – Henri Richard>: Of course, of course. And that's why we're fairly optimistic in our belief to continue to grow share.

<Q – Michael Masdea>: Got it, great. And then just quick one on the depreciation side; The Fab36, is there any change to the depreciation schedule for equipment or is this pretty in line with what you did with Fab30?

<A – Robert Rivet>: I think I commented on that before. Fab30 was a five-year depreciation schedule, Fab36 is a six-year depreciation schedule. Based on all the data we looked at, it made more sense that that huge asset would have a longer life.

<Q – Michael Masdea>: Got it. Thanks a lot.

Operator: Thank you. Your next question is coming from David Wong, with AG Edwards.

<Q – David Wong>: Thank you very much. When you said that your ASPs increased, was that all mix-related or did your prices actually go up in some places, in particular in desktop? Can you give us some idea as to your latest list price changes? It looks like your desktop list price, in fact, grows?

<A – Henri Richard>: Just a comment on the end of your question, we did a slight readjustment of our stack, you know, we do this periodically, consulting with our customers and partners to make sure that we adapt the value proposition of our products and market conditions. With regards to the early part of your question, as we indicated earlier, our ASP went up in the mobile segment and in the desktop segment, but I'm not going to give you more granularity than that.

<Q – David Wong>: Thank you.

Operator: Thank you. Your next question is coming from Joe Osha, with Merrill Lynch.

<Q – Joseph Osha>: There we go. Congratulations. First question, in terms of product, there's been some discussion, Hector, of maybe a more optimized notebook mobile architecture as you guys begin to deploy 65 nanometer. Can you comment on that?

<A – Hector Ruiz>: You know, we're going to do quite a bit of discussion of our technology and product plans at the June analyst's meeting. At this point, we're not yet prepared to go into any more detail than that but I will repeat what I've said to you before. It is important for us to win in mobile. We have plans, ideas, to continue the growing trend that we demonstrated. As Henri pointed out, that we have in the last few quarters actually grown considerably in the mobile segment and that I'm kind of hopeful that by the time June comes around for the analyst day we'll be able to be a little more explicit about our thinking.

<Q – Joseph Osha>: Okay. That is as specific as I can ask for. Bob, if I look – again the math that I'm doing suggests that there's about an incremental $75 million in depreciation in the first quarter from Fab36 and as I kind of work through this, seems like that run rate should go to between $125 and $150 a quarter by the end of the year. Is that roughly correct?

<A – Robert Rivet>: I'm going to need to get back to on the math, Joe. I don't have that granularity in front of me. It doesn't seem completely out of line but--

<Q – Joseph Osha>: But do you have, you know, you can figure out that processors only was $100 million in Q4, it was $175 in Q1. Then sort of looking at the four year guidance and backing into it, it seems like you add maybe $50 million to that Fab36 run rate. That's how I'm getting that.

<A – Robert Rivet>: Okay.

<Q – Joseph Osha>: Okay. Last question.

<A – Robert Rivet>: That sounds reasonable.

<Q – Joseph Osha>: That sounds reasonable? Okay, great. And then last question. On the profit sharing, you did at one point disclose about a $66 million sort of other item a couple of quarters ago that you were kind enough to say was all sort of the profit sharing and incentive bonus. And then you did say at that point that once the number was reset that that number would roughly be cut in half. So might I think about that sort of incremental benefit Q4 to Q1 being in the $30 to $40 million range?

<A – Robert Rivet>: Oh, that's kind of high from that perspective but yeah. I mean, as I'm sure happens to you personally your bogey gets reset every year.

<Q – Joseph Osha>: No, mine just goes down.

<A – Robert Rivet>: All our executives do.

<Q – Joseph Osha>: Okay. Thank you very much.

Operator: Thank you. Your next question is coming from Chris Danely with JP Morgan.

<Q – Christopher Danely>: Thanks. Good quarter. Two quick questions. The first one is on inventory. It sounds like you're going to a pretty lean inventory here. Do you feel comfortable with that or do you think that will trend up throughout the year?

<A – Hector Ruiz>: We love lean inventory. As a matter of fact, we're so passionate about that that we just created a huge task force in the company frankly to continue working to see how much better we could get. So we love lean inventory.

<Q – Christopher Danely>: Great. So with this 55 days, that could go even lower throughout the year?

<A – Dirk Meyer>: Well, it'll – each quarter is dependent. I mean, as an example, and again, not losing the thought Hector had that we're going to continue to push on this issue, but it's hard for me to imagine we wouldn't try to build inventory in third quarter in anticipation of fourth, since there's such a huge growth rate from third to fourth and we want to be in a position to service all the demand. So, you know, we'll work our way through it. Obviously we'd like to be lean as possible, but we'll strategically build inventory in anticipation of stronger demand than the factories can handle in one given period.

<Q – Christopher Danely>: Yeah, that makes sense. And then I guess, Hector, a philosophical question for you. You know, it sounds like Intel, we've seen them do this before where they can get a little bit crazy in terms of pricing. And I guess if it comes down to it in the second half of the year and they do get crazy again like they have in the past, will you choose to maintain market share and perhaps see the margin suffer or would you choose to lose a little bit of market share and preserve margins?

<A – Hector Ruiz>: Well, first of all, none of us can anticipate what the competition might or might not do. What we intend to do is we are very committed based on – the world has changed a lot for today, so let me first of all give some context to the answer I'm going to give you. Four years ago we had a very strong presence in the desktop consumer world. And it was challenging, of course, to deal with the pricing strategy of our competitor in that space. When you look at it today, at our footprint, which is servers/desktop/mobile across both consumer and commercial, and across a broad range of customers around the world, we feel we're in a position to continue to price to value. We believe we offer a tremendous value in our products. It is our current thinking to not deviate from that and that's our plan.

<Q – Christopher Danely>: Thanks.

<A – Michael Haase>: Operator, we're going to take two more questions please.

Operator: Thank you. Your next question is coming from John Lau with Jefferies & Company.

<Q – John Lau>: Great. Thanks for taking my call. Back on to the server question again. I was hoping you could give us a little more clarity. There has a been a mix shift towards your dual-core chips on the server side and I think that you are shifting the final single – phasing out the single core Opteron soon, and yet during Q1 your ASPs were down for the servers. I was wondering how that dynamic worked and I had a follow-on with the general pricing commentary. Thank you.

<A – Henri Richard>: Well first John we're not going to phase out our single-core processors as long as customers want them. It is true that we expect to exit the year with over 90% of the demand in the server space being dual-core but we haven't; in fact there is some long range embedded design that may require those type of processors. So that's the first part I wanted to clarify for you.

Secondly as Dirk pointed out, we have a strategy to increase the penetration of dual-core technology as fast as possible in certain segments of the server market. We took a – we repositioned our stack at the beginning of February in order to drive that strategy and it worked out exactly the way we planned. So the overall decline in ASP is first anticipated and secondly, absolutely centered around our 2P offering.

<Q – John Lau>: As a final note with regard to some of the actions. Have you seen – I wanted to try to see if we could get some color – there is a lot of question in the marketplace. Have you seen any change in the PC demand dynamics as a result of some of the competitive actions with the marketplace?

<A – Henri Richard>: No I really think that there is a big question mark which is the available elasticity, and I personally believe that actually pricing is not the right answer. The answer is to bring products that customers want to buy.

<Q – John Lau>: So there wasn't any stall or anything that you can see as it related to the marketplace?

<A – Henri Richard>: The only stall that has been rumored in the market is the fact that there was an excessive of inventory carryover from Q4 to Q1 mainly by our competitor in the mobile space.

<Q – John Lau>: Okay. Well thank you.

Operator: Thank you. Your last question is coming from Glen Yeung with Citigroup.

<Q – Glen Yeung>: Thanks for taking my question. I guess the first question may be for Henri. When you look at the second quarter and you think about the desktop and notebook space, should we expect the mix to continue to savor an ASP increase, i.e. do you find that your products continue to move sort of upstream a little bit in terms of sophistication from the client perspective?

<A – Henri Richard>: That's a good question. We're seeing clearly that our dual-core offering is positioned as the premium offering today in the desktop space. I'd like to remind you that we're going to launch our dual-core mobile offering in the quarter and so we will expect of course a positive impact to our dual-core launch on the mobile space as well in terms of ASP.

Now this being said, there is a lot of potential in the high growth markets. In those markets there is a lot of demand for lower priced products and we don't intend to not service demand of our customers. So that has a dampening factor. Overall the strength of our dual-core offering will continue to drive our premium brands and I expect those brands could grow faster than the volume parts of our offering.

<Q – Glen Yeung>: With respect to AM2, should we expect to see a price increase when that product is introduced.

<A – Henri Richard>: Absolutely not. That's not what our customers are asking for.

<Q – Glen Yeung>: All right, fair enough. Hector this last question is for you and it may be a little difficult to answer so any thoughts you could give around this would be helpful. And it really focuses on brand equity that AMD has built up over the course of the last year, year and a half, two years.

When you think about the second half of this year or for that matter any of the future quarters, if we make the assumption – and whether this is true or not remains to be seen – but if we make the assumption that Intel is in fact more competitive, to what extent does AMD gain share anyways because you've built up some kind of brand equity whether that's because your customers just want to have a competitive offering or they enjoy working with you or they find it less expensive to work with you, whether or not Intel is more competitive. To what extent does AMD continue to gain share anyways?

<A – Hector Ruiz>: It's a great question and first of all as Dirk pointed out, we expected, we had planned that our competitor would eventually have to follow and react to what we've done and get better. It will be interesting to see the things that we're going to do later which will again continue to force them to react and figure out what else to do next. We don't intend in any way shape or form to give any leeway in our leadership relative to product and technology.

Having said that you're right, in the last two, three years, we have built up a very strong equity in the marketplace with customers. One of the things customers have learned in the last two or three years is the value of having a fair and open competition and marketplace where they can choose their supplier based on a number of attributes, product being one of them, the other ones being service and the other ones being reliability, trustworthiness, etc. I believe that we have built a strong equity and that's great. I believe that our customers are delighted to see a new environment in which they can make choices. As a result of that, we place a lot of value in that and we intend to exploit it and as a result of that in addition to our great products and technology we expect to continue to gain share throughout the next several years.

<Q – Glen Yeung>: Very good, thanks a lot.

Michael Haase, Director, Investor Relations

Thank you. On behalf of the management team thank you to all for participating. We look forward to seeing you on June 1st here in California. Thank you.

Operator: Thank you. This concludes today's Advanced Micro Devices conference call. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the AMD Fourth Quarter 2005 Earnings Conference Call. [Operator Instructions]. I would now like to turn the conference over to our host, Mr. Mike Haase. Please go ahead, sir.

Michael Haase, Director of Investor Relations

Thank you and welcome to AMD's fourth quarter 2005 earnings conference call and year end conference call. Our participants today are Hector Ruiz, our Chairman of the Board, President and CEO, Bob Rivet, our Chief Financial Officer and Henri Richard, our Chief Sales and Marketing Officer. This call is a live broadcast and will be replayed at AMD.com and streetevents.com. The telephone replay number is 800-475-6701. Outside of the United States the number is 320-365-3844. The access code for both is 808058. The telephone replay will be available for the next 10 business days starting at 7:00 P.M. pacific time tonight.

In addition I'd like to call to your attention that our Q1 2006 earnings quiet time will begin at the close of business, Friday, March 10th.

Before we begin today's call I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors setting forth information that could cause actual results to differ materially from those in our forward-looking statements. You will find detailed discussions in our most recent SEC filings including AMD's annual report on form 10-K for the year ended December 26, 2004, and AMD's quarterly report on form 10-Q for the quarter ended September 25, 2005.

With that I'll turn it over to Hector Ruiz.

Hector de J. Ruiz, Ph.D., Chairman, President and Chief Executive Officer

Thank you, Mike. Our fourth quarter results underscored the undeniable fact that the AMD growth engine is gathering momentum. The strong across the board execution led the company to records in total revenues, microprocessor units and revenues across each of our server, mobile and desktop product lines, as well as microprocessor gross margin and operating income. Our solid ASP improvement confirms the rise of AMD as a premium brand for both consumer and commercial customers alike.

And our JV Spansion successfully completed a public offering, producing a timely capital infusion to that business and allowing AMD to bring increasing focus to the growth opportunity in front of us. In our microprocessor business we experienced almost 80% year on year growth in what continues to be the largest quarter of the fiscal cycle. We continue our strong trajectory in the enterprise where the superior performance per watt characteristics of the AMD Opteron platform drive unprecedented opportunities for our customers and partners.

In the fourth quarter we were pleased to add AIG, Albertson's, Clear Channel and Nissan Motor Company, among others, to our expanded list of Global 2000 companies and their subsidiaries who have adopted AMD 64 technology. As of today 90% of the top 100 and more than 45% of the top 500 companies on the Forbes Global 2000 use AMD-based solutions.

We're thrilled to report that eBay is bolstering the surge functionality on its site with hundreds of Sun's new AMD Opteron processor-based Sun Fire x64 servers. EBay will combine the power and performance of the Solaris operating system running on AMD Opteron processors for better performance and energy efficiency. AMD's Opteron model 880 with dual-core technology continues to lead the industry in TPC-C benchmark performance for 4P servers.

Customer momentum in the commercial segment continued with the launch of the HP DX5150 client and new Blade server offerings from HP and Fujitsu Siemens. We're also pleased that Super Micro announced general availability of a broad range of AMD Opteron-based server and motherboard-based solutions. Our mobile business continues to gain steam, reflected by all time record revenue in the quarter and continued growth in global demand for our AMD Turion 64 mobile processor platform. We're pleased to report over 100 platforms based on AMD Turion 64 processors either shipping or in development worldwide.

AMD continued to show strong progress in key high growth markets, particularly China, one of our largest and fastest growing markets. We were honored to announce broad adoption of our platform by Tsinghua Tongfang, China's third largest PC maker. In addition, we licensed our low power AMD Geode GX2 processor to the esteemed Ministry of Science and Technology and to Peking University for use in developing new technologies to support primary education in rural China. Our AMD 64 based products continue to earn industry recognition, receiving 20 more awards in the fourth quarter, including the Tech Innovator award from VARBusiness, Gear of the Year recognition by Maximum PC, and acknowledgement as one of the Hot Products of the Year by EDN Magazine. Each of these awards was for our best in class AMD 64 dual-core technology, the only industry standard microprocessor family designed from the ground up for multi-core computing.

On the manufacturing side our Dresden team continues its excellent performance record both in terms of the continued operation of our world class FAB 30 as well as in ramping our new state of the art 300 millimeter FAB 36, which more than double our capacity in the next three years. By all measures the fourth quarter was outstanding, characterized by: accelerating customer and end user adoption of our AMD 64 platform micro server, mobile and desktop product lines; the successful public offering of our Spansion business; flawless manufacturing execution in our FAB 30 and the grand opening of our new FAB 36 facility in Dresden, Germany as well; superb execution of our financial strategy with a reduction of debt and the expansion of our cash balances.

It was a spectacular end to a year of reinvention for AMD, providing once again a healthy foundation for continued growth and success in 2006. Now let me turn it over to Bob to review the results of the quarter as well as the outlook.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks, Hector. AMD had an excellent quarter including: continuing market share gains in server, mobile and desktop markets; continuing growing demand within the commercial sector for not only AMD based server offerings but for AMD based mobile and desktop offerings as well; improvements to the balance sheet, including a reduction in debt of $639 million and year end cash and short-term investment balances increasing to $1.8 billion; the successful IPO of Spansion, which closed on December 21st; and financially we reported another very strong operating quarter.

Before I review the operating statement detail, let me mention that the completion of the Spansion flash memory IPO requires several changes to our reporting. So I want to take some time to help you understand both our reported results and the way to model our business going forward. So in addition to our GAAP consolidated financials, I will also discuss non-GAAP results. For your convenience we have included within our press release a new table which reconciles AMD going forward to the consolidated GAAP figures. I would like to take a few moments to walk you through this table. It's labeled 1.6 in the press release.

The first column shows our fourth quarter GAAP results, including total consolidated sales of $1.84 billion, up 45% from the fourth quarter of last year and up 21% compared to the third quarter of 2005. Net income was $96 million or 21 cents per share. This data includes 86 days of Spansion's results before the IPO and also a non-cash charge of $110 million. The third column shows non-GAAP results, excluding the $110 million non-cash loss on ownership dilution in Spansion, which results in an EPS of 45 cents.

Column 4 shows the impact of the memory segment and Spansion on each line of AMD's financial statements, which totals a negative impact on net income of $39 million. The fifth column reclassifies the net impact of the $39 million from each line item to one line item. Excluding this line, the company's operating results are presented in a form that will be more consistent with the presentation of future results.

Fourth quarter sales of $1.35 billion, a 34% increase compared to the third quarter of 2005 and a 78% increase compared to the fourth quarter of 2004. Gross margin was 57%. SG&A was 18% of sales. R&D was 19% of sales. Operating income was $268 million. The memory segment and Spansion impact on net income was a negative $39 million. Net income for the quarter is still 205 million or 45 cents per share.

Switching to the business segment highlights, CPG sales were $1.31 billion, another new record and a 79% increase over the same period a year ago. We also grew 35 percentage points from the third quarter of this year. Our strong microprocessor sales indicate that we once again took share across the server, mobile and desktop product offerings, particularly in the performance segment as indicated by our ASP growth.

Unit sales in the quarter increased by 27% quarter on quarter, and we saw a 6% improvement in average selling price. Server, mobile and desktop processor sales each grew significantly compared to the third quarter of 2005. Mobile processor sales growth was driven by increased shipments of AMD Turion 64 processors. Server and desktop sales growth were driven in particular by increased customer adoption of dual-core AMD processors. Geographically processor sales were especially strong in North America, Europe and greater China, and distribution in consumer and commercial channels are reporting very lean AMD inventories worldwide.

CPG's operating income of $287 million established another new record in the quarter, up again from the record levels of the third quarter of 2005. Included within CPG's results are the bonus and profit sharing accruals that had previously been included in the all other segment. With the deconsolidation of Spansion we have reclassified and conformed these expenses into the specific business segments that earned them, primarily CPG.

Net income impact of the memory segment and Spansion at AMD was a negative $39 million as I mentioned. Again, column 5 provides an outline of how AMD would have looked in the fourth quarter when you exclude the memory segment results and all Spansion related charges. Going forward you will see a line item called equity and net income of subsidiary below the interest income and expense lines reflecting our current 37.9% ownership in Spansion results.

Turning to the balance sheet, the year end balance sheet reflects the deconsolidation of Spansion into the line item investment and subsidiaries. Our cash balance was $1.8 billion, up $452 million compared with the third quarter. This increase was due to cash flow from operations and loan payoffs from Spansion. Debt was reduced by $639 million compared with the third quarter. This includes a $201 million convertible debt conversion and approximately $440 million of Spansion debt moving off our balance sheet.

AMD's debt to capital ratio finished the year at 28%, good progress toward our target of 20%. Fourth quarter capital expenditures, excluding the memory business, was $250 million for AMD. Inventory declined as a result of the Spansion IPO and a $61 million reduction in AMD processors inventoried.

Now I'd like to discuss the outlook. AMD's outlook statement for the first quarter and full year of 2006 are based on current expectations and do not include Spansion. The following statements are forward looking and actual results could differ materially depending on market conditions.

AMD expects first quarter 2006 sales to be flat to down slightly compared to the $1.35 billion in the fourth quarter of 2005. If achieved, this would approach a 70% increase from comparable sales in the first quarter of 2005. Operating expenses which include R&D and SG&A will increase by approximately 6% compared to the $506 million in the fourth quarter of 2005. Stock option expense in the first quarter will be approximately $16 million at the current share price. And finally, a reminder, the line equity and net income of subsidiary should be modeled using our current Spansion ownership of 37.9% multiplied by your estimate of Spansion's quarterly net income going forward.

For the full year 2006 you should be modeling capital expenditures of approximately $1.4 billion. Depreciation and amortization will be approximately $825 million. The tax rate within a 10 to 15% range, and I also want to call to your attention that we will have an extra week in our fiscal 2006, which we'll take in the second quarter of this year.

In summary, 2005 was a very good year. We made significant strides in taking market share, improving our operating results and strengthening the balance sheet. We believe that we are very well positioned for 2006. And with that I'll hand it back to Hector.

Hector de J. Ruiz, Ph.D., Chairman, President and Chief Executive Officer

Thank you, Bob. We began 2006 with more momentum and higher quality momentum than at any other time in our history. Revenue is not just growing; it is accelerating. Platform adoption has never been stronger, particularly among the world's most respected OEMs and industry partners. Our marketing capabilities are now recognized as world class and our global footprint is getting stronger every day. The industry is healthy. Customers and partners that have elected to partner with AMD are seeing the opportunities that come from providing the freedom of choice to their customers. We have seized the mantle of technology leadership in our industry and are continuing to distance ourselves from the competition.

In our world class Dresden operation the ramp of our new FAB 36 is going extremely well. Production started late last year. Yields are outstanding and beginning to approach the FAB 30 levels. Production and shipments are expected to begin before the end of this quarter. We are methodically marching towards a substantial expansion of our capacity in preparation for a significant sustainable increase in worldwide market share. We have not peaked. This is just another stage in our climb to greatness. We are poised and ready to gain even more share. And consistent with the revenue and profit growth engine that we have become, we have positioned ourselves to grow at least at twice the rate of the industry.

Once again, I want to thank each and every AMD employee for remaining laser focused on the task of creating the world's most innovative semiconductor products and technologies. We remain highly motivated by the prospects of helping to create a marketplace that is better for our customers, partners and end users worldwide. And we are very encouraged that our industry is showing a strong desire to break free from the artificial competitive barriers that have constrained all of us to date.

Thank you, and I would like now to turn it over to Mike Haase for the question and answer period.

Michael Haase, Director of Investor Relations

Thanks, Hector. Operator, we'll begin the Q&A polling, please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. And our first question is from the line of Michael Masdea with Credit Suisse. Please go ahead.

<Q – Michael Masdea>: Yeah, thanks a lot. I was just doing the math. I'm trying to get a handle on how much market share you took in the quarter. Any estimates from your end? It looks like it's a lot more than your competitor might have thought.

<A – Hector de J. Ruiz>: Well, we have the numbers. A year ago we had 9.6%, a quarter ago we had 11.9%, and it looks like we have 15.3%.

<Q – Michael Masdea>: Great and then given the concerns about that late quarter demand from your customer, your competitor, any concerns that you might have gotten some spillover demand which is not going to sustain into the new year based on your familiarity with your designs?

<A – Hector de J. Ruiz>: Can you repeat that question, Mike?

<Q – Michael Masdea>: Yeah, at the end of the year obviously there were some cancellations from your competitor. They talked about some chip set shortages. Do you think there's any chance you got some incremental demand because of those shortages that might not be there in the coming quarters?

<A – Hector de J. Ruiz>: Mike, our customers have to plan their production weeks and weeks ahead. You don't turn things like this on a dime. Our designs are different. Our products are differentiated. There is no doubt that there seems to be production struggles at our competitor. But again, I don't think that it affected our quarter.

<Q – Michael Masdea>: Great, last question just on the ASP side. It's pretty clear you can get a big ASP benefit from the server side, but on the desktop and mobile side you seem to be on par in like for like offerings with Intel. Is it just a mix issue and how do you continue to move up that mix?

<A – Hector de J. Ruiz>: Well, we are continuing to improve our mix obviously. Our server business is the fastest growing part of our business. Our mobile business the second growing part, but we also grew our desktop business very significantly. And our ASP increase is both a combination of a better mix, but also some ASP improvement in certain segments and I won't give you more granularity than that.

<Q – Michael Masdea>: That's fine. Thanks a lot, guys.

Operator: And our next question is from the line of Adam Parker with Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: Hi, just a couple questions related to market share over the next year. I'm sure you listened to Intel's conference call last night where they pretty confidently stated that they are going to gain some share back and I think cited price performance per watt and cost as reasons for that. So have you noticed the signs of Intel getting more aggressive at all in pricing? Your pricing is going up. Would it have gone up more without some action from them? That's the first part of the question. And then the second would be, you know, just can you give us some more color on your processor road map in '07 so that we can, you know, kind of get a bit more look into how we should think about your competitiveness in the major product areas next year?

<A – Hector de J. Ruiz>: Adam, let me try to answer part of the question, and when I finish Henri can do some of the other pieces. First of all, the market continues to be as it always has been, very competitive. You know, anyone that thinks that rising competition doesn't exist, you know, is dreaming. It is very competitive. But we are – some of you I noticed have already concluded that we are very competitive in cost, and therefore for us it's – the cost issue is not the one that drives it. The second part is we're dealing with a much complex and broad array of products than we ever have in the history of the microprocessor industry. So on one end you have the very high performance, high volume, feature rich products in the server base and the gaming space, etc. There, frankly, people want those features, they want that performance, and they are looking for that particular thing in those products. It's not an issue of pricing. As a matter of fact, we know for a fact in some cases where some customers have turned down practically zero pricing product because they don't need them. They really want the performance and features, etc. that we are offering. On the other hand, when you go down to the other extreme, when you get to the value platforms in the very low end of the space, which is more commoditized, the pricings are low enough, frankly, there is very little room for pricing movement. I think we are dealing with a scenario where as I stated before in previous calls, you know, it's a demand for our products that's driving the, what we see as a healthy outlook for us going forward. As far as what we'll do in 2006 and beyond, we stated in our previous analysts' meeting that we have a business model that we believe that in the 2008 or 9 timeframe we should aim to achieve the 25 to 30% of the market. We still have that as our goal and as a business model, and we believe that we are steadily making progress quarter by quarter by quarter. From a – in terms of giving you any more granularity than that, I mean that's about as best as I can do and can tell you. In terms of our products road map. Before I turn it over to Henri for any additional comments, I would just like to say that we rely heavily on the input of our customers. Our customers tell us whether our road maps we have are appropriate to them, and we are getting very strong input and very strong encouragement that if we stay on our road map and execute in 2006 we have an excellent outlook to continue to grow and gain share as we did in 2005.

<Q – Adam Parker>: Okay. You know, if you get – you know, work toward achieving this goal, a 25, 30% share, can the third party sort of chip set vendors produce enough to accompany that magnitude of volume three or four years from now, or is there going to be some increasing demand on you to produce more chip sets internally?

<A – Hector de J. Ruiz>: You know, we are open to the idea of – we, first of all, we must do everything we can to meet the needs of our customers, and that is in terms of value, performance, cost, etc. but what drives it is total cost of ownership, and in doing so we are working very closely with partners worldwide to make sure that we're as intimately linked in our planning and anticipation of this challenge going forward. And I think the fourth quarter is a good example of a job that we do reasonably well. We had a very strong quarter, a stronger quarter than probably most people anticipated, and frankly, a little healthier than we expected. And we were able to manage with our partners to meet the needs and demands of our customers. That process will continue. We intend to get better at it, and yes, it's a challenge. But we don't – we're not planning on that being a stumbling block.

<Q – Adam Parker>: Okay, so there is no – there is no need to think more about that as you bring on a lot of capacity as a way to sort of fill up extra capacity down the line? Or that's just beyond your current thinking?

<A – Hector de J. Ruiz>: Not right now.

<Q – Adam Parker>: Okay, great. Thank you.

Operator: And now our next question is from the line of Mark Edelstone with Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Good afternoon. First off, congratulations to the team on just a phenomenal job. I guess I had a couple questions. One, Bob, you gave depreciation for the year.

Can you provide your outlook for Q1 depreciation and then how it ramps as you go through the year at this point?

<A – Robert Rivet>: It's a fairly linear spread. I'd say probably, you know, I'll call it maybe 10% more in the first half of the year than the second half of the year, but not a lot of difference, Mark. We've got, between the roll-off and the roll-on, there is not a lot of change in that number.

<Q – Mark Edelstone>: Okay, great. Then obviously your mix is continuing to richen. Can you give us a sense if you look at your gross margin you had in the quarter of 57%, as you bring on that incremental depreciation, and yet as your mix continues to get richer, what's your sense as to how gross margins trend as you go through the year?

<A – Robert Rivet>: Well, as I've stated before, you know, there is more of a challenge in the first half of the year than in the second half of the year as we, you know, I'll call it have a lot of capacity and capability, but obviously we have to ramp into it. Depreciation comes on by tool, not by wafer start. And so we'll have a little bit of challenge in the first half of the year, less in the second half of the year, but we think as you said, the ASP can offset that issue as we continue to improve our ASP quarter on quarter, as we've demonstrated for many many quarters in a row. But I'd say the challenge is more up front right now in the first quarter as we're just starting to see output from that facility.

<Q – Mark Edelstone>: Okay. Very good. And just as one housekeeping item, I just want to make sure I sort of understood the moving parts in the P&L. If I look at Spansion's results versus what you reported on a consolidated basis through the 20th, is my math correct that basically they did 104 million of revenue in the last 5 days of the quarter?

<A – Robert Rivet>: You got your math right.

<Q – Mark Edelstone>: Okay. Very good. And then just lastly, maybe for Hector, as you are ramping up FAB 36 and it sounds great that things are going well there, when is your sort of expectation as to when we could see wafer starts on a square inch of silicon basis at FAB 36 cross over that of FAB 30?

<A – Hector de J. Ruiz>: Mark, you know, I haven't done the math. I'd be glad to step back and think about it and give you an answer, but off the top of my head I don't have that math in front of me, you know.

<Q – Mark Edelstone>: Okay, great. I'll come back to you. Thanks a lot, guys.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from the line of Joseph Osha with Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Hey, congratulations, guys. I don't think I've ever seen competitive momentum shift like this. So congratulations. Two questions. One, just following up on what Mark said, you shouldn't be recognizing Spansion revenue on your P&L dollar for dollar the same as Spansion recognizes it, right? Because of the way the selling concession works? Is that true?

<A – Robert Rivet>: No, historically it was exactly the same. I mean, if their quarter and our quarter were exactly, and we owned them for the whole quarter, there was no difference between the two.

<Q – Joseph Osha>: Okay. But on a go forward basis that's…

<A – Robert Rivet>: On a go forward basis we will not report any sales at Spansion, just our portion of their net income.

<Q – Joseph Osha>: But as I -- under the previous arrangement they were reselling, they were selling flash to you, and then you would resell it at a --

<A – Robert Rivet>: There was no commission there. We moved the sales force. That happened early on in the process, but as through most of '05, we actually moved a complete sales force into Spansion and so that discounting, that's what it was paying for, went away.

<Q – Joseph Osha>: Okay, so it's just the simple calculation.

<A – Robert Rivet>: That's right.

<Q – Joseph Osha>: Okay, thank you. And then the second thing, particularly looking at the mobile – your mobile products, I was wondering if I can get a bit of a sense as to how that road map plays out in '06, in particular when 65 nanometer products hit?

<A – Henri Richard>: Okay, Joe, this is Henri. Well, as you know, we have an introduction of our dual-core offering in the mobile space in conjunction with the move to our platform DDR2. This will happen in the middle of the year.

<Q – Joseph Osha>: Does that occur on…?

<A – Henri Richard>: There is no change and we're on plan.

<Q – Joseph Osha>: Does that occur on 65 nanometer or does it hit on 90 first?

<A – Henri Richard>: It's going to be on 90 nanometer first.

<Q – Joseph Osha>: Okay, okay, beautiful. And, Bob, is there any way you could be persuaded to put some kind of quantitative sort of bounds around those gross margin comments?

<A – Robert Rivet>: No.

<Q – Joseph Osha>: Had to ask. Congratulations.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from the line of Ben Lynch with Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Thank you for clearing up the in demand versus market share questions that Intel brought up last night. Clearly phenomenal market share momentum in Q4 again. I hear you that you are gaining, I guess, 5 percentage points or so. Are you able to comment on whether without naming specific names, there were particular customers where you had very significant increases in your penetration in Q4 versus Q3?

<A – Hector de J. Ruiz>: Ben, it's across the board our customers are increasingly showing interest in our products, so – and even if there was one customer that's particularly strong, we couldn't give you that.

<Q – Ben Lynch>: Okay. The other question I want to ask maybe for Bob, given your success you, you know, are eating up those NOLs very quickly. At what point now do you think you will refer more to sort of 30% or so tax rate base?

<A – Robert Rivet>: Well, it, you know, no surprise is we continue to chew those up as we continue to knock down very healthy profit levels. As I've indicated, the tax rate will be sub-30% in the 10 to 15 range next year. This year, I'm sorry, in 2006. 2007, obviously based on our expectations, we'll start getting – we'll have to move it up again. Maybe with a little luck even this year. But to me it's '07 is when we'll start popping above the 15% level.

<Q – Ben Lynch>: Okay. Great. Then maybe the last question, you guys had sort of indicated even at the end of Q2 that you weren't necessarily swimming in capacity, so it was just something that you were keeping an eye on, and yet you had these two, you know, huge quarters. What have you been able to, given the recent timing, been able to do just to, you know, to make that not be an issue?

<A – Hector de J. Ruiz>: Well, there are a number of things, Ben. We've always said we have a phenomenal organization in manufacturing that is continuing to looking for ways to be more productive. And, you know, we have been able to increase productivity in our factory, frankly to incredible levels. The factory is just running incredibly well. We've been able to also squeeze more silicone area out of the factories by doing a lot of very creative, clever rearrangement of the equipment logistics, etc. Obviously the transition the complete, the completion of the transition to 90 nanometers was very helpful and the yields are high. The yields are running at phenomenal levels, and as I've stated before, all of the leading indices that are benchmarked by SemiTech continue to show that our manufacturing is worldwide world class. I think all of that has allowed us to have, you know, a continued planned increase in unit capability. Going forward our plans continue, of course, to emphasize capacity, productivity, etc., but in addition to that, this year we have the addition of FAB 36 which is very significant and the beginning of our foundry which will start producing product in the second half of the year for revenue and that would also contribute to our capacity.

<Q – Ben Lynch>: Great. Thanks very much, and well done, again.

Operator: And our next question is from the line of Tim Luke with Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thanks. And again, congrats on the quarter. I was wondering, Hector, if you could just, or Henri, maybe you could remind us of what the increases in capacity are now targeted to be through the year, and as you bring on FAB 36, and to what extent you are seeing visibility in terms of your order flow to fill that capacity?

<A – Hector de J. Ruiz>: First, you know, let me make some comments in general about silicon, and then Henri can comment about demand. We are ramping FAB 36 as rapidly as we can. In addition to that we are bringing on board the capability of our foundry for the second half of the year. Those things will complete in terms of their contribution they make, the FAB 36 will reach full capacity sometime in the 2008 timeframe, and we believe that in the current mix, remember, one of the things that we have to deal with is the mix changes. Someday we'll be building quad core and that will have an impact on units. But if you assume today's mixes, I can see our unit capability being able to go, you know, 40% up this year and continue to go up so that when we hit the 2008 timeframe, we're talking about, you know, in the 100 million unit capability for us. So you kind of draw a line in between. It's never perfect because it's a function of mix and demand, but those are our plans.

<Q – Tim Luke>: And it sounds as if you have broadened out your region to customers, that your visibility on selling that 40% unit is improving or how could you shape that?

<A – Henri Richard>: Tim, there is two factors that influence our visibility into the business.

<Q – Tim Luke>: Yeah.

<A – Henri Richard>: First, we are increasingly deriving a larger portion of our revenue from tier-1 OEM. We continue to have a very strong channel organization, but our tier-1 OEM represents a larger portion of our revenue. Secondly our commercial business is growing very quickly and we have a pipeline in place that allows us to know not only what we're going to do next quarter but also further down the year. So the additional visibility that these two elements give us is obviously helping us having a much better grip on what the business looks like.

<Q – Tim Luke>: Let me just ask one thing for Bob, and that was just to clarify on the bonus payments, it seems that they would have been fairly significant going into the fourth quarter, and perhaps less significant in a way in '06, given the planning that you have.

<A – Robert Rivet>: Yeah. I mean I'll get personal with you. I'm sure every year your bonus targets get reset. We're no different than anybody. Clearly this year we believe, and I think we are demonstrating based upon what's happened throughout the year and the fourth quarter in particular, the team did an outstanding job and they deserve to be rewarded from it. But of course the bogeys get reset as we start '06.

<Q – Tim Luke>: What was the rough estimate of what that would have been?

<A – Robert Rivet>: We don't – we don't give that kind of color.

<Q – Tim Luke>: Thank you very much, guys. Nice quarter.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from the line of Glen Yeung representing Citigroup Investment Research. Please go ahead.

<Q – Glen Yeung>: Thanks. If we were to look into the first quarter of the year, I wonder if you can give us a sense – or maybe rank maybe is a better way to think about it, where you think the opportunities are greatest, be it server, desktop or notebook? And then maybe the same question for 2006?

<A – Henri Richard>: Well, clearly, you know, the server business is going to continue to be our engine of growth. We have a lot of opportunities there. I'm not going to elaborate on what our market share might be. We have to wait for Mercury Research and other analysts to give us their view, but it's clear that we've gained significant share in the fourth quarter, and I think the momentum as we told you many times before, there is an underestimation in the market of the momentum of the Opteron platform and its adoption in Fortune 500 companies. And bear in mind that as we told you at the analyst meeting we are going to increase the number of platforms in the marketplace, and broadening the spectrum of solutions based on the Opteron platform. So I think that that's going to continue to grow very quickly for us. Mobile, obviously, is doing extremely well. That's driven by the fact that the market is growing, but also I think that increasingly customers are looking for differentiation and Turion 64 platforms provide that to them. But interestingly we're also doing extremely well in desktop, and in particular in the mainstream and high performance segment of it, where, you know, the supremacy of our dual-core technology is clear, and where the demand for the Athlon 64 X2 and the Athlon 64 FX continues to surprise us on the positive side. So for Q1 obviously across all the segments we are very positive. On the overall year we still have an enormous opportunity on tap in many of the high growth markets of the world. You know, we've made great progress in China, but there's a lot of other places where we have plans to execute, and I feel that we have the right product mix and the right people in place to go and seize those opportunities. So I would say first quarter it's pretty much more of the same. For the rest of the year expect to see us continue to show great progress in commercial and in high growth markets.

<Q – Glen Yeung>: Okay. And then if you just were sort of isolating your thoughts to the emerging markets, I wonder if you can give us a sense as to the trends that you are seeing there in terms of emerging market mix. Because, for example, in handsets which is obviously not your business, a different business, we are starting to see a lot more higher end models get adopted in emerging markets recently. I'm wondering if that's something we can also see in the PC market?

<A – Hector de J. Ruiz>: That's really a very complex question because the answer, emerging markets is unfortunately not a homogeneous thing. It's very, very different. An example that I'll just speak to that are pretty clear and obvious is when you look at the emergent market growth in Latin America, as an example, in Mexico it's heavily influenced by global players, tier 1 customers who are very strongly present there. In Brazil there is a heavy influence of a lot of local players who are very strong also in their, what people refer to as white box vendors. So very two different scenarios playing there. Then you have India where frankly at this point in time some of the strongest driving forces in India seem to be consumer oriented. It's a country with a very strong appetite for the consumption of content for consumers, and there you are looking at a very different picture. So it's not as – the good news is that we see when you add up all those markets, you see a very healthy demand across a very broad spectrum of products, which we offer. And so we are very – feel very bullish about our ability to be able to serve those markets. But I think there – let me ask Henri to add something to that.

<A – Henri Richard>: I won't give you the region but just to give you a data point our largest improvement in the ASP in percent was in one of the high growth markets of the world. So there is clearly a lot of opportunities for AMD in the mainstream and the high performance segments in these markets. It so happens that in the past our marketing was not focused at those segments. Often our lower end products were sold in those markets. But we're finding great success in the positioning of our new Turion, Athlon 64 and Opteron brands.

<Q – Glen Yeung>: That's very interesting. Just one last question, which is obviously you have dual-core entering the market and the demand is starting to build. Maybe what your sense is as to how you view dual-core versus single-core and the relative level of interest that you are seeing in dual-core chips?

<A – Henri Richard>: Well, clearly in server, you know, dual-core is rapidly gaining traction and we expect that conversion to be almost complete by the end of 2006. In the client space it's a little bit different. As we had the question a couple of calls ago where I made the point that it's really a software issue. It's not that people are not interested in the dual-core. You are correct. There is a lot of growth in that space for us. But I think that as applications come to the market and take advantage of the technology, then that will drive faster adoption than we are seeing right now. Now, we have – we happened to have both very high performance single and dual-core processors and so our view may be skewed by the fact that we have a superior technology.

<Q – Glen Yeung>: Thank you.

Operator: Thank you. And our next question is from the line of JoAnne Feeney with Punk, Ziegel & Company. Please go ahead.

<Q – JoAnne Feeney>: Good afternoon, folks, and congratulations again. I just have a brief question. The growth that you project for 2006, you are saying is you expect it to be at twice the industry rate. Now, clearly the achievement you've had in the second half of '05 would carry you well beyond those rates if you just kept that level of sales flat. So clearly you are looking at a projection based on your levels in the second half of '05. Is that a good place to start?

<A – Hector de J. Ruiz>: Well, I think – I'm just – let's just be pretty open and transparent here. I think in a competitive space that is as strong as ours, where you have an incredibly, you know, brutal and monopolistic competitor versus one that's creative and innovative serving customer needs, and to assume that we grow at twice to the markets, I think that's pretty aggressive, and if we, you know, our intent is to work our buns off to beat those numbers. But I think for us to do anything more than that frankly I don't it think makes any sense.

<Q – JoAnne Feeney>: And then on the manufacturing side, do you have a yield time table for FAB 36 that you could talk about?

<A – Hector de J. Ruiz>: Yield time table? Can you help me?

<Q – JoAnne Feeney>: In terms of the ramp up over the course of '06. You said you expect to increase yield pretty rapidly. I'm just wondering what levels you'll start at and how quickly you'll get to maximum yields?

<A – Hector de J. Ruiz>: I think if I understand the question right, I mean if I back off a little bit, when we moved from, you know, 250 nanometers to 180, we – it took us a certain amount of time to reach maturity in yields. Then when we went from 180 to 130 we were able to cut that in about half of that same time. Then when we went to 130 to 90, the time that it took to get there was significantly shorter. And our goal now as we go from 90 to 64, frankly, is that by the time we start shipping products we'd like to be at mature yield, so that's almost like saying zero time. I know it's aggressive and I'm not, but I think our manufacturing team feels up to the challenge of stretching for such an aggressive goal.

<Q – JoAnne Feeney>: Okay, great. Thanks very much.

Operator: Thank you. And our next question is from the line of Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello>: Good evening. Thanks so much and congratulations on the terrific execution again. I apologize for you're – for spending more time on such a basic issue but I just want to make sure I understand this. You talk about going double the market rate and the number off of which you expect to grow double the market rate is that 3.9 billion that you break out which is the subtotal excluding the memory segments?

<A – Hector de J. Ruiz>: It is – I think so. I think that whatever the number is for our business without the memory segment, that is the basis on which we will grow at twice the market or better.

<Q – James Covello>: Okay. So if I just work through that and I say roughly 3.9 billion and if we assume PC markets grow, PC units grow 10, just assume ASPs are flat for now, that's 20% growth, that would get you to about $4.7 billion. But you are already at 1.35 or if it's down a little bit in the first quarter as per your guidance, $1.3 billion. So what am I missing about the sequential expectations as we go throughout the year then?

<A – Hector de J. Ruiz>: I think it's very simple. I think we intend to, you know, under promise and over perform. At this point in time we are confident and have a high confidence level that we will deliver at least to twice the market rate.

<Q – James Covello>: Okay, and then final question for me is if you look at your ASPs which are going higher because of your excellent execution and product offering and your competitor's ASPs which are going lower, as the gap closes between your ASPs and their ASPs, what kind of impact do you think that has from a competitive standpoint in the marketplace?

<A – Hector de J. Ruiz>: I go back to the point that we made earlier, that I think that, you know, it is a very competitive space. Our mix is improving but the ASPs first Q continue to go down with time because that's the nature of the beast. It is important to highlight that as we put pressure on the market so that there is a perhaps in essence an approaching of ASPs converging, I think the only people – the people that win are the customer and the end user, and I think that will be healthy, I think healthy for everybody, certainly healthy for us for sure.

<Q – James Covello>: Thank you very much.

Operator: Thank you. And our next question is from the line of Chris Danely representing JP Morgan. Please go ahead.

<Q – Christopher Danely>: Thanks guys. Most of my questions have been answered. Just a few quickies. Can you give us some OpEx guidance for '06?

<A – Robert Rivet>: I guess I'm not prepared to do that. I mean to me we'll do this a quarter at a time. To me to some degree we need to talk, but based on the revenue expectation that takes place. So right now I'm only prepared to give you first quarter guidance.

<Q – Christopher Danely>: I guess to put it another way, can we assume just a normal sequential ramp? Nothing – nothing different in there? Unexpected, I guess?

<A – Robert Rivet>: No. I mean nothing unexpected. I mean we will continue to increase our design, our engineering capabilities so that we can increase the number – our architecture for the future, our number of platforms, etc., etc. We will continue to make the appropriate investments in marketing to have the appropriate teams around the world to execute and acquire more customers. So, you know, to me we will continue to – we like being in the lead and we're going to continue to maintain the lead and invest appropriately.

<Q – Christopher Danely>: That's fine. And then can you give us a sense of what the rough mix was between server, desktop and laptop in Q4?

<A – Hector de J. Ruiz>: No. We typically don't break it down that way. The only thing that I will repeat is again server led the growth followed by mobile followed by desktop.

<Q – Christopher Danely>: Great. And last question, obviously you're capacity constrained. When do you think you guys will be able to catch up to demand and get a little more comfortable?

<A – Hector de J. Ruiz>: First of all, we haven't said that we're capacity constrained and we don't believe we are. We think we are planning very tightly with our customer, and we're executing well. That's why you see our inventories being fairly lean. But we're executing. We did not affect any customers in the quarter and nothing planned to in 2006. We're balancing things reasonably well.

<Q – Christopher Danely>: Great. Thanks.

Operator: And our next question is from the line of Tom Thornhill with UBS. Please go ahead.

<Q – Thomas Thornhill>: At the analyst meeting you gave some targets for gross margin, R&D, MG&A for AMD prime. Given the outstanding performance in the quarter just finished, and congratulations on that, are there any adjustments that you'd want to make to some of the ranges on the line items?

<A – Robert Rivet>: No. To me we put a lot of thought in that modeling and our expectations, so to me we continue to try to execute to those ranges. So I'd say no, there is no update.

<Q – Thomas Thornhill>: Okay. So the gross margins, the range you had given there was 51, 57. And you achieved that in the fourth quarter. But you still think that's the appropriate range for the out year?

<A – Robert Rivet>: Yeah. I mean just to remind you of FAB 36. This giant facility starts production right now. So that's a large depreciation bill that needs to be absorbed to get costs to match output, and revenue and costs to match. So to me it still is appropriate at this point in time that we will continue to hopefully, you know, beat the numbers, but that's a decent range to live in.

<Q – Thomas Thornhill>: Okay. And the depreciation number that you gave was what, 825, right?

<A – Robert Rivet>: For the year, yeah, that's right.

<Q – Thomas Thornhill>: For the year, and that's up 150 million?

<A – Robert Rivet>: Yeah, that's right. That's right.

<Q – Thomas Thornhill>: Very good. Also you've reduced some debt recently which I would imagine will affect the interest expense line. Can you give some guidance on what you expect to see, what we should be looking for for interest income and interest expense as we go through the year?

<A – Robert Rivet>: No, I think you can model it off our balance sheet, you know, what's going to happen from there. And obviously I will deploy excess cash to reduce debt on a continuous basis to focus in on the 20% debt to capital ratio.

<Q – Thomas Thornhill>: Okay. The options expense, can you give us some idea of the breakdown to COGS, R&D and MG&A, as it will go into the income statement?

<A – Robert Rivet>: I'm not prepared to do that right now.

<Q – Thomas Thornhill>: Okay. We'll follow up offline on that. Thank you.

Operator: Thank you. And our next question from the line of Krishna Shankar with JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes. Congratulations on excellent results. Did the ASPs increase in all three segments, desktop, mobile and server? Can you give us some sense of the magnitude of the ASP please in each of the three segments?

<A – Hector de J. Ruiz>: That's a little bit too much granularity. They were either stable or increased in every one of the segments and I'm not going to give you more than that.

<Q – Krishna Shankar>: Okay. And Bob, can you just highlight the stock compensation expense here again for Q1? I missed that.

<A – Robert Rivet>: Right now obviously it's very dependent on stock price, but right now I'd guess that at, based on the current trading level of the stock, around 16 million for the quarter.

<Q – Krishna Shankar>: Okay. Thank you.

Operator: Thank you for your question. And we'll go next to the line of Mike McConnell with Pacific Crest Securities. Your line is open.

<Q – Michael McConnell>: Thank you. I wanted to dig a little bit into the server space. Obviously you've had a lot of success in the architectural front. I wanted to ask a couple questions on the Interconnect. With Intel pushing out the common system Interconnect, I was curious what you are going to be doing with hypertransports this year? There has been some talk about a potential licensing deal. Is this something we should also think about this year that could help you, you know, further drive some market share gains on the server side?

<A – Hector de J. Ruiz>: It is our desire on hypertransport to continue to make it as open as possible and make it a contender in the industry as it has been adopted by a number of folks. It continues to move in terms of improving the technology, you know. By next year we'll be implementing hypertransport three, which is the third generation of the product. It is included, an integral part of our road map and our architecture will continue to get better. And as I said before, we have done a fairly open licensing approach to it and will continue to do so.

<Q – Michael McConnell>: Okay. Thank you.

Operator: Thank you. And our next question from the line of Mark Lipacis with Prudential. Please go ahead.

<Q – Mark Lipacis>: Great. Thanks for taking my question. First on the pricing, I understand that you said there was – it's always competitive. Did you say that it was – that Intel was being more aggressive than normal or kind of in your opinion kind of in track with normal competitive pricing?

<A – Hector de J. Ruiz>: I was referring to normal, which it is very competitive.

<Q – Mark Lipacis>: Okay. And last question. You mentioned that the 65 nanometer yields were excellent. Can you help us understand what would potentially motivate a faster ramp of production silicon there? Is it just simply the yields getting better than you expected or are there other constraints that lock it down to the original schedule that I think you've been articulating?

<A – Hector de J. Ruiz>: Maybe let me just correct a perception here. The ramp of FAB 36 is beginning at 90 nanometers and will transition to 65 sometime towards the latter part of the year. The yields that are referred to as being already approaching maturity were based on the 90 nanometers beginning at the ramp. Our 65 nanometer data, which is already coming out, looks very encouraging. As a matter of fact, we've had already microprocessor products built on 65 nanometers that are really looking as planned, excellent at this point in time, and are confident that our ramp beginning in the second half of the year will go well. It continues to get stronger and stronger. And what motivates the change from one node to the other, frankly, is are we able to meet what customers needs and demands are better and how rapidly we can make that transition. We focus really on features, performance, value that it brings to customers, and of course, cost is important, and that also takes part of the equation. But at the top of the list, what is it that our customers want and need from us relative to the product.

<Q – Mark Lipacis>: Okay, that's helpful. Thank you very much.

<A – Robert Rivet>: Operator, we're going to take two more questions, please.

Operator: Thank you. And our next question from the line of Kevin Rottinghaus with Midwest Research. Please go ahead.

<Q – Kevin Rottinghaus>: Thank you. Hoping you could repeat a couple things I may have missed. First off on the OpEx guidance for first quarter, would you just repeat what you said earlier?

<A – Robert Rivet>: 6% growth.

<Q – Kevin Rottinghaus>: And that was…?

<A – Robert Rivet>: From the 506 level which is the last column on schedule 1.6 that we showed in the earnings release, so that's the re-- the recast numbers to exclude Spansion.

<Q – Kevin Rottinghaus>: And is that primarily the ramp of the new FAB, just basically engineering wafers or where does that come from?

<A – Robert Rivet>: It's a combination of many things, but FAB 36 was probably the most dominant of all of them.

<Q – Kevin Rottinghaus>: Okay. And then could you repeat again, I apologize, what you said earlier on inventories out in the channel and both on your balance sheet as well?

<A – Robert Rivet>: First I'll start with on our balance sheet. We depleted inventories in the fourth quarter. So, you know, I'll call it very good manufacturing execution and inventories actually went down. And we believe based on all our checks, whether it's OEM or distributors, our channels are very tight and lean in the channels.

<Q – Kevin Rottinghaus>: Okay. And that would obviously include the PC OEMs as well.

<A – Robert Rivet>: That's right. That's what I mean when I say OEMs.

<Q – Kevin Rottinghaus>: Okay. And last, any other granularity that you can give us on the progress that you are making in corporate on the PC side, not on the server side but on the corporate PC side?

<A – Henri Richard>: Well, if you – we've always said our strategy was to penetrate the enterprise through a strong server offering. We've delivered on that promise in 2005. Toward the end of the year you saw some of our partners introducing client offerings for the enterprise and part of the positive upside in the fourth quarter was the result of an acceleration to the penetration of our client offering in Fortune 500 companies but I'm not going to give you more detail than that. It's just as we indicated at our analysts' meeting, this is the focus of 2006, winning in the commercial space with clients.

<Q – Kevin Rottinghaus>: Is that really just what it takes, getting more corporate SKUs out there?

<A – Henri Richard>: Absolutely. I've always been a believer that it's a matter of choice, and the freedom of choice is what we need to be able to have our technology adopted by more customers around the world.

<Q – Kevin Rottinghaus>: And the targets are still doubling the number of SKUs for corporate this year?

<A – Henri Richard>: That's correct.

<Q – Kevin Rottinghaus>: Okay, thank you.

Operator: Thank you. And our last question is going to be from the line of David Wong representing AG Edwards. Please go ahead with your question.

<Q – David Wong>: Thank you very much. Could you give us some idea of what percentage of your microprocessor output will still be from FAB 30 by the end of 2006?

<A – Hector de J. Ruiz>: By the end of '06?

<Q – David Wong>: Yes.

<A – Hector de J. Ruiz>: I would say somewhere in the 50 to 60%, more or less.

<A – Robert Rivet>: It's an exit rate.

<A – Hector de J. Ruiz>: Exit rate, yes.

<Q – David Wong>: Yeah, okay, thank you very much.

Michael Haase, Director of Investor Relations

Great. Well, that concludes the call and thank you very much for participating.

Operator: Thank you. And ladies and gentlemen, that does conclude our conference call for today. I'd like to thank you for your participation and for using AT&T's executive teleconference service. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to AMD's third quarter 2005 earnings conference. [Operator Instructions]. I would now like to turn the conference over to Director of Investor Relations, Mike Haase. Please go ahead, sir.

Michael Haase, Director, Investor Relations

Welcome to AMD's third quarter conference call. Our participants today are Hector Ruiz, our Chairman of the Board, President and CEO; Bob Rivet, our CFO and Henri Richard, our Chief Sales and Marketing Officer.

This call is a live broadcast and will be replayed at amd.com and streetevents.com. Telephone replay number is (800)475-6701. Outside of the United States the number is (320)365-3844. The access code for both is 790990. Telephone replay will be available for the next ten days starting at 7:00 p.m. Pacific Time tonight.

For your planning purposes I want to call your attention an upcoming AMD event. We will be hosting our Analyst Day in Sunnyvale, California, the morning of November 15th. Invitations will be coming out in the near future. In addition, I would like to call to your attention that our Q4 2005 earnings quiet time will begin at the close of business, Friday, December 9th.

Before we begin today's call I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors setting forth information that could cause actual results to differ materially from those in our forward-looking statements. You will find detailed discussions in our most recent SEC filings including AMD's Annual Report on Form 10-K for the year ended December 26th, 2004 and AMD's quarterly report on Form 10-Q for the quarter ended June 26th, 2005.

With that, I'll turn the call over to Hector Ruiz.

Hector de J. Ruiz, Ph.D., Chairman, President and Chief Executive Officer

Thank you, Mike. The third quarter of 2005 was a strong indication of both the growth and earnings potential of this new AMD. Solid execution across the board led to a quarter of records in a number of important areas including total revenue, microprocessor units and revenues, microprocessor gross margin and operating income, as well as Flash unit sales.

We're pleased with the trajectory demonstrated by our Spansion Flash memory business which produced both revenue and operating performance improvements. Strong customer adoption led to record MirrorBit sales in the period, up 35% over the prior quarter and 49% over the prior year.

Meantime, our Spansion team maintained their technical leadership by demonstrating working silicon on a 1 gigabit ORNAND Flash memory device based on 90 nanometer MirrorBit technology.

In our microprocessor business, this was our ninth consecutive quarter of 20 plus percent year on year growth, once again represents the largest expansion since the launch of the AMD64 platform, up 44% over the same period a year ago.

With the help of our expanding set of world class partners we continued to gain momentum steadily across product lines and around the world. In the enterprise we now claim more than 85 of the companies on the Forbes Global 100 as AMD customers. And more than 25% of the Global 2000 are now buying AMD based solutions.

The past quarter was highlighted by a company record for both mobile processor shipments and revenues, a sign of growing worldwide demand for our AMD Turion 64 mobile platform. AMD64 Turion 64 revenues were up 72% over the prior quarter. And our Special Edition HP "LIVESTRONG" laptop is proving to be one of most successful co-marketing collaborations in our history with HP.

Less than five months after launching our initial Dual-core server offerings we introduced three new models in the quarter. Again, delivering the world's highest performance processors for one-way to eight-way x86 server and workstations, while maintaining our clear performance-per-watt leadership.

But technical leadership is only relevant if your customers can truly exploit it. We were excited to see that according to the latest TPC-C benchmarks, the HP ProLiant DL585 and DL385 servers both based on AMD Opteron processors are the world's highest performing x86 4P and 2P database servers.

We're also pleased to help Sun Microsystems introduce their new Galaxy family of servers and workstations powered by AMD Opteron multi-core processors. According to Sun, these new four-way servers consume about one third the power, produce 1.5 times the performance, and cost half as much as comparably configured Intel-based servers from Dell. We are particularly proud to have been named Supplier of the Year by Sun for extraordinary contributions to Sun's record of delivering top quality technology and service to their customers.

We were also honored by the editors of Popular Mechanics who recognized the AMD Athlon 64 X2 dual-core processor as one of only 10 product winners for the 2005 Popular Mechanics Breakthrough Awards. Finally, our Dresden team in Germany continues its excellent performance record both in terms of the continued operation of our world class Fab 30, as well as in ramping our new state of the art 300 millimeter Fab 36 on schedule and on budget for which we are hosting a grand opening ceremony on Friday this week.

In summary, the third quarter was a very good one characterized by strong customer adoption of our expanding AMD64 and MirrorBit product families, continued recognition by both industry partners and objective observers, flawless manufacturing execution against our MirrorBit and AMD64 roadmaps, and improving financial performance in our memory business and continued record setting performance in our microprocessor business. Also we're confident the quarter represents a healthy solid foundation for continued success.

I would like now to turn this to Bob to review the results of the quarter as well as the outlook.

Robert J. Rivet, Executive Vice President and Chief Financial Officer

Thanks, Hector. AMD had an outstanding third quarter. We had strong execution across the board with record breaking CPG [Computation Products Group] performance and significant improvement in our Memory Group's business. Once again our microprocessor business established all time quarterly records in: total sales and units shipped; server, mobile and desktop processor sales;

gross margin; and operating income. Total sales were $1.523 billion for the quarter, up 23% compared to the third quarter of last year and up 21% compared to the second quarter of 2005.

We recorded net income for the quarter of $76 million, amounting to a fully diluted EPS of 18 cents. Third quarter gross margin was 41% compared to 39% in the second quarter of 2005. This improvement was driven by record CPG gross margin and a near doubling of our Memory Group gross margin.

Third quarter total operating expenses, SG&A plus R&D, increased by 9% while sales were up by 21%. As a percentage of sales both SG&A and R&D expenses were down compared to the second quarter. Cash flow from operations was $429 million for the quarter and EBITDA was $387 million.

Now I'll switch to the business segments. CPG sales were $969 million, another record and a 44% increase over the same period a year ago. Compared with the second quarter of this year, we increased CPG sales by 26%. To highlight our growing momentum through the first nine months of this year our processor business is up 38% over the same period in the prior year. Unit sales in the quarter increased by 41% over the same period a year ago led by a 100% increase in mobile units and a 144% increase in server units. Total unit sales were up 27% compared to the second quarter of 2005.

Geographically we saw especially strong sales in Russia, India and greater China. And we continue to gain momentum in the enterprise market driven by AMD Opteron and AMD Turion 64 penetration on a global basis.

Despite the higher seasonal mix of mobile and desktop sales, we maintained a comparable ASP with the second quarter. CPG's gross margin increased in the second quarter to a record high of 60%. CPG's operating income of $209 million established a new high water mark in the quarter, up again from the record level of the second quarter of this year. And with an operating margin of 21.5% this was the first quarter our operating margin broke through the 20% of sales level.

Now switching to the Memory Group business. Flash memory sales were $516 million, down 4% from the third quarter of 2004, but up 12% from the second quarter of this year. We shipped 15% more units compared to the second quarter and ASPs have stabilized. MirrorBit sales increased 35% from the second quarter on improved unit volumes and ASP. Much of the increased demand for MirrorBit Flash solutions came from large wireless customers.

We recorded a $50 million operating loss in our Memory Group in the quarter, a 40 million improvement from the second quarter. Memory Group's gross margin nearly doubled in the quarter to 13% reflecting record unit shipments, a richer mix, and better factory utilization.

Turning to the balance sheet. Cash balances ended the third quarter at $1.342 billion, a $122 million increase from the prior quarter. Overall, our cash conversion cycle improved to 50 days in the quarter, down from 71 days in the second quarter of 2005, and down significantly from 83 days in the third quarter of last year. DSOs improved to 52 days in the quarter, down from 53 days in the second quarter and down from 58 days in the third quarter of 2004. Weeks of inventory improved in the quarter declining two weeks to 13.5 weeks from the second quarter.

Now let's talk outlook. AMD's outlook statements for the fourth quarter of 2005 are based on current expectations. The following statements are forward-looking and actual results could differ materially depending on market conditions.

AMD expects fourth quarter microprocessor sales to grow between 7 and 13% sequentially which is a 42 to 50% increase compared to the fourth quarter of 2004. Because of the Spansion SEC Form S-1 filing AMD is not providing guidance for the Flash memory business. Based on the continuing development ramp of Fab 36 and the seasonal fourth quarter marketing investment, we anticipate total AMD fourth quarter operating expenses, SG&A plus R&D, to increase by approximately 8% from the third quarter.

In summary, we are very pleased with our progress and look forward to a strong holiday season in the fourth quarter. And with that, I'll turn it back to Hector.

Hector de J. Ruiz, Ph.D., Chairman, President and Chief Executive Officer

Thank you, Bob. I would like to close out our prepared comments by offering a perspective on our business and what we are achieving as we take AMD forward. As you look at this company I would encourage you to note that we're operating in the context of a few very simple guiding principles. First, we never forget that our stakeholders are looking for sustainable growth. We are aware that particularly today great growth prospects are not easy to find and we know that not only all growth brings the same value. There is opportunistic growth the kind that can be produced relatively quickly at the risk of being difficult to reproduce. And there is sustainable growth. Irreversible advances with blue chip partners, customers, end users, most notably in our industry the enterprise. At AMD we're committed to constantly improving both the depth and breadth of our customer and end user base. And as the quality of our customers will attest, we believe we're making significant strides to building a sustainable growth engine for the foreseeable future.

Second, we know that sustainable growth is the product of true innovation. We believe that in the long term our industry places a strong value on a steady stream of innovation. Innovations like AMD64, MirrorBit, and our HPM technology which allows us to be able to turn on a dime in our world class manufacturing operations. Innovations built to create value not just for ourselves but for our customers. We're proud of the fact that almost 14% of our microprocessor revenue in the third quarter came from our Dual-core technology introduced in the latter half of the second quarter. We're also proud to have introduced over 20 new processors in just this past quarter.

We know that the only way to keep our position as an innovation leader is to keep pushing ourselves and our technology as far and as fast as we can, and that investing in new true innovation should trump standing on building barriers to others' success every time.

Finally we believe that true innovation can come only from a customer centric approach. If you look at every one of our recent product successes they stem from our relentless commitment to customer centricity. It is our customers who keep us focused on relevant innovation.

For those of you outside, the company is being evaluated on the basis of the products and technologies we produce, what you cannot always see are the hundreds of changes going on across our company and around the world to further ourselves to continue to be the customer centric innovation leader. The results today have been great and we're confident that it will only get better.

Once again, I want to thank each and every AMD employee for remaining laser focused on the task of creating the world's most innovative semiconductor products and technology. In particular, I want to acknowledge the hard work and perseverance of our Spansion team in positioning that business for success. Like our revenue, our progress in attracting world class talent is accelerating. And this is another reason why we're confident about the future ahead of us. We remain highly motivated about the prospects of helping to create a marketplace that is better for our customers, partners and end users around the world and that we're encouraged that our industry is showing signs of a willingness to break free from the artificial competitive barriers that have constrained all of us today.

Thank you, and I would like to now turn it back to Mike Haase for the question and answer period.

Michael Haase, Director, Investor Relations

Thanks Hector. We're now going to start the Q&A process. As a reminder, because Spansion is still in registration we will only address historical questions regarding our Flash memory business. Back to you Operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. And our first question comes from Tim Luke with Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thank you very much and congratulations on the numbers. Hector, with the operating margin moving up to these new levels of 21% I was wondering whether you could give us a sense on the processor side of what some of the key factors were, kind of the driving that improvement? And how you see the sustainability of that level or whether, Bob, maybe you can give us some new metrics for looking at how your operating margins might move in terms of the upside for that going forward? And secondly, I was wondering you just launched on Friday Fab 36, whether you could give us any color on how you see capacity growing there? I think in the past you talk about 50 million going to 75 million by the end of next year. 50 million this year run rate, and how quickly does it get to that number? Thank you.

<A – Hector de J. Ruiz>: Lots of questions. We're going try to make sure we don't forget them. Let me start first of all by saying that quite some time back we committed to you that our goal was to operate in a business model having a successful company, being able to return value to the stakeholders by operating in the 20 plus percent operating margin as a microprocessor company. As we achieve that, of course, the key for us is to continue to significantly improve the top growth. We believe that that is going to give us the opportunity to then invest the proper amount of money while still being able to give a very decent return to our stakeholders. So we're – and then Bob commented a little more that particular business model but we're very pleased with having reached some of those aspects already and we now have to focus on continuing to grow the top line so we can continue to spend the right amount of money to invest. As far as the Fab 36 and the manufacturing capacity, we – you're right. We are going out of the year at approximately a 50 million unit clip. We are going to start the production in Fab 36 here in the first quarter. The official opening is Friday. And we will ramp it as fast as we possibly can. We believe that puts us in a position to significantly improve our unit making capability. And as you stated, we think it could be 75 million but it could be plus or minus depending on the market. Next year it could be 100 million plus or minus depending on the market. And our desire is to while ramping it as fast as physically possible, to make sure that our customer engagement and marketing programs are aligned so that we can sell all of it. That's our plan. That's our desire and that's at this point in time how we're marching to that. And Bob, would you like to add to that?

<A – Robert Rivet>: Sure. On a long term basis, I'll call it steady state basis, as Hector said, the goal we have to run the business in microprocessors is in that 20 to 25% zone, probably erring more on the side of the 25%. Talking about in particular in gross margins of 55 to 60% kind of range. Clearly we're at the top end of that range at this moment in time. But the part I would caution a little bit as we transition into the new Fab 36 factory there will be some incremental costs associated with depreciation that will come on line so we'll be challenged a little bit of maintaining the high 60% level as we go forward from a cost perspective. Clearly though, as we move through time and units start matching the cost perspective, we'll get back into the model of the high 20% kind of operating level and pushing the 60% envelope. A critical piece as you questioned the drivers, drivers is continuing to have the right mix. The right mix of products, of participating in all the segments, in particular in the server and thin and light mobile space and particularly in a segment I'll call enterprise in having both client and servers in the enterprise space. So those are kind of the key issues there as you can see as I stated we poked through the 20% barrier, that's the first time we have ever accomplished that so we're well on our way to that game plan first half of next year I'll call it will be a little more challenged from a cost structure because we will bring on the factory from that perspective.

<Q – Tim Luke>: Clearly for the fourth quarter if you have sequential increase in revenue you would expect the operating margin structure in processors to move upwards again?

<A – Robert Rivet>: That's right.

<Q – Tim Luke>: Thank you. Thank you very much.

<A – Robert Rivet>: Thank you.

Operator: Our next question is from Mark Edelstone with Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Good afternoon. First off congratulations on the really strong results here. Bob, I guess can you just follow on there on the Fab 36, when do you expect the depreciation actually to hit the P&L? Is it still kind of middle in the quarter in Q1 or do you have a bit better handle on the exact timing?

<A – Robert Rivet>: It will probably, Mark, one, thank you for the compliment. It will start more early on in the quarter than later on in the quarter. Right now, you know, we're planning to start manufacturing fairly quickly in the quarter with outfit toward the end of the quarter, beginning of the second. So depreciation will start early in the process. Kind of from a modeling perspective to kind of give everybody a little bit of guidance here because it's been a big number. And this – so this will comprehend the incremental depreciation associated with next year for Fab 36 and the decrease in depreciation in Fab 30. So I'll kind of give you the all in net number for the microprocessor business including the back end manufacturing operation. Think of a number of about 150 million of incremental depreciation net for next year compared to this year for the microprocessor business. Obviously it will be heavier loaded in the back half of the year than the front half of the year as we continue to deploy more tools to run manufacturing. Hopefully that will help a little bit, Mark.

<Q – Mark Edelstone>: Yeah. That is great. And can you state I know you were looking at whether you would stick with a five year depreciation schedule in Fab 36?

<A – Robert Rivet> >: Right now that's still modeled under a five year scenario though we continue to look at if we'll make that change. I would like to hold off and I will actually announce exactly what we're doing at the analyst conference coming up in November. Right now the numbers I just quoted would be in the five year vernacular.

<Q – Mark Edelstone>: Okay. Great. Could you also on the – related to Fab 36 just give us a sense for what the total amount of expenses in R&D for Fab 36 were in the third quarter and what the incremental increase was Q2 to Q3?

<A – Robert Rivet>: Most of the increase – I'm not going to give you the totality of the number, we haven't disclosed that. But all of the increase I'd say 90% of the increase is associated with Fab 36. So the increase we continue to see on a quarter to quarter basis some of it is in people of hiring new designers but the bulk of the increase is associated with running engineering material in Fab 36.

<Q – Mark Edelstone>: I guess then as that Fab though turns into production we're going to see those costs toggle into COGS though so can you give us a sense as to how we should think about that in Q1?

<A – Robert Rivet>: Q1 there will be some proportion, I call it probably less than 25% of the number will move up. So it's a relatively small number. The biggest number will be depreciation.

<Q – Mark Edelstone>: Okay. Great. Thanks a lot, guys.

<A – Robert Rivet>: And I'll give you more granularity when we get to the analyst conference.

Operator: Thank you. We'll now go to the line of Michael Masdea with CSFB. Please go ahead.

<Q – Michael Masdea>: Thanks a lot. Just a quick question on the ASP. You made a comment that it was kind of flattish overall despite more Turion and service. Can you give us a little color behind that?

<A – Robert Rivet>: Sure, Michael. As you noticed we had a significant increase in both the desktop and mobile units and yet our ASP remained almost identical. That's off the strength of the server business in a quarter where typically we have a lot of demand on the client side because of the consumer aspect of our business. I don't want to give you any more granularity but it was stable as a total as an aggregate ASP and it was stable also on a line by line basis.

<Q – Michael Masdea>: There was some commentary that the- some of the OEMs were less aggressive in the low end, maybe the clones are taking back some market share. Any color on that or thoughts on that?

<A – Robert Rivet>: I'm sorry, I didn't get the first part of your question.

<Q – Michael Masdea>: There was some commentary that the OEMs are less aggressive on the low end ASP boxes out there and the clones are taking some market share back potentially. Are you seeing that at all, or are you saying anything different?

<A – Robert Rivet>: No, I haven't seen anything that would validate that assumption.

<Q – Michael Masdea>: Great. Last question. Just – emerging markets. It seems like there's more and more growth coming from there. Your competitor has pretty big wallets they're putting toward that effort. Tell us about what you're doing to kind of compete against that in the emerging markets?

<A – Robert Rivet>: Well you know, first, those high growth markets are slowly but surely consolidating under key players. If you take the example of China, you know, has really three or four local players that have the lion's share of the business. Our strategy in those high growth markets is obviously to partner with the key players in each of these markets and also to partner with our multinational partners who are important players particularly in the enterprise segment. So there's no special recipe, it's just being focused, being customer centric, being close to those markets and continue to deploy our resources accordingly.

<Q – Michael Masdea>: Great. Thanks a lot.

Operator: Thank you. Our next question is from Adam Parker with Sanford Bernstein. Go ahead please.

<Q – Adam Parker>: A little bit more color on the servers, please. Were your server ASPs up sequentially?

<A – Robert Rivet>: Our server ASPs were stable.

<Q – Adam Parker>: Stable. Is there – you know, even though your blended ASPs in server are at a premium to Intel, it seems as if, if you compare apple for apple, two way to two way, four way to four way, et cetera, you're still selling them at a discount to Intel. I guess what I'm asking is should we think there's any reason to think there's pricing pressure in server or is there still ample headroom for stability in your server ASPs over the next quarter or two?

<A – Robert Rivet>: I think we have a superior product offering and I actually don't subscribe to your notion of a discount. I think our competitor has a blended ASP that takes into consideration some high end products. As far as the 2P and 4P x86 space, I think at the processor level we're very comparable. There may be pressure at the system level but that's essentially because some of our competitors' customers have to discount heavily to sell the inferior technology that they offer.

<Q – Adam Parker>: So it's not true that you have a better mix within server than they do?

<A – Robert Rivet>: Clearly our leadership in the scalability of the architecture gives us a favorable mix of 4P versus 2P. When you look at the blended ASP for our sever business of course that helps because we have a very healthy 4P business.

<Q – Adam Parker>: Right, okay. Secondly, the other question is about memory. Hector, your attitude about Spansion seems to have I think improved over the last six months and not that you were ever negative about it but do you think this is because of AMD Spansion specifically or more broadly the Flash market? And given there are whispers about, you know, that business being quite positive in the fourth quarter, is there any reason to think that a book-to-bill way above 1 isn't achievable for AMD in the fourth quarter in Flash?

<A – Hector de J. Ruiz>: First of all, I just want to underline one point you made. I have never been negative on Flash.

<Q – Adam Parker>: No, I tried to say that but I meant you seem incrementally more positive from a positive starting point.

<A – Hector de J. Ruiz>: Here is what we see happening as we talk to the leaders. Flash today; let me speak in – from the market perspective. That the use of NAND has continued to grow and a lot of that is driven by new products that didn't exist before for example iPods who are heavy users of NAND technology as one example. So that particular side of the business continues to grow. But it has not really had a significant impact on the outlook of NOR in the Flash market because that what's happening is as one example when the year began you might remember that most of the consensus around the number of units built by cellular handset manufacturers were somewhere around 650 million units for the year. As we talk to these people the leaders in this industry, what they believe now is that there's very likely, very possible that they will exceed 800 million for the year which means the outlook for them improved significantly as the year began to develop and these are all heavy duty users of NOR Flash technology and as also we pointed out in the written remarks, the introduction of the sampling of our first ORNAND product also indicates that our, you know, our business is in a position to also be able to benefit from some of those additional market opportunities. So the market seems to have improved from what the users of technology felt at the beginning of the year. I think that's what's given people a little bit of a positive outlook into the balance of the year.

<Q – Adam Parker>: I mean just to respond – in Q1 I think you said something in the conference call like, the memory business, the losses made you want to puke, I think is what you said. So I was reacting to you being more positive relative to that. Trying to figure out how much was the market sentiment versus kind of AMD specific progress.

<A – Hector de J. Ruiz>: Okay.

<Q – Adam Parker>: But sounds like you think it's both?

<A – Hector de J. Ruiz>: Yeah.

<Q – Adam Parker>: Okay. Thanks.

Operator: Thank you. Next we have Joe Osha with Merrill Lynch. Go ahead, please.

<Q – Joseph Osha>: Hi, folks. Congratulations on the numbers.

<A – Robert Rivet>: Thank you.

<Q – Joseph Osha>: Couple of questions. Bob, you gave what I thought was a very helpful comment in terms of incremental depreciation associated with the processor business in 2006. Could you perhaps take us to the same place in terms of what the incremental operating costs will be '06 over '05 for that business?

<A – Robert Rivet>: I'm not prepared to do that on this call Joe. But I will at the analyst conference on November 15th.

<Q – Joseph Osha>: Would it be fair to say that as is the case with sort of the depreciation element of the equation that perhaps as you bring on costs to support Fab 36 initially that you maybe drop below your target and then come back to it as the year progresses?

<A – Robert Rivet>: Like I said, definitely challenged in the first half of the year versus second as we try to match cost of incremental capacity. But kind of as a framework I'll just talk in not general numbers because we would expect dilution in our R&D category and our SG&A category as time goes on proportional to sales.

<Q – Joseph Osha>: That is to say you absorb more costs as the revenues go up?

<A – Robert Rivet>: That's right.

<Q – Joseph Osha>: That makes sense.

<A – Robert Rivet>: To me, you know, we're on a obviously – with the kind of numbers I talked about and we just reported, we're on a very fast growth rate and clearly we will not add costs at the same growth rate of sales.

<Q – Joseph Osha>: Sure, that makes sense.

<A – Robert Rivet>: Except for the Fab 36 issue.

<Q – Joseph Osha>: That makes sense. If I look at Fab 36 my own kind of sniffing around has suggested that, you know, that Fab could be running around 2000 wafers a week by the fourth quarter which would imply actually that you're almost double in terms of square feet of silicon where you are right now. But sounds like I'm a little off there. Hector, can you maybe tell me where I'm making a mistake?

<A – Hector de J. Ruiz>: You know, that is not out of the question. And I just would – when you said fourth quarter you meant fourth quarter next year I'm sure?

<Q – Joseph Osha>: Right. 2000 times 2.5 and I know you're running around 25K at Fab 30 right now. So basically that doubles you year on year.

<A – Hector de J. Ruiz>: That's not entirely out of the question and we're going to do everything we can, as I said, to ramp it as fast as is physically possible.

<Q – Joseph Osha>: Okay. Super. And then last question. Back to you, Bob. Just in terms of the, I see, I have beaten up Hector about personal connectivity losses so I'll just maybe ask again, but then also you have got another $66 million loss in sort of other products. Can you tell me what the story with that is?

<A – Robert Rivet>: Yeah. As I think we stated before but I'll just restate it; the other products represent costs that we do not allocate to the product lines. In particular for AMD is mostly centered on long term and short term bonuses and profit sharing associated with how well the corporation or individual people or business units do. And so with the large improvements of profitability in some of our businesses has dictated that we actually need to accrue quite a bit of bonuses.

<Q – Joseph Osha>: Does this recur and is it attached to the processor business or the Spansion business?

<A – Robert Rivet>: Well, the honest answer of course, most of it is coming from the processor businesses because of the size of the operating income.

<Q – Joseph Osha>: Okay.

<A – Robert Rivet>: We don't pay many bonuses for losing money.

<Q – Joseph Osha>: No.

<A – Robert Rivet>: But, you know, as we continue to take the 200 to 400 to 500 to whatever the numbers are bonuses would move proportionately to that.

<Q – Joseph Osha>: So I need to think about this $66 million as being attached in part to the processor business and as recurring as you continue to be more successful in that business?

<A – Robert Rivet>: Correct. And, you know, then of course like all bonuses and I'm sure just like yours, and they get reset every year.

<Q – Joseph Osha>: No, mine never goes up, Bob. All right. Thank you very much.

<A – Robert Rivet>: Thank you.

Operator: Thank you. Our next question comes from Ben Lynch with Deutsche Bank. Go ahead please.

<Q – Ben Lynch>: Yeah, hi. I'll just join the crowd and congratulate you for what it's worth.

<A – Robert Rivet>: Thank you.

<Q – Ben Lynch>: First question maybe this is for Henri. I know the final data is not out, but I'm sure you have a rough feel for this. Your estimate for your 2P and 4P server share for the currently – define that as you like – currently. And I'm assuming 4P is a lot higher than 2P. What do you attribute that to I guess specifically just the scalability advantages and is there – do you have specific plans to boost the 2P share significantly in the next year or so? That's the first question.

<A – Henri Richard>: Well, Ben, first, I'm not going to make guesses. We'll wait to see how the dust settled on the third quarter and where the shares are. I keep my horizon focused at about 6 to 9 months so on my pipeline, my pipeline of opportunities is very strong and continues to grow. So I'm comfortable with the velocity of our server business. With regards to your specific comment on 2P versus 4P clearly our scalability advantage on the 4P space makes Opteron a particularly compelling solution in that space. Obviously, the 2P space is more of a commodity. The 1P space is actually a total commodity. And we have a lot of opportunities to grow in those two segments. Frankly, the opportunities there are available to us as we continue to augment the number of platforms available from our Tier 1 partners and as we develop our offering in the SMB space. So I think that the more you move towards a commodity market the more you know it's about market coverage. Clearly in the 4P space you're confronted with very, very smart and informed buyers who can understand what's the best value proposition in the marketplace. But I'm confident that we will accelerate in the 2P space and then in the 1P space as we continue to augment the number of platforms available.

<Q – Ben Lynch>: So it will be less – if I hear you properly, it may be less the technical arguments which clearly there are as well as maybe less emphasis on just going in and penetrating new customers?

<A – Henri Richard>: Absolutely.

<Q – Ben Lynch>: Okay.

<A – Henri Richard>: Market coverage.

<Q – Ben Lynch>: Great. Second question I had was going into the quarter on your Q2 comments AMD was talking a little bit about supply constraints and also how the higher consumer mix in the second half might be somewhat of a drag on margins. And clearly the constraints which are facing the third party chipset venders and Intel, et cetera, it would seem that they would apply to you as well because you have the same sort of partners. And yet you had this phenomenal quarter. And I'm just trying to understand how those supply constraints that seemed to be forming just didn't seem to matter?

<A – Henri Richard>: First of all we haven't experienced any sort of supply constraint during the quarter. I want to dispel any notion that that's the case. With regard to the fact that our results are at the upper end of the range that we could expect or you could expect, it's really a statement of the brand positioning that we have done over the course of the last year and a half. The Athlon 64 brand is really doing very well. The Athlon 64 X2 is doing exceptionally well and Turion 64 is doing very well. So the establishment of those brands and how they're anchoring themselves in the market and the price tags are obviously helping us in getting this phenomenal revenue growth.

<Q – Ben Lynch>: Great. Thank you very much.

Operator: Thank you. Our next question is from Glen Yeung with Citigroup Investments. Please go ahead.

<Q – Glen Yeung>: Thank you. Just a question about your fourth quarter guidance. It looked – it looks pretty much in line with normal seasonality. I wondered if you could explain to us given that you have been obviously taking share now for some time, if you believe you're no longer taking share or if you believe that we may in fact have a lower than normal seasonal fourth quarter?

<A – Hector de J. Ruiz>: It's an interesting question for the following reasons. I believe that we – it's very tough and challenging for at our size frankly to be as predictable in terms of the total market. There are probably other people with significantly larger share able to see that and have more visibility onto that. We believe we will outperform the market in general. But we also believe the fourth quarter seasonality numbers are beginning to be difficult to predict because we start finding ourselves in a different pattern than we see the rest of the competition. So it's hard to blend it. So from our perspective it was best for us to indicate to you that the very strong year-on-year growth that we have had and we expect to continue.

<Q – Glen Yeung>: And just, I mean to add to your point; I guess that year-on-year growth you're expecting in the fourth quarter actually exceeds the year on year growth you've had in the first nine months, so maybe some conservatism in the way you though about the quarter?

<A – Hector de J. Ruiz>: No, I think it's reasonable.

<Q – Glen Yeung>: Fair enough. The other question I had maybe for Bob was you know in the second quarter you'd seen some inventory build and I made the point at the time that that was, you know, given that you're looking forward to what was a good third quarter and you obviously gave us that, that that inventory build was justified. When we look specifically at the inventory of Opteron whether that's WIP or finished goods, did your Opteron inventory come down in the third quarter amidst a 2% increase in overall inventory?

<A – Robert Rivet>: Well, you've got to remember the inventory report is for both businesses, both Spansion piece…

<Q – Glen Yeung>: Right.

<A – Robert Rivet>: …and total I actually did not make a comment on the specifics but we hopefully we continue to show you – we demonstrate strategically building the right inventory and then moving it appropriately. Opteron continues to set records every quarter. Just because we don't talk about it as much in any particular tone doesn't mean every quarter is not a new record. So we're very happy with our inventory levels. Of going into the fourth quarter as we stated in our forecast we expect decent growth in the fourth quarter again and so it will continue from that standpoint.

<Q – Glen Yeung>: I'm sorry; Hector, just to go back to the question I was asking before. Just to be specific on this particular fourth quarter, given we have so many macro issues that are out there, is your sense that – are you trying to factor in some concerns we have on a macro basis? Is that part of your thinking in this calendar Q4?

<A – Hector de J. Ruiz>: No, no. Doesn't mean we don't care about the macro issues. We're aware of them but frankly they're beyond our ability to forecast so we're not taking those into account.

<Q – Glen Yeung>: That's great. Thank you. I appreciate it.

Operator: Thank you, we will now go to Christopher Danley with J.P. Morgan. Please go ahead.

<Q – Christopher Danley>: Thanks guys, great quarter. Can you talk about the relative sizes and the growth rates of the three different processor segments, server, desktop and laptop?

<A – Henri Richard>: Not more than the color we gave you in the statements which is, you know, the growth was led by Turion 64 this quarter. That's not to say that the other segments didn't grow very well as well. They were all in the double digit mode. And again, a spectacular performance from Turion 64.

<Q – Christopher Danley>: Sure. And then how about going forward? Can you give us a sense of – do you expect the laptop segment to drive growth going forward or could we see something else pop up?

<A – Henri Richard>: I think if you look at our three segments, our largest market share is in the desktop. So obviously although we're performing very well, we have more opportunities to grow in the server space than in the mobile space in relative basis. Although as Bob would point out there's a huge opportunity for us as we continue to develop our business in the client space for the enterprise. But overall I would say we would continue to expect record after record on both mobile and server with the desktop doing very well but probably as a second growth rate.

<Q – Christopher Danley>: Sure. And was there any, I guess, key metrics that caused the switch flipping in the laptop segment?

<A – Henri Richard>: You know, we introduced Turion really at the end of the first quarter. Our customers ramped production of about 60 different platforms in the second quarter. By the time these hit the shelf for back to school for the consumer space and started to be evaluated by Fortune 500 company and the commercial space, if you look at the cycle, it is totally logical. But it also shows that the market needs an alternative in the mobile space and that Turion 64 provides both our customers and end user with a very high quality alternative to the competition.

<Q – Christopher Danley>: Great. And then last question. I know you guys can't talk about Flash going forward but can you just address sort of the ORNAND market a little bit? Doesn't Samsung have a similar type of product? And does anybody else have a similar type of product?

<A – Hector de J. Ruiz>: Well, there might be some attempt to make it look similar but I'm not aware of anything that looks at all like what ORNAND is. And just to remind you a little bit is that the NOR technology which is based on this thing called MirrorBit which is very unique and only AMD has the IP portfolio to be able to do it, it is a derivative of that that leads to this technology called ORNAND. And there is no such thing as an ORNAND market because there's only AMD owns that product. But it is a NAND-like application based on technology that is a derivative of NOR and that as perhaps we've stated before, brings with it a very cost competitive space as well as a very high quality in terms of data retention. And in some instances it will take away some of the market that NAND might be approaching. In other cases it will be a lower cost alternative for some not so demanding NOR solutions.

<Q – Christopher Danley>: That makes sense. Thanks a lot, guys. Great quarter.

<A>: Thank you.

Operator: Your next question is from Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello>: Good afternoon. Thanks so much. Trying to get a little more granularity on the fourth quarter gross margins. Bob you have given us terrific color for the out year margins but relative to fourth quarter, maybe if I could start. Is there an update to your full year depreciation and amortization guidance?

<A – Robert Rivet>: No. Pretty much the same as we have had from that perspective. Not materially different from the prior annual guidance.

<Q – James Covello>: So I think if I'm not mistaken it was kind of 1.2 billion so you would actually expect depreciation to come down a decent bit in the fourth quarter?

<A – Robert Rivet>: Depreciation will trail in that direction, constant to trail. Again, you've got to also remember depreciation is a factor of currency rate.

<Q – James Covello>: True. And could you give us any other color on the factors that might affect the fourth quarter gross margins specifically?

<A – Robert Rivet>: Well, as Henri stated, seasonally fourth quarter is a client based quarter so clearly clients will be a strong piece of the business from a growth perspective and the percentage of the business. But as he also said too, we are continuing – we have a healthy pipeline of servers and those will continue to kick on a continuous basis so we see, you know, no issue in ASP. ASP will continue to move as it has historically trending north. That clearly helps gross margin. And we have as I said, we will have cost increases associated mainly with Fab 36 and merchandising the product for the fourth quarter. So we should…

<Q – James Covello>: So when you net that all out, I think the gross margin drop-through is about 50% or so this quarter. Should we expect that to remain about the same or go up or go down for the fourth quarter?

<A – Robert Rivet>: I think it's in the relative zone.

<Q – James Covello>: Okay. All right. Then second question. Relative to the emerging market impact on the business, do you think that has any change on the seasonality that we may see? A little less pronounced positive in the fourth quarter, a little less pronounced negative in the first quarter of the year or the first half of the year given the differences in the seasonal patterns in the emerging markets?

<A – Henri Richard>: Yeah, I think that actually it's going to help us overall because if you look at the cycles they're different in those markets, both vacations and holidays and actually important dates. As our business in the past was heavily dependent on both the US and Europe, we had the seasonality that was impacted by really the retail cycles in those two markets. Clearly the high growth markets are representing an increasing percentage of our total revenue. That should smooth out the curve. That's partially why Hector indicated that we're moving a little bit away from the traditional seasonality that's been ours for the last few years because there is a significant change in both the geography mix of our business but also our consumer to commercial ratio.

<Q – James Covello>: That's very helpful. Thanks very much.

Operator: We will now go to David Wong with A.G. Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. Couple of quick sort of administrative things. Can you give us some idea of what tax rate would be for AMD if it didn't have SAGEM with it? Are there any net operating losses that would go away with SAGEM that would force the tax rate up?

<A – Robert Rivet>: Actually no. Spansion today is a partnership. And actually in the partnership all the losses accumulated to date stay with AMD.

<Q – David Wong>: Okay. So

<A – Robert Rivet>: The benefit accrues to us.

<Q – David Wong>: Right. Similarly, along the same vein, legal costs, would there be any step up going forward or does this current quarter's SG&A and your guidance for next quarter sort of map out what we would expect into next year or is there any point where things step up or alternatively step down?

<A – Robert Rivet>: Haven't given the granularity on next year but as I stated in last conference call I always will give you what we think it's going to grow quarter on quarter. The 8% again growth rate from third to fourth is what I expect and I'll give more color and detail in specific at the November analyst conference.

<Q – David Wong>: Great. And my final question, when you – I think Hector had said that there were no shortages of AMD parts. At this point in time, what's your capacity utilization look like? Do you have – is it relatively full utilization?

<A – Hector de J. Ruiz>: Well, yes, the simple answer is yes but I got to modify it. Let me explain to you. We are continuously ramping. The capacity of Fab 30, even though has fixed number of wafers has continued to go up because we have improved the node, the technology from 130 to 90 nanometers and we have been able to add productivity changes which have improved also. So there's this continued increment of capacity that's been occurring for the last several quarters. Of course that will continue not only in Fab 30 but it will continue even at a faster pace as we bring Fab 36 on board. And as our plans are with Henri's sales and marketing team around the world, is to sell it all out. And therefore at every quarter in time even though we improve capacity is to be able to be as close as we can to full utilization, where we are right now.

<Q – David Wong>: So the rate of which your computational revenues have grown, for example, is roughly equal to the rate at which the margins grown? So you haven't been production limited in terms of what you can sell?

<A – Hector de J. Ruiz>: No we have not.

<Q – David Wong>: Thank you very much.

Operator: Thank you. We now have a question from Allan Mishan with CIBC World Markets. Please go ahead.

<Q – Allan Mishan>: Hey guys. Nice quarter. A couple of questions. Bob mentioned before 150 million in depreciation incremental. Can you just split that first half versus second half so we understand how that hits the P&L?

<A – Robert Rivet>: I'm not prepared to do that right now. I will do that at the analyst call.

<Q – Allan Mishan>: Okay, fine. And then do you guys have any anecdotal evidence or any other evidence that you might have benefited from the Intel chipset shortage this quarter? And if so, do you worry that that share goes back to Intel at some point?

<A – Henri Richard>: Well, you know, our understanding is that our competitor is challenged from the manufacturing perspective in certain areas. In the case of chipset it's the low end of their offering. As I pointed out we're doing very well in Turion and mainly the growth of our mobile business was driven by Turion. So whether we had some benefit in our Sempron mobile offering of Intel's failure to execute remains to be seen but I'm not worried about their overall ability to fight back because again in the space where they haven't announced any sort of shortage or issues is where we performed the best.

<Q – Allan Mishan>: Okay. Thank you very much. That's helpful.

Operator: Thank you. Our next question is from Chris Caso with Friedman, Billings, Ramsey. Please go ahead.

<Q – Christopher Caso>: Yes, thanks. I was just wondering if you could give some more color regarding the Turion ramp? And give us some sense of where Turion sits as a percentage of your mobile business right now and where you think that's likely to be as you go into '06.

<A – Henri Richard>: I really would prefer to stay away from that level of granularity but obviously Turion 64 is the only 64 bit platform available. We intend to drive it as big a percentage of the total mobile business as we can but we also recognize that, in particularly a lot of those high growth markets there is a need for entry level solution and that's why, again, we did very well with Turion. But I don't want to have you leave with a false impression that our mobile Sempron business didn't do well as well.

<Q – Christopher Caso>: Okay, let me follow with something else then. Regarding just on follow up to an earlier question when you guys talked about your capacity utilization the plans to basically sell out all your capacity, I mean, you know, when things go forward with your competitor being tight I guess is it right to say that you guys are making some decisions in terms of what business you're actually going to take in the quarter given the capacity constraints or is, you know, there's some other things that you guys can think of such as outsourcing? Maybe you can just give us some color on that.

<A – Hector de J. Ruiz>: You know what? The only thing I would like to comment on outsourcing is we have announced plans to use Charter Semiconductor as a foundry. We're very happy with that. We expect that to contribute in the second half of next year. That will be part of our desire to aggressively grow in the market and use the capacity fully. Other than – I will let Henri comment on the other question you had relative to whether we actually are selective on the businesses that we take or not. But we right now have a strategy from the beginning to serve the enterprise market with servers. We aggressively are moving to the client to continue to do well in the consumer side which is where we have been very strong. And also began the path to significant penetration on the commercial space. That has been demonstrated over the last several quarters that we're making progress on and where some of the growth has come. That will continue and Henri, anything you would like to add to that?

<A – Henri Richard>: No, just Hector that like in everything we do we're being customer centric in how we look at the portfolio of products that our customers want and need and sometime, you know, their mix and our view of the mix is slightly different but we usually reconcile and find a way to have a win-win situation in the market. That's why we have been able to maintain such high growth rates with good ASPs across the three product segments. So we're not doing any arbitrary decisions. We're working with our partners to make sure that end users around the world get the AMD technology they desire.

<Q – Christopher Caso>: I guess the follow up to that: in the most recent quarter is there any business that you guys have turned away?

<A – Henri Richard>: Not that I'm aware of.

<Q – Christopher Caso>: Okay. Thanks.

<A – Michael Haase>: Operator, we're going to take two more questions, please.

Operator: Thank you. The next will be from John Lau with Jefferies & Company. Please go ahead.

<Q – John Lau>: Yes, hi, Hector, Henri. I was wondering if you could comment more on the profile of strength in the emerging markets? Is it more high end or low end or is it similar to the profile of the US markets? Thank you.

<A – Henri Richard>: The only granularity I'll give you John is that actually we're seeing an improvement of ASP in the high growth markets, that it's faster than in the mature markets. But of course coming from what was traditionally a much lower ASP situation. So we're seeing a mix of products in the high growth market that's getting increasingly favorable.

<Q – John Lau>: Okay. And as a follow up, there has been I was wondering if you can comment also on the reception for your Opteron X2 products, especially on the server side with the dual-core. And when do you believe the operating system will be available to take advantage – full advantage of those dual-cores inside?

<A – Henri Richard>: Okay, so first, there's no such thing as an Opteron X2. There's Opteron dual-core for server and workstation and then there's Athlon 64 X2 for desktop. So is your question for the server market?

<Q – John Lau>: Server.

<A – Henri Richard>: For server the operating systems are available and most operating systems today are taking full advantage of multi-core technology. At the application level there's an increasing level of applications that can take advantage of it but of course as you know, there's long development cycle to optimize compilers. This said, the scalability of our architecture is such that customers get immediate benefit. I noticed that our competition just announced a product that they claim can scale up to 50%. It's interesting to note that our product scales from 50 to 90%. So there's benefit immediately available through Opteron for users as long as they use the right operating system and the right application.

<Q – John Lau>: And in terms of what we want to look for on operating systems of desktops is that what we look for in Vista next year? Is that what it will take for us to take advantage of that on the desktops?

<A – Henri Richard>: I think on the desktop you'll have to rely more heavily on application tuning than simple operating system tuning. Of course the operating systems can take some partitioning of the work but really you're going to have to get to the application level because you're not running as many threads as you are on the server.

<Q – John Lau>: Great. Thank you.

Operator: Thank you. Our final question will be from Michael McConnell with Pacific Crest Securities. Go ahead, please.

<Q – Michael McConnell>: Thank you. Looking at the margins in Flash, looks like if I looked at it year-over-year revenues right now roughly the same and operating margins slightly below, looks like you're about 3% operating margins last year on negative 10% in Q3. Can you kind of talk about with MirrorBit up 35% sequentially why we're not seeing the Flash margins improve on the same revenues year over year?

<A – Hector de J. Ruiz>: There are number of ways to look at that. First of all if you look at the third quarter performance versus the second quarter performance, you see a rather significant improvement in the operating results of Flash. Given the rather stable pricing environment which means that if you look at the incremental sales and the fall through of that which was roughly about 75% means the business unit, the people in that business have done a damn good job of managing through these very difficult times. And that to me is an indication of the potential these units have as the top line grows that will improve over time as you would expect it. So I believe that a comparison of second to third quarter is a good example of what potential of this unit is and it gives you an indication of the strength of the product. And as this MirrorBit technology continues to expand which is mostly going to be based on the next node of technology at 90 nanometers it's very reasonable to expect the continuation of that improvement.

<Q – Michael McConnell>: And then what percentage of Flash was based on MirrorBit this quarter? Can you break that out?

<A – Hector de J. Ruiz>: I don't

<A – Robert Rivet>: Yeah, I'll give you that number. It's roughly, we talked about this and it's continued to move up and it's approaching in the 25% zone.

<Q – Michael McConnell>: Great. Thanks very much.

Michael Haase, Director, Investor Relations

Great. Thank you very much. We look forward to seeing everyone on November 15th at our Analyst Day. Thank you.

Operator: Thank you. And ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to AMD's Q2 '05 earnings conference. [Operator instructions]. And as a reminder, this conference is being recorded.

I would now like to turn the conference over to Director of Investor Relations, Mike Haase. Please go ahead, sir.

Michael Haase, Director, Investor Relations

Thank you, welcome to AMD's second quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board, President and CEO; Bob Rivet, our Chief Financial Officer and Henri Richard our Chief Sales and Marketing Officer. This call is a live broadcast and will be replayed at AMD.com and streetevents.com. Telephone replay number is 800-475-6701. Outside of the United States the number is 320-365-3844.

The access code for both is 787311. The telephone replay will be available for the next 10 days starting at 7:00 PM Pacific Time tonight. For your planning purposes I want to call to your attention an upcoming AMD event. We will be hosting our analyst day in Sunnyvale, California, the morning of November 15th. We'll be sending out invitations in a few months for that.

Before we begin today's call I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from our current expectations as set forth in the forward-looking statements. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast.

Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our business and risk factors setting forth information that could cause actual results to differ materially from those in our forward-looking statements. You'll find detailed discussions in our most recent SEC filing, including AMD's annual report on form 10-K for the year ended December 26, 2004, and AMD's quarterly report on form 10-Q for the quarter ended March 27th, 2005.

With that I'll turn it over to Hector Ruiz.

Hector de J. Ruiz, Ph.D., Chairman, President and CEO

Thank you, Mike. In the second quarter of 2005 AMD continued to show solid momentum gains in our microprocessor business. And in our Spansion Flash memory operation we saw a moderate quarterly increase in revenues driven by increased demand for our second generation MirrorBit Flash memory products. MirrorBit revenues were up nearly 50% over the prior quarter, and over half of our MirrorBit revenue in the quarter was from second generation MirrorBit products.

We are now in full production on our 110 nanometer MirrorBit 256 megabit part and are seeing a broad adoption of this new technology among key OEMs across the wireless segment. We are pleased that SAGEM is using our 512 megabit single chip NOR Flash memory in their feature rich mobile phones.

We're likewise pleased with our OR/NAND execution having seen the first 90 nanometer silicon in the second quarter. In the meantime we remain on track with our plans for a more independent Spansion, re-engineering the business model, reducing expenses and streamlining operations.

As I mentioned on this call the last quarter, our processor business continued not simply to grow, but to accelerate, thanks to the strong adoption of the AMD 64 processor platform. This second quarter of '05 was another high water mark for us on several key measures, an all time quarterly record for microprocessor revenue, an all time quarterly record for mobile processor revenues, and an all time quarterly record for server processor revenues. As a result, we delivered an all time record for quarterly operating profits in the processor business.

Second quarter processor revenues were up from the prior quarter, bucking typical seasonal trends, and up almost 40% over the prior year. For the record, this is the eighth consecutive quarter of 20-plus percent year on year growth, and the largest quarter-on-quarter expansion since the launch of the AMD 64 platform.

We're particularly pleased with the growth trajectory of our AMD Opteron family. AMD Opteron revenues nearly doubled over the prior quarter reflecting surge in demand for our customers' growing product offering.

Sun, HP, IBM and many other OEMs announced new systems based on our Dual Core AMD Opteron family, and we continue to work with our partners to fully develop the explosive blade server opportunity with the launch of IBM's LS20 and the HP ProLiant BL45p. Our partnership with Sun has generated tremendous momentum in the enterprise where the combination of AMD Opteron and Solaris 10 have become the reference platform for many x64 deployments. Sun's V40z server broke the world record for 8 way x86 performance, achieving over 2.5 times the performance of the latest 4-way MP Xeon processor based servers. With the launch of our AMD Athlon 64 X2 processors, we are now the only company with a complete Dual Core offering from servers to business and consumer desktops. In the thin and light segment we're seeing strong demand for our new AMD Turion 64 processor platform which has captured more than 60 design wins since its launch.

Meanwhile on the marketing front we're proud to be working hand in hand with HP on the HP Special Edition "LIVESTRONG" notebook, reflecting our proud support of Lance Armstrong and the Discovery Channel team, as well as the Lance Armstrong Foundation. $50 from the purchase of every one of these notebooks will go directly to support the cancer survivorship cause of the Lance Armstrong Foundation.

Our success in the enterprise continues. We now can claim more than 75 of the companies on the Forbes Global 100 as AMD 64 customers, up from 55 last quarter. Our transition to 90 nanometers is complete with world class yields resulting in continuous capacity expansion to meet the growing demand for AMD products and solutions. Our Fab 36 remains on schedule and on budget with production starts planned in the first quarter of 2006.

We continue, with the great support of our partners, on the steady path toward reinventing the competitive dynamics of the microprocessor industry. With the successful launch of our Dual Core AMD Opteron and Athlon 64 X2 processors, AMD 64 has truly become the gold standard in 64-bit computing. At this point I would like to ask Bob to review the results of the quarter as well as the outlook.

Robert J. Rivet, SVP and CFO

Thanks, Hector. AMD had a good second quarter. We had solid execution across the board with exceptional CPG [Computation Products Group] performance and good directional progress in our

Spansion operation. Our microprocessor business established all time quarterly records in total sales, server processor sales, mobile processor sales, gross income and operating income. Our microprocessor business clearly continues to gain momentum. For AMD overall sales were $1.26 billion, flat from the second quarter of last year and in a seasonally slow second quarter up 3 percentage points compared to the first quarter of 2005. We recorded net income for the quarter of $11 million amounting to an earnings per share of 3 cents. Second quarter gross margin was 39% compared to 34% in the first quarter of 2005. This improvement was largely due to record CPG gross margins.

Second quarter marketing, general and administrative costs grew 8% as compared to the first quarter of 2005, largely due to record microprocessor sales, particularly with large global OEMs driving increased marketing investments. Cash flow from operations was $265 million for the quarter, and EBITDA was $345 million.

Switching to the business segment highlights, CPG had a record breaking quarter. CPG sales were $767 million, another new record which represents a 38% increase over the same period a year ago. We also grew 2 percentage points from the first quarter of this year, in a typically seasonal down quarter. Units in the quarter increased by 22% over the same period a year ago, but were down 4% from the first quarter. In the quarter we saw especially strong sales in China, North America, and all of our high growth markets. We continue to gain momentum in the commercial market driven by AMD Opteron processor penetration in the enterprise space.

Microprocessor ASPs increased 6% compared to the first quarter, and new sales records were established in both server and mobile.

CPG's operating income of $110 million established a new high water mark in the quarter, up again from the record levels of the first quarter of this year. Year over year, CPG's operating income has increased a strong 92% from the 58 million in the second quarter of 2004. CPG's gross margin increased from the first quarter, and was a record high 59%.

Now switching to the Memory Group business, we continue to execute on a strategy which we embarked on over 2 years ago to make Spansion a financially independent organization. Flash memory, as you know, is a capital intensive business and our strategy is designed to give Spansion direct access to the capital markets going forward. In a very competitive market, Flash memory sales were $462 million, down 31% compared from the second quarter of 2004, but up 3% from the first quarter of this year. We shipped 12% more units compared to the first quarter, and ASPs were down again.

We recorded a $90 million operating loss in our Memory Group in the quarter, a $20 million improvement from the first quarter, in what continues to be a very challenging supply/demand environment. Most of our improvement is associated with strong demand for our second generation 256 megabit MirrorBit parts. The Memory Group's gross margin increased in the quarter to mid single digits.

Turning to the balance sheet, cash balances ended the second quarter at $1.22 billion, a $135 million increase from the prior quarter. In the second quarter we received funds from the German government and Fab 36 partners for meeting certain milestones and running our first engineering test wafers. Second quarter capital expenditures were $303 million, down from $518 million in the first quarter, with the majority of the investment going into our microprocessor business.

Inventories were up as planned from the first quarter by $65 million, mostly in CPG, as we prepare for an anticipated strong second half of the year.

Now let's talk outlook. AMD's outlook statements are based on current expectations. The following statements are forward looking and actual results could differ materially, depending on market conditions. AMD expects microprocessor sales growth to exceed normal seasonal patterns. Due to the Spansion filing on the SEC form S-1, AMD is not providing guidance for the Flash memory business.

Based on the continued ramp of Fab 36, and increased spending in marketing and in legal, we anticipate total AMD third quarter operating expenses to increase by approximately 8%. Our capital expenditure forecast remains unchanged from our prior guidance, approximately $1.5 billion for the year. In summary, we are very pleased with our progress, and we believe we will continue to see further improvements in the coming quarters. With that I'll turn it back over to Hector.

Hector de J. Ruiz, Ph.D., Chairman, President and CEO

Thank you, Bob. I would like to close by underscoring the strong progress that we have made in transforming AMD and our industry. Because I believe that we have done some rather remarkable things in a fairly tight timeframe. We have seized the technology leadership mantle in processors, first by deploying AMD 64, a superior industry standard 64-bit architecture, and more recently by introducing our Dual Core technology, the only real Dual Core technology for industry standard computing platforms. We have gained remarkable ground with many of the world's most demanding OEMs, established a strong and growing footprint in the enterprise, and we have grown our presence in key high growth geographies such as China, India, Eastern Europe and Latin America. We have built one of the most impressive manufacturing operations in the semiconductor industry, and with our APM technology created the capacity to make rapid technology transitions in response to market needs.

Finally, we continue to attract the best and the brightest minds in the industry, all here for one reason; to reinvent the competitive balance of the microprocessor industry. It is an important story, an exciting story, and it is only just beginning to really unfold. And to complete it, we need to preserve a world where the marketplace decides what innovations to reward and consumers are free to choose without the constraints of an abusive monopolist. In short, we need a fair and open competitive playing field. Toward that end we're working to change the industry, the world, and we're highly motivated about the prospects of helping to create a marketplace that is better for our customers and consumers, and businesses around the world.

Once again, I want to thank each and every AMD employee for remaining laser focused on the task of creating the world's most innovative semiconductor products and technologies, and I want to encourage them to view our continued progress as a source of great motivation to finish the job of reinventing our industry. Thank you. Back to Mike Haase for Q&A.

Michael Haase, Director, Investor Relations

Thanks, Hector. Operator, if we can start the polling session for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions]. And our first question comes from Mark Edelstone with Morgan Stanley. Go ahead, please.

<Q – Mark Edelstone>: Good afternoon, guys, and great gross margins there in processors. I guess a couple questions, if you could. 1, could you guys just give us kind of a view of what you see as the tone of overall business in the PC market? I certainly know you guys are gaining share, but how does the overall tone of the market look to you? And then I've got a follow-up.

<A – Henri Richard>: Hello, Mark, this is Henri. We are actually seeing a very favorable environment in the PC business, both in the consumer and in the commercial segments. And I'm fairly optimistic for the second half of this year. As you know, the new technologies that we're offering to the market are being adopted. But, of course, starting from our low market share, the only way we can look is up.

<Q – Mark Edelstone>: Okay. Fair enough. Then, Bob, for you, on the margins, your gross margins I think in CPG are up about 500 basis points sequentially, yet operating margins are only up about 200. Can you just talk about what's going on there and when should we start to see better fall through on the gross margins down to the operating level in CPG?

<A – Robert Rivet>: Yes, sure, Mark. First, just to remind you and everyone, that we continue – we will continue to see increased investments, particularly in Fab 36 in ramping of the R&D costs. As we talked about at the analyst day in last November, that number is around $200 million year on year, and so we will see that continued progress as time goes on from a quarter-to-quarter standpoint. In the current quarter, you know, about $20 million of the increase in operating costs was in the R&D line, almost exclusively for Fab 36.

Second, SG&A is up quarter on quarter, and that's really driven by the microprocessor business as we continue to launch a series of new products in the current quarter, and as we go forward you'll still see those relatively high levels of investments as we continue to activate those launches and actually get traction in the marketplace.

<Q – Mark Edelstone>: Just one last follow-on then Bob, if I could. Could you just give us the latest thinking on when and how much of an impact we'll see on Fab 36 depreciation, and at the same time, if you have a view on the roll off of Fab 30? That would be helpful.

<A – Robert Rivet>: Not ready to go into that kind of detail at this moment, Mark, but for the question, most of the depreciation of Fab 36 will not take place in the beginning of next year, because that's actually when we'll actually turn the facility on to run production material. So right now the depreciation bill is mostly associated with the building, and the building infrastructure.

<Q – Mark Edelstone>: So we should sort of start it kicking in sometime in Q1?

<A – Robert Rivet>: That's right.

<Q – Mark Edelstone>: Thanks a lot, guys.

<A – Robert Rivet>: And I will as we get closer to the analyst day in November, I'll give you much more granularity of the depreciation mix between the roll off of Fab 30 and the increments of Fab 36.

<Q – Mark Edelstone>: Great, I appreciate it. Thanks a lot.

<A – Robert Rivet>: Sure.

Operator: Your next question is from Krishna Shankar with JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes, you had a nice increase in ASPs here going into Q2. Can you comment on the potential for further ASP increases as you go through the second half of '05, especially given the mix shift towards mobile and servers?

<A – Henri Richard>: Yeah, Krishna, this is Henri again. Clearly we have momentum in both our mobile and our server business. They both command better ASP than the desktop business, and so just mechanically because of that, we expect to continue to see some ASP improvement in the second half of '05.

<Q – Krishna Shankar>: Would that be – as you get more competitive in mobile and servers, are you seeing increases in terms of competitive pricing environment in mobile and servers? Can you comment on that?

<A – Henri Richard>: Well, you know, of course the competition is tough but we have superior products particularly in the server space. So we're in a situation where particularly because customers are buying solutions and not just technology, we believe that we have a good opportunity to maintain or even grow our ASP in the server area with the adoption of Dual Core technology. In the mobile space which is a little closer to the desktop space, you know, it's very competitive. But we've demonstrated with Turion 64 that we can get access to ASPs that are very close to our competitor.

<Q – Krishna Shankar>: Great. And then on the Flash business, I realize you can't say much given that you are on registration, but, you know, despite, regardless of the IPO environment or the prospects for profitability in the Flash business AMD is committed to, I mean would you consider just spinning this off as a tax-free spin off to shareholders even if you can't raise new capital for Spansion?

<A – Hector Ruiz>: This is Hector. We have a plan that we set out, as Bob outlined in his topic when he talked that started two years ago to make Spansion an independent entity and eventually spinning it off or becoming a public company. We are very happy with the progress. We're pleased with where we are. It's a great organization with great people, awesome technology, great products, and we're pleased with the progress we're making, and we'll continue to make.

<Q – Krishna Shankar>: Thank you.

Operator: Thank you. We'll now go to the line of Michael Masdea with CSFB. Please go ahead.

<Q – Michael Masdea>: Thanks a lot. Maybe for Henri, there is a fair amount of tightness being talked about from your competitor. Is that having any impact on your business? I guess the concern here is that we have 2 better than seasonal quarters; is there any chance we're building inventory here?

<A – Henri Richard>: So first of all, on the first part of your question, clearly we're hearing rumors about tightness from our competitor, but the reality is if you look at the success we've had with Turion 64, those designs were basically started months ago. The products are brought to market, and frankly, the ability of our competition to execute their own plan has less and less of an effect on us. Our products are differentiated enough today that they stand on their own. What was the second part of your question?

<Q – Michael Masdea>: Just in that tightness that's out there, are you seeing – do you think there is any double ordering, any concern about inventory being built out there?

<A – Henri Richard>: No. Certainly, for our part, I can't talk for the rest of the industry, but for our part we are managing inventories very, very tightly.

<Q – Michael Masdea>: Great. And just a follow-up on the processor side, Dual Core you seem to be doing quite well. How do you think your market share is versus your competition? They seem to be talking a little bit more muted on that front. And then why do you think that is? What are the customers looking for out there in Dual Core that you guys seem to be providing?

<A – Henri Richard>: Well, clearly, first I want to make sure everybody understand we're the only company shipping real Dual Core technology and not two processors on a chip. It so happens that the customers that are looking for that type of technology and performance in the marketplace understand the difference between the two. As a result of that, and again I encourage you to ask our customers, what they are telling us is when they look at their backlog and pipeline of Dual Core orders, we seem to be outgunning the competition by quite a margin, and based on the current technology we believe this is going to continue. In the server space, clearly the combination of the efficiency of our Dual Core architecture and our secure thermal envelope makes the Dual Core Opteron the absolute winner, particularly in enterprise customers that are very concerned today about their power bill and their ability to leverage their existing data centers. So I believe that in both implementations, clients and server we have the upper hand for the quarters to come.

<Q – Michael Masdea>: Thanks. Good execution, guys.

Operator: Your next question is from Joseph Osha with Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Hi, guys. I know that you don't disclose an actual processor end market breakdown, but could you give me maybe a sense as to among server, desktop and mobile which grew more quickly and more slowly in relative terms? Then I have a follow-up.

<A – Henri Richard>: Yeah, Joe, we don't give too much granularity but clearly with an 89% growth quarter on quarter from server I have to confess that it's the fastest growing part of our portfolio.

<Q – Joseph Osha>: Okay. Any comments on whether desktop or mobile grew more quickly this quarter?

<A – Henri Richard>: Well, clearly, I mean again, you have server, then mobile, then desktop.

<Q – Joseph Osha>: Okay. Fair enough. Second question for Bob. Obviously the R&D is going to Wang around here as you, you know, pull some of those test wafers into production costs. But, you know, setting that aside and looking also at the SG&A business, is there any sort of target operating model you'd care to articulate for the processor business in terms of what these operating costs will look like once we are where we want to be?

<A – Robert Rivet>: Well, I'll talk more, Joe, of – just remind you what I said at the – our analyst conference in November. The microprocessor business, there is no reason to expect the microprocessor business, when we get to the right altitude, to be in the 20 to 25% operating income level. Obviously it will take a while to get there. Clearly we need to digest the building of the new 300 millimeter facility, get it into production mode, et cetera, etc. but that's our expectation of where that business needs to be, is 25%, 20 to 25% operating income level.

<Q – Joseph Osha>: Okay.

<A – Robert Rivet>: With 55 to 60% gross margin.

<Q – Joseph Osha>: Okay. You had indicated third quarter seasonal microprocessor. Would you care to share with me maybe a range as to what you regard as seasonal?

<A – Henri Richard>: Sure, Joe, this is Henri again. If we look back, you know, the last 4 years, post-bubble, on average it's about 8%.

<Q – Joseph Osha>: Okay. Last question then, not to – not to sort of be a killjoy here, but, you know, I look at the margins you are generating on your personal connectivity business, that's 14 million operating loss there. Why not just shut this puppy down? That would certainly help a lot in terms of the margins that you are reporting.

<A – Hector Ruiz>: Joe, this is Hector. First of all, as you probably would expect, and I hope you would expect, that every good company will have some sort of an investment business that looking out on the horizon, we call this horizon 3 opportunity. Horizon 1 meaning the near term, horizon 2 is usually 18 months out, horizon 3 is beyond that. We're really incubating here a lot of ideas about the future of the home, the entertainment, the possibility that x86 will eventually be a very strong enabler for the handheld communication, digital convergence products. We have frankly very high expectations that this is going to yield results. So to think of it as a business like all the others that should turn around in a quarter or 2 is unrealistic. But also understand the need for that to continue to improve. Frankly, we expect this business not to lose money next year.

<Q – Joseph Osha>: Okay. Thank you very much.

Operator: We now have a question from Ben Lynch with Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Yeah, hi, guys. Bob, I know in Q1 you had an unspecified amount of Flash inventory write down. Would you be willing to specify what that was now and whether it had any sort of contribution to the Q2 gross margin jump? Particularly when I look at the COGS line, it sort of jumped 60 million in Q1 and then fell again 50 million or so in Q2.

<A – Robert Rivet>: Ben, thanks for the question. I'm actually not going to go to that level of specificity in the answer. But can definitely give you the sense we ran underutilized factories in our Spansion operation in the first quarter, as we actually qualified the 256 meg – megabit part, MirrorBit part, we actually ran the production operations much harder in the second quarter. Obviously that contributed to the movement quarter-on-quarter in cost absorption.

<Q – Ben Lynch>: Okay. And how much – you don't want to give us sort of a rough feel for – it just seems there is 60 million in Q1 which sort of more or less nearly all came back again in Q2 into the COGS.

<A – Robert Rivet>: As I said in my opening comments, we strategically built inventory in our microprocessor business in the quarter.

<Q – Ben Lynch>: Right.

<A – Robert Rivet>: As we anticipate a very strong second half. So most of our inventory build movement was in the microprocessor business.

<Q – Ben Lynch>: Great. And second question I have, maybe this is for Henri; you said that Dual Core Opteron in the press release contributed to the 90% Q-on-Q server growth, any feeling for the actual contribution? Clearly if you have some volume versus none it's going to contribute by default. And also, do you have any comments you'd like to make on your volume or penetration or whatever, expectations for Dual Core Opteron?

<A – Henri Richard>: Well, Ben, you know, again, I don't want to give too much granularity. As far as Dual Core server products we have 100% market share.

<Q – Ben Lynch>: Yeah. [Intel (multiple speakers)] doesn't have a product.

<A – Henri Richard>: It's pretty simple based on the failure of our competition to execute. As far as the contribution of Dual Core to our Opteron surge, the only thing I would tell you is that it's at the high end of our expectations.

<Q – Ben Lynch>: Okay. Thanks very much.

Operator: Thank you. Our next question is from Tad LaFountain with Wells Fargo. Please go ahead.

<Q – Tad LaFountain>: Yeah, a couple of questions in regard to the balance sheet. The comprehensive loss through to – appears to be running about $200 million. Can you shed any light on that?

<A – Robert Rivet>: Well, obviously that's where the change in currency takes place on the balance sheet. You know, the currency has been moving around quite a bit over an extended period of time, with a movement in a different direction in the second quarter from the 1.30 levels to the 1.20 levels. That's where the offset goes when you do the re-valuation of the assets. And with the bulk of our microprocessor assets sitting in Dresden, Germany, euro based that's where you get the change. And there also I would mention too, and the yen has been moving around also. We have a fairly large exposure to yen with our JV 1, 2, and 3 factories in Aizu-Wakamatsu.

<Q – Tad LaFountain>: Okay. So, does that explain what's happening with the differences between CapEx depreciation and the net plant and equipment account?

<A – Robert Rivet>: That's right.

<Q – Tad LaFountain>: Great. And did you utilize any foundry for the Flash operation in the second quarter, or is that all down the road?

<A – Hector Ruiz>: We did not utilize any foundry on the Fab side, but we are outsourcing a fair amount of product on the back end, and for the future I would refer just to what we've said in the S-1 form relative to that, which we continue to amend at the end of each quarter, as the results of each quarter continue to accumulate.

<Q – Tad LaFountain>: Okay. And of the OpEx build forecast for the third quarter, has there been a significant ramp in the legal expense to date, or is that something that's just going to be lost in the shifts of the overall corporate development?

<A – Robert Rivet>: In the – in the magnitude of how much money we spend for everything we do, it gets lost in the rounding from that perspective.

<Q – Tad LaFountain>: Thanks a lot.

<A – Robert Rivet>: Thank you.

Operator: Thank you. Our next question is from Michael McConnell with Pacific Crest Securities. Please go ahead.

<Q – Michael McConnell>: Thank you. With respect, and I understand you can't comment much on Flash, just with particular, what you've seen in Q2, would you – are you experiencing the price pressure more from the lack of really adoption of feature phones at the high end or is this something more competitive driven, or is it just purely supply/demand? If you can just give us a little color on what the dynamics are going on in the Flash market? That would be very helpful.

<A – Henri Richard>: Well, Michael, I'll give you a little granularity there, because actually it's been a mixed bag of good and bad news. The pressure on pricing in the embedded space and on the NOR Flash proper has actually dampened a little bit. We had stable ASPs on those two categories, you know, lower end embedded densities and NOR Flash, higher density NOR Flash in the wireless segment. All the price pressure was really concentrated in the MCPs where we continue to see a very tough environment. So that is you know, for the feature rich phones some of the higher end products, complex products, where there is still a fight out there. So it's not as – as tough as it was in Q1 where really the price pressure was across the board, all regions, all segments.

<Q – Michael McConnell>: And any comments whether or not towards the end of the quarter you saw any stabilization in the MCP price?

<A – Henri Richard>: No.

<Q – Michael McConnell>: Okay. And then just with respect to Q3 with Flash, I know you obviously can't say any comments there, but just normal seasonality looking historically backward, what was normal seasonal growth typically in Q3 for you with respect to Flash?

<A – Robert Rivet>: We really can't go there with – I'd love to answer the question but I really can't.

<Q – Michael McConnell>: Sure. Okay. That's fine. Thanks a lot.

Operator: We will now go to Jim Covello with Goldman Sachs. Please go ahead.

<Q – James Covello>: Good afternoon. Thanks so much. A quick question relative to the comment about better than seasonal growth in the third quarter; how much of that do you expect from better than seasonal market growth versus AMD share gains? Thanks very much.

<A – Hector Ruiz>: When we say – let me think, make sure I understand what you ask, because I thought we said it very clearly, when we think the market is going to be seasonal, and we expect to do better, that means we have to gain share.

<Q – James Covello>: Understood. Okay. That's helpful. And then a question on the outsourcing of the Flash; I wasn't quite sure if you were saying this is what you couldn't comment on or there was something else you couldn't comment on. But can you comment at all on the potential going forward to outsource your production on the Flash side to TSMC or one of the other foundries?

<A – Hector Ruiz>: The only thing I can say to that is that we have outlined our plans in the S-1 filing, which we continue to modify at the end of each quarter. We just did that last quarter. We'll do that again some time in the near future here, and I will have to refer you to that, because that's a look ahead kind of comment.

<Q – James Covello>: Thank you.

Operator: Your next question is from Glen Yeung with Smith Barney. Go ahead, please.

<Q – Glen Yeung>: I have a few questions about legal fees. Is there a way we should think about legal fees, you know, looking out over the next several quarters?

<A – Robert Rivet>: Again, as I said, in totality it's relatively immaterial to the total of what we spend. But I think at this point I will continue to give guidance on total operating expenses each quarter in each quarter phone call, which is why I did for the first time actually give you some guidance of where we're going in total AMD quarter on quarter.

<Q – Glen Yeung>: Okay. And Bob, I'm not sure if I heard this correctly, but I think you said that processor gross margins were 59% in the reported quarter. Did I hear that right?

<A – Robert Rivet>: You got that right. All time record.

<Q – Glen Yeung>: If we look forward, given that's kind of within or close to the high end of the range you expect it to be in, should we think about the improvement in profitability really from this point forward really being driven on the OpEx side?

<A – Robert Rivet>: Well. First, kind of on gross margins, gross margins will toggle between the 55 and 60 in any given quarter depending on the mix of what we ship. The real leverage will be in growing the top line, and getting some continuing to operate in that 55 to 60% kind of range, and then in getting dilution in the other cost structure below that.

<Q – Glen Yeung>: Right. Okay. And then I guess one other thought associated with that, you know, we hear all the time that your major competitor is tight. How are you guys in terms of Fab utilization? You've obviously been gaining share doing a lot of units. Where do you guys sit on utilization rates?

<A – Hector Ruiz>: Our factories are fully utilized. When we look at the second quarter on a global basis, we were able to meet customer demand. However, I have to say that there were segments in some regions and segments in some markets where we were tight. But as a total we were able to meet the demand. And when you look at the – our expectation that the second quarter will be healthy and the fact that we built some planned inventory at the end of the second quarter, 80 plus percent of it was used for server products, it kind of gives you an idea that our expectation is continuing to gain share in those segments.

<Q – Glen Yeung>: That's very helpful. Thank you very much.

Operator: Thank you. We'll now go to David Wong with AG Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. When we look at the 4% sequential drop in units shipped and, you know, how you describe servers, versus notebooks versus desktops, it looks like your desktop units dropped by at least that amount. Are you seeing that the desktop market is actually below seasonal, although in the aggregate you're above seasonal or are you sort of pacing roughly equal to the market or do you think you are losing some share here?

<A – Henri Richard>: I'll take that one. Actually, as you know, we have a very healthy business in the European market. The European markets are traditionally the ones that are the most seasonal when it comes to our business. And so actually when we look at Q2, we had very healthy desktop business in all of the high growth markets. And we had the expected seasonal decline in the two large mature markets, North America and Europe. Overall, I don't think we've lost share.

<Q – David Wong>: Right. Thank you very much.

Operator: Thank you. We will now go to the line of Tim Luke with Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thank you. I was wondering if you might have been able to share the percentage that was MirrorBit in the Flash area in the past quarter.

<A – Henri Richard>: It's basically double digits. Obviously improving given the growth. It's now north of 20%. I don't want to give you more detail than that.

<Q – Tim Luke>: I was also wondering, in the first quarter you had shared with us I think that – I think you said that 90% of the incremental growth had come from emerging markets, and I was wondering how you had seen the incremental growth or just generally in terms of regional color. Thank you.

<A – Henri Richard>: Yeah, so the second quarter was slightly different in the sense that there was a lot of growth coming from the emerging markets, continuing momentum in those markets, but more in the client space. And, of course, we had very solid growth coming from the mature market in the server space. So you can think of it as now we have 2 engines of growth.

<Q – Tim Luke>: And do you have a market share number for servers, I think in the 4 way area you had said you got to 27% in 4 way. I was wondering if you had an update on that?

<A – Henri Richard>: Well, Tim, it's a little early the tell you because of course the competition is going to announce their own numbers later, and we rely on external sources to look at that. But, you know, we've always said that we wanted to exit 2005 crossing the threshold of a 10% market share, and I think we continue to execute like we did in the second quarter, this is going to become a reality.

<Q – Tim Luke>: Thank you very much.

Operator: We will now go to Tom Thornhill with UBS. Go ahead, please.

<Q – Thomas Thornhill>: Congratulations on the execution in servers. You can add UBS to your list of financial related customers.

<A – Robert Rivet>: Thank you.

<Q – Thomas Thornhill>: The question I have is related to cash flow. Rob, if you could walk us through the funds flow outlook here based on the -you said your CapEx number hasn't changed. It's still 1.5 billion and the cash flow from operations year to date is running a little over 500. How do we match those up as we go through the second half of the year?

<A – Robert Rivet>: Obviously we're at the midway point, so Cap expenditures are roughly the same in the second half as they are in the first half. We anticipate, as we said, you know, seasonally the second half is better than the first half. So cash flow from operations will improve. But your math is not too far off from that standpoint. The part not to forget is the grants and subsidies we continue to receive as we did in the second quarter, throughout the year on the Fab 36 project.

<Q – Thomas Thornhill>: That's supposed to be a couple hundred million for the year, isn't it?

<A – Robert Rivet>: That's right. Actually it's north of a couple hundred.

<Q – Thomas Thornhill>: Okay so the delta will be met through increased cash flow from operations in the second half of the year.

<A – Robert Rivet>: That's right.

<Q – Thomas Thornhill>: Okay. Thank you very much.

<A – Robert Rivet>: Thank you.

<A – Michael Haase>: Operator, we're going to take 2 more questions, please.

Operator: Thank you. Then next we'll have John Lau with Jefferies & Company. Please go ahead.

<Q – John Lau>: Great. Thank you very much. I wanted to circle back on to your comments. You mentioned China and emerging markets were strong, and there have been some concerns about North America and Europe. Are you seeing overall normal strength and that the overall markets are doing well? And I have a follow-up. Thank you.

<A – Henri Richard>: Yeah, John, yes, as I stated earlier, I don't have any concerns with our mature markets. Again, partly because of our – with the starting point for us, we have tremendous opportunities for growth in the commercial space. Those are materializing today with the success of Opteron, but, you know, there is still a lot of client business we can go after. And clearly in the high growth markets we have lots of opportunities because of the strength of our offering, the portfolio that's increasing, and also some of the local relationships that are becoming extremely successful, like, for example, Lenovo in China.

<Q – John Lau>: Great. And a follow-up to that. You had mentioned MirrorBit and OR/NAND as great products and targeting them for handsets. Is there any major migration yet towards unified memory architecture or is it just on a selected model and the mainstream stays with your NOR Flash and MirrorBit? Thank you.

<A – Hector Ruiz>: The only comment that we can make there at this time is to repeat what we said before, is that MirrorBit is a technology that frankly fragments itself into 4 or 5 different ways of doing it. One of them is very NAND-like, and that's OR/NAND. And as we said, we had silicon out on 90 nanometers in OR/NAND and it looks very encouraging, as we expected.

<Q – John Lau>: Great. Thank you.

Operator: Our final question will come from Christopher Danely with J.P. Morgan Chase. Go ahead. Please.

<Q – Christopher Danely>: Thanks, guys for squeezing me in. I had a few quick follow-ups. You talked about '05 CapEx. Any direction on '06 CapEx?

<A – Robert Rivet>: Not at this point.

<Q – Christopher Danely>: Up or down, you can't comment on that?

<A – Robert Rivet>: No, we're not ready to comment on that.

<Q – Christopher Danely>: That's fine. How about the percentage of Athlon 64 processors in the quarter?

<A – Henri Richard>: Well, it obviously continues to go up. One of the important data points is that, you know, we basically finished the end of life of our older architecture, our K-7 architecture, so going forward all of the processors that will go in the market are really based on the AMD 64 architecture, whether they are both Athlon 64 or Sempron or Opteron or Turion products.

<Q – Christopher Danely>: Sure, and you guys talked about the relative growth of server, desktop and laptop, can you give us a rough breakout of the percentage of revs by server, desktop, and laptop in the quarter?

<A – Henri Richard>: I wish I could but I'm really not prepared to give you that level of granularity.

<Q – Christopher Danely>: Okay, I'll try one more then. Real quick on the inventory, it came up a little bit as expected. Can we assume that inventory is going to go down in days in Q3, Q4, and do you guys have a target inventory in terms of either days or dollars?

<A – Robert Rivet>: You've kind of got it right. I mean we're at that situation where we're running as much silicon as possible with high expectations in the second half of the year. As we hit our expectations inventories will drift downward as time goes on from that standpoint. The channel inventory is very light at this point in time. Someone asked the question before, we feel like we are managing inventories as tightly as possible.

<Q – Christopher Danely>: I see. So I guess, you know, you guys have over 100 days of inventory. You know, can you just give us a little – a little confidence in why that should be okay when your leading competitor has, like, 65, I believe?

<A – Hector Ruiz>: Well, we are confident with the model right now, because let me start with the channel since it's a significant part of our go to market strategy. We actually depleted channel inventory this last quarter. That means we're really managing tight and well, and in terms of the total days of inventory, as our expectations for growth continue, we expect that to improve. We don't expect that to worsen.

<Q – Christopher Danely>: Got it. Okay. Thanks a lot, guys. Great quarter.

<A – Robert Rivet>: Thank you.

Michael Haase, Director, Investor Relations

All right, thank you very much. That concludes the call. Thank you for your participation.

Operator: Thank you. And ladies and gentlemen, this conference will be available for replay after 7:45 P.M. today through midnight, Monday, July 25th. You may access the AT&T Executive Playback service at any time by dialing 1-800-475-6701, and entering the access code 787311. International callers dial 320-365-3844, using the same access code, 787311. That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to AMD's Q1 '05 earnings conference call. [Operator instructions.] I would now like to turn the conference over to your host for today, or opening speaker, Director of Investor Relations at AMD, Mike Haase. Please go ahead.

Michael Haase, Director of Investor Relations

Thank you, everyone. Welcome to AMD's first quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board, President and CEO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Chief Sales and Marketing Officer. This call is a live broadcast and will be replayed at AMD.com and streetevents.com. The replay number is 800-475-6701. Outside of the United States the number is 320-365-3844. The access code for both is 776654. The telephone replay will be available for the next 10 days starting at 7:00 P.M. pacific time tonight.

For your planning purposes I want to call to your attention two upcoming AMD events. On April 21st we will be hosting our second AMD Opteron anniversary event in New York City. That's next Thursday, April 21st. Also, on June 10th AMD will host a technology-focused Analyst Day, also in New York City. For that event we'll be sending out invitations next month.

Before we begin today's call I'd like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our risk factors and our business. You'll find detailed discussions in our most recent SEC filings, including AMD's annual report on form 10-K for the year ended December 26, 2004. With that I'll turn it over to Hector Ruiz.

Hector Ruiz, Chairman, President and Chief Executive Officer

Thank you, Mike. The first quarter of 2005 was a continuation of the same two themes that defined our fourth quarter of 2004. We saw a strong momentum across our microprocessor business leading to a quarter of record sales and record operating income for AMD on that side of the business. And we saw continued challenges in the flash memory market, including a seasonally down quarter, a continued state of oversupply, and strong pricing pressure. We have taken aggressive action to improve both our immediate and long-term prospects for our memory business.

First, through both process and design enhancements we have broadened the performance footprint of our 256 megabit MirrorBit product and expanded shipments to include 3 of the top 10 wireless phone manufacturers. We experienced a rise in our raw unit shipments in the quarter, a sign of steady industry demand for our NOR Flash Memory product. In addition we achieved substantive revenue for our 110 nanometer MirrorBit product.

Second, Spansion filed an SEC form S1 today. This is a continuation of the strategy that we began putting in place over two years ago when we recognized the need to enable completely different business models in each of our two businesses, as well as the need to expand our options to fund this capital intensive operation while enhancing AMD's shareholder value.

As outlined in the S1 we're undertaking a number of actions to significantly reduce our expenses, including streamlining operations, continuing to align manufacturing utilization to our level of demand, and working to reduce costs associated with AMD and Fujitsu service agreements. As a result of this filing, SEC rules place limitations on our comments concerning the flash business in this session.

Our processor business is not just growing. It is accelerating, thanks to the strong adoption of the AMD 64 processor platform across channels, segments and geographies. The first quarter of 2005 processor revenues were up 31% year on year, and sales of both our AMD Opteron and AMD Athlon 64 processors more than doubled from the period a year ago. As a reminder, the growth rate is actually higher than our overall processor growth rate in 2004 and we have grown faster than the processor market in both 2004, and believe we have in the first quarter of 2005 as well. We are particularly proud of AMD 64 adoption among our strategic OEM customers.

In the first quarter Sun Microsystems launched their second generation V20z and V40z servers featuring AMD Opteron processors models 252 and 852. HP expanded their enterprise class offering with the addition of the ProLiant DL 385, the BL25p and the BL35p server blades, and the XW 9300 workstation. Based on the strength of our AMD Opteron brand we continued our unprecedented growth in the server and enterprise segments, adding a new global enterprise class customers, including Akamai, Cable and Wireless, EDS, Goodyear, Honda, Lucasfilm, MBNA, MetLife of Mexico and SingTel among many others in the first quarter. We now claim that over 55% of the companies on the Forbes Global 100 are satisfied AMD 64 customers. That's up from 40% last quarter. AMD 64 base processors now represent 63% of our processor business, the result of expanding demand, continued strong yields and world-class manufacturing execution. By the end of 2005 we expect nearly 100% of all CPG processors to be based on our industry leading AMD 64 technology.

Our transition to 90 nanometers is ahead of schedule with better than expected yields resulting in continued capacity expansion to meet the growing demand for AMD products and solutions. Our Fab 36 remains on schedule and on budget, and as a matter of fact, first engineering silicon has started this quarter with production planned in the first half of 2006.

We continue our innovation leadership in the processor industry with the first public demonstrations of AMD 64 dual-core systems on existing Sun, Cray and HP servers and workstations. As some of you may know, we are ahead of schedule on our dual-core AMD Opteron processor. In fact, we have been shipping samples to customers and partners since January. And unlike our competition, AMD 64 was built from the ground up to be multi-core, and unlike our competition, AMD 64 dual-core fits inside the same thermal envelope as our single core processors. Therefore, in response to customer demand and because of our rapid qualification cycle, we can confirm that we will indeed be launching our highly anticipated AMD Opteron dual-core processor, the industry's first x86 dual-core server processor, in New York next Thursday. We will also preview our AMD Athlon 64 dual-core processors for desktops and notebooks. With AMD 64 dual-core technology, consumers and enterprise customers are going to be able to use their PCs, servers and workstations in ways that they have never before. And to compliment our growing server leadership, we are expanding our footprint in the enterprise with the launch of the AMD Turion 64 mobile technology, the first 64-bit processor family designed specifically for thin and light notebooks.

Finally, we're thrilled that the release to manufacturing by Microsoft of their Windows XP Pro 64-bit edition was announced in the last couple of weeks. The first customer reactions and the reactions of those developers that have downloaded this edition believe it to be outstanding and phenomenally robust. And I'd like to take the time now to thank personally our team at Microsoft, our partners and friends, who have worked so diligently and hard to be able to make this a reality. We continue, with the great support of our partners, on a steady path toward reinventing the competitive dynamics of the microprocessor industry. Our Spansion team has taken swift and effective action to position themselves for immediate success, and we remain on plan to create the conditions for sustainable success in Spansion with the filing of the S1. At this point I would like to ask Bob to review the results of the quarter as well as the outlook.

Robert Rivet, Chief Financial Officer

Thanks, Hector. As Hector pointed out, the first quarter was a quarter of contrast across our two major businesses. Unfortunately the negatives more than offset the positives and we were disappointed in our results. For AMD sales were $1.2 billion, essentially flat with the first quarter of last year, and in a seasonally slow quarter down slightly, 3%, compared to the fourth quarter of 2004. We recorded a disappointing operating loss for the quarter of $46 million due to the performance of our memory business. Our loss per share was 4 cents.

Gross margin declined to 34% for the quarter, below the 41% we reported in the fourth quarter and a 3.6 percentage point decline from the first quarter of last year. This decline was driven by a combination of very competitive flash memory pricing, intentional factory slowdowns in the flash memory businesses and to a lesser extent the euro foreign exchange effect.

Research and development spending was $253 million in the quarter, flat from the prior quarter. As previously guided, first quarter marketing, general and administrative costs decreased 14% as compared to the fourth quarter of 2004, closer to third quarter 2004 levels. Cash flow from operations was $251 million for the quarter, and EBITDA was $331 million.

Now I'll switch to the business overview for the quarter. I'll start with the Computation Products Group. In a typically seasonal down quarter CPG sales were $750 million, a new record and a 31% increase over the same period a year ago. It was a 3% improvement from the fourth quarter. Unit sales in the quarter increased over the same period a year ago by 28%, but we saw strong demand in high growth regions, particularly Greater China. Overall ASPs increased compared to the fourth quarter and new sales records were established in both our server and mobile processor segments. CPG's operating income of 92 million established a new high water mark in the quarter, up from the record low of the fourth quarter. This represents the seventh consecutive quarter of profitability for CPG. The CPG gross margin decreased slightly from the fourth quarter, but with a healthy 54%.

Now switching to our memory business. As you know now, Spansion filed a form S1 today and as Hector outlined a few moments ago, we are executing on the strategy on which we embarked on two years ago to make Spansion a financially independent organization. This will allow us to create a consistently successful flash memory business. Flash memory is a capital intensive business, and our strategy is designed to give Spansion direct access to the capital markets going forward.

In a typically seasonal down first quarter flash memory sales were $447 million, down 29% from the first quarter of 2004, and down 11% from the fourth quarter of last year. Despite industry-wide oversupply, we shipped approximately 10% more units compared to the fourth quarter. We recorded a $110 million operating loss in our memory group in the quarter, a $71 million greater loss than we recorded in the fourth. Through active expense management, first quarter spending was down from the fourth quarter, but this was more than offset by ASP decline and planned factory slowdowns. Our memory group's gross margin declined significantly in the quarter, approaching zero.

Turning to the balance sheet, cash balances ended the first quarter at $1.1 billion. First quarter capital expenditures were $518 million, up from $470 million in the fourth quarter. We managed inventories down for the fourth quarter by $29 million, due to planned factory slowdowns in our flash memory business.

Now let's talk about the outlook. AMD's outlook statements are based on current expectations. The following statements are made – are forward looking and actual results could differ materially depending on market conditions. In a typical seasonal down second quarter AMD expects processor sales to be flat or down slightly. Due to Spansion's filing of the SEC form S1 today AMD is not providing guidance for the flash memory business. Second quarter operating expenses for AMD, which include research and development, marketing and general administrative expenses, are expected to increase by approximately 5% in the second quarter, mostly due to Fab 36 start-up costs. In summary, we are pleased with our computation – our CPG performance, and look forward to executing on the strategy for the flash memory business over the coming quarters. With that, I'll turn it back to Hector.

Hector Ruiz, Chairman, President and Chief Executive Officer

Thank you, Bob. Let me close by making a few comments on AMD's growing role as an innovation leader in our industry. Those of you who have followed us for a while know that AMD has always been a fiercely competitive company. Many have said that we're the poster child for competition, and we're proud of that. We also hope that you have noticed that with less than 10% of the resources of our competitor, we have methodically seized the mantle of innovation leadership in our industry. Our flawless conversion to 90 nanometer is our most recent example of innovation in manufacturing. Thanks to our automated precision manufacturing, or APM, software, we can very efficiently ramp to mature yields leading to reduced time to market on new technologies. Meanwhile we have extended our innovation leadership in the design area, employing a customer-centric approach to design that has resulted in innovation such as Power Now!, the advanced power management technology that results in cooler microprocessor systems years ahead of the competition; HyperTransport, our industry standard high throughput chip to chip interface; our Direct Connect Architecture, AMD's innovative approach to system architecture that eliminates the bottlenecks that would otherwise hold back performance improvements in 64-bit and especially in multi-core processor implementations; and of course AMD 64, the first seamless migration path to pervasive 64 bit processing power and the only one designed with multi-core in mind.

The industry has taken notice. Last month AMD was the processor company on hand representing the hardware industry for Microsoft's Partner Summit, celebrating the launch of their 64-bit OS with the developer community. Next week AMD will keynote the National Association of Broadcasters conference and demonstrate how the power of our 64-bit technology allows the nation's top graphics and recording artists to be more creative and more productive than ever before. We will also celebrate the second anniversary of AMD Opteron, where we will officially confirm our time to market leadership in the deployment of x86-based dual core microprocessors.

We are leading the industry by bringing new ideas to market, we're turning technology into concrete benefits for our customers and their end users, and we're gaining the recognition of industry leaders for the value of our innovations that they'll bring to the market and to end users.

But for our company to be able to advance our innovation leadership position and for end users to gain the benefits of these innovations, we must complete in an environment of fair and open competition, where our customers and their customers enjoy the freedom to choose the best technology in the market without the intervention of illegal business practices. And that is why we applaud the work of the Japan Fair Trade Commission in the recent decision to condemn anti-competitive behavior in our industry in Japan. From this point forward we are expecting a much more balanced competitive playing field in Japan, and we're hopeful that regulators and business leaders around the world will follow suit to protect their consumers and create an environment of freedom of choice and fair and open competition in this highly competitive crucible of innovation. Thank you, and I want to turn this back to Mike Haase for the Q&A.

Michael Haase, Director of Investor Relations

Thanks a lot, Hector. For the Q&A session any flash questions regarding the first quarter we will happily address. However, due to the S1 filing we will not answer any forward-looking flash memory questions. With that I'll turn it back over to the operator and we'll begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions.] Our first question today comes from the line of Joe Osha with Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Hi, folks. Congratulations on filing the deal. A couple of questions. First, Hector, can you give us a little more color on the transition to 90 nanometer and maybe if you can, comment on 60 – what 65 nanometer looks like in terms of what the plan for starts and outs is.

<A – Hector Ruiz>: Okay, Joe. Let me start by saying that, you know, we had a plan to achieve complete conversion by the end of the second quarter in terms of wafer starts. We are very much on target to do that. We expect to accomplish it this quarter. The one area where we have experienced a – better than we had planned is in the area of defectivity, for those of you in the industry, that turns into yields, and we had hoped to reach defectivity levels at a point in time that we're competitive with 130, then actually we ended up doing it considerably ahead of that. And so we're very pleased with those yields as a result of that. We have previewed that, as I said in my remarks, to the automated precision manufacturing technology that, you know, we've developed for many years. So we're pretty – very much confident that we're going to get there here pretty quick. We're talking about just a few more weeks before we are totally converted to 100% wafer starts in 90 nanometers. In terms of 65 nanometers, the work we're doing is jointly developed with IBM. We have been running now – engineering silicone using static RAMs to provide the technology. We're very excited about the progress we're making there, and we expect that early in the lifecycle of Fab 36, which is expected to be in the first half of next year, we will be building some 65 nanometer products. I can't tell you any more than that right now, because frankly it's a lot of customer and product tradeoffs that we're making, and it will be later on in the year where we'll be able to have more clarity on that.

<Q – Joseph Osha>: Okay. Thanks. Just two quickies and then I'll go away. First, can you say anything qualitative about Opteron, either revenue or volume? And then secondly, a question for Bob. I see there are still some pretty substantial losses attaching to this personal connectivity business. Do your comments about reducing costs in any way apply to those, and what can we expect in terms of the operating losses there? And that's it for me.

<A – Henri Richard>: Joe, this is Henri. With regards to some color on Opteron, I'll just tell you that we grew both revenue and units double digits.

<Q – Joseph Osha>: Is that sequentially?

<A – Henri Richard>: Yes.

<Q – Joseph Osha>: All right. Thank you.

<A – Robert Rivet>: On your final question, Joe, on the PCS business, you know, at $30 million, you can see our cost structure is clearly well north of that. The key issue is volume. We continue to be – have favorable press and opportunities presenting themselves in the pick area, but that's the key to that business turning around. We're comfortable with the level of investment we have at this point.

<Q – Joseph Osha>: Okay. Thank you very much.

Operator: And thank you for your question. Our next question comes from the line of Adam Parker with Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: Yeah, hi, a couple questions here. I'm not sure I understood the moving parts of your operating margin in the CPG. I mean it looks like; you're, what, 12.2% here, down from 13.2 a couple quarters ago, despite the additional revenue, so I'm trying to understand the moving parts. Is it mix or pricing? Given you said you had record units, server, notebook, or goods, lithography, ramp, better yields, better how do I think about the operating margins not going up over the last couple of quarters?

<A – Robert Rivet>: We are building Fab 36.

<Q – Adam Parker>: So it's just depreciation and other start up costs?

<A – Robert Rivet>: It's not depreciation…

<Q – Adam Parker>: Well it's 4 million sequentially.

<A – Robert Rivet>: It's just pure start up costs associated with starting up a brand new 300 millimeter facility, hiring people and putting in chemicals and gasses, et cetera.

<Q – Adam Parker>: All right, so given you said revenue's flat to slightly down in Q2, and you said 5% OpEx growth, should I assume that your CPG operating margins are lower again in the second quarter?

<A – Robert Rivet>: I don't want to give guidance in either direction there.

<Q – Adam Parker>: But your revenue's flat down and your costs are up; is that correct?

<A – Robert Rivet>: That's exactly what we said, yes.

<Q – Adam Parker>: And lastly, what do you guys plan on doing with your tools in Fab 36 a couple years from now once they are no longer sort of suitable for making microprocessors?

<A – Hector Ruiz>: I think you probably meant Fab 30.

<Q – Adam Parker>: Fab 30, sorry.

<A – Hector Ruiz>: Okay. You know, we actually feel very optimistic about having such a wonderful facility. First of all it's a world class manufacturing facility with great people, and as we expand the footprint of x86 which is rapidly gaining acceptance outside of the more traditional PC business, and I mean that, for example, in industrial embedded as well as consumer electronics, our projections are that we'll be able to benefit from having an outstanding facility in place there. And to put it just in a brief sense as a summary, our plan is to fill that sucker.

<Q – Adam Parker>: So you're going to use those tools, you know, once they are no longer good for processors, what are you going to use the tools for?

<A – Hector Ruiz>: For those things, because these are pretty state of the art tools. They are capable of going down to 90 nanometers as they are today because that's what we're building. And in some cases where we are talking about products that may not require the, you know, the leading edge performance they are capable of actually doing better than that. So we expect that lifetime of that factory to be quite considerable and with minor investments, much less significant than you would expect from a new factory, we believe we've got a 10 year life on that factory, easily.

<Q – Adam Parker>: And so – depreciation of the tools will be how many years?

<A – Robert Rivet>: Depreciate wafer Fab, 200 millimeter wafer Fab over five years.

<Q – Adam Parker>: Five years.

<A – Robert Rivet>: Quite depreciated by the time we get out in time.

<Q – Adam Parker>: One last thing. On the CapEx and depreciation for CPG over the next few quarters, can you give any guidance there?

<A – Robert Rivet>: It's unchanged from where we were before. We're still talking total preparation of $1.5 million for the year with the bulk of it being for CPG to build up Fab 36.

<Q – Adam Parker>: So if you did 500 – around – you expect the same amount here and then a big drop off in the back half in CapEx?

<A – Robert Rivet>: That's right. Front end loaded as we put in the first set of tools.

<Q – Adam Parker>: Okay. Thanks.

Operator: Thank you for your question. Our next question from Ben Lynch with Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Hi, guys. You alluded to this, Hector, a bit in your discussion. But there has been increasing talk about all these dual-core introductions over the last few weeks. Could you give AMD's perspective on how important you think dual-core is in 2005 and sort of separately for the server and the desktop segments, and also what you see as, I know you touched on this a little bit, the respective pros and cons of the AMD and Intel approaches?

<A – Hector Ruiz>: Let me make a couple of comments on the sequence of the choice we made in how we introduced dual-core and then I will ask Henri to make other comments relative to what the product and the market match to needs and applications is. First of all, we made the decision to put all of our emphasis in the beginning in the server part of the market because that is the one that is ready to jump on the exploitation of this technology, and our customers, as you will see later when they become more public next Thursday with their announcements of their products, there is an awful lot of excitement about the performance, the capability, the power footprint, the value of what dual-core is going to bring to the server and the enterprise. We believe that over time this technology will find incredibly powerful usage also in the client, but we believe that time sequence makes sense because there is today no software that can really optimize this product in the client space. So that's the sequence that we chose. And though you'll see as we get more public and crisp in our announcement next week, that because of the dependence of the client being an offshoot of the core of the server, that the time in between those two actually can be quite small. Henri, can you comment on the other part?

<A – Henri Richard>: Yes Hector. Well, I think you already positioned a large part of the answer. Clearly in the server space is immediate usage and benefits for the end users of the old core technology provided it's implemented correctly. And in the desktop space and the client space in general I think there is – we don't see single-core performance being dethroned by dual-core until such time as the software ecosystem will be ready to take advantage, at which time we're very comfortable that our technology will be a leader like it is today in single-core absolute performance. And then for the last part of your question, Ben, I think to use an analogy; you can take a car and then put two four cylinder engines under the hood, that doesn't make it a V-8. So I think there is a very large difference between AMD 64 and the fact it's been architectured from day one to be a multi-core architecture and Intel's approach of taking two processors and gluing them on a chip with a bus that's already insufficiently sized for a single processor.

<Q – Ben Lynch>: Great. I have a follow-up then on – sorry, not a follow-up, a related question on flash, Q1, of course, not Q2. Operating profit deteriorated by something like 70 million and revs deteriorated by 60 million. That says a lot there. If I assume that – you said units are up 10%, I don't know if this is device units or megabit units. Typically megabit units go up faster than device units. But could we think that pricing pressure was as bad as 21% Q on Q? That's – just looking at the revenue and the unit numbers you gave would suggest?

<A – Robert Rivet>: It's a tad high but we're definitely in those big double-digit numbers.

<Q – Ben Lynch>: Okay. And there was no ability via MirrorBit or just shrinking a little bit more to really offset any of that?

<A – Robert Rivet>: Henri could probably add a little color.

<A – Henri Richard>: I think you have to remember that this is the first quarter of the year in the wireless space, the large customer; the strategic customers are renegotiating their yearly contracts. So actually the price pressure is two-fold. There was a tremendous amount of pressure in the market just as the business was going on but also you had a reset of some of the large contracts with the market makers in the wireless space. So some of it is pure erosion and price pressure and some of it is just readjustment of the pricing levels in the market as new technologies come to market.

<Q – Ben Lynch>: Great. Thank you very much.

Operator: Thank you. Our next question comes from the line of Mark Edelstone with Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Good afternoon, guys. Hector, a question, you gave a little bit more detail on the 90 nanometer ramp in terms of where the starts are going. But for the first quarter, can you give us what the average outs were, so what percentage of outs on average in the quarter were 90 nanometer versus 130?

<A – Hector Ruiz>: You know, Mark, I don't think I – off the top of my head I'd know the answer right now. All I can tell you is that, you know, the wafer starts, which is kind of the more traditional thing we look at, will be 100% here in another few weeks by the end of the quarter, and that's, you know, and if you extrapolate back, I would say the ramp has accelerated in the – between – in the first and second quarter is probably the steepest part of the ramp, so, you know, we're – I don't even want to guess a number, but the first and second quarter are the steepest accelerations.

<Q – Mark Edelstone>: Okay. I guess what I'm…

<A – Robert Rivet>: Mark, I'll try to give you a little bit different color on that. You know, with – I'll call it a relatively good cycle time, but cycle times in the 12-week kind of time period, you know, basically you'll have all the die output in the third quarter being close to the 90 nanometer so we're pretty far down the pike as we closed out the first quarter. As Hector said, most of the starts in the second will convert all to 90 nanometer and the bulk of the output in the third quarter is all 90. So those dies actually ship.

<Q – Mark Edelstone>: Okay. I guess what I'm struggling with a little bit, Bob, is from a product perspective, your mix was richer in the quarter, yet the gross margins in CPG are down maybe 200 to 300 basis points sequentially. I'm assuming that that's all because you basically were trading off larger AM 64 die basically, and that the full leverage of the transition, though, from 130 to 90 nanometer has not fully flowed through the P&L yet.

<A – Robert Rivet>: That's correct. We're still in the early stages of seeing the positive impact of the reduced cost structure to 90 nanometer so there is more to come over the next two quarters from the conversion to 90 nanometer.

<Q – Mark Edelstone>: Okay. So I guess to look at it another way, if your mix didn't change in Q2, I'm expecting then, unless we had a dramatic shift in pricing in the industry, that your gross margins in CPG would expand.

<A – Robert Rivet>: That's a reasonable assumption.

<Q – Mark Edelstone>: Okay. Just two quick questions on flash if I could, again relating to the quarter. Were there any, either write-downs or reserves taken in the flash business to deal with the adverse pricing conditions?

<A – Robert Rivet>: Not on pricing. We were – on inventory, of course, we continue to take the appropriate levels of reserves required in inventory, and we did step up inventory reserves in the quarter in the memory business.

<Q – Mark Edelstone>: Okay. I'm guessing that that partially explains some of the gross margin deterioration there?

<A – Robert Rivet>: Yes.

<Q – Mark Edelstone>: And then just lastly, our contacts would suggest that at least from an order momentum perspective, the flash business started to improve as the quarter was progressing. Is that a fair statement?

<A – Robert Rivet>: Can't answer that one, Mark. Sorry.

<Q – Mark Edelstone>: Okay. Thanks a lot, guys. Nice job on the Spansion spin.

<A – Robert Rivet>: Thank you.

<A>: Thank you.

Operator: Thank you. Our next question comes from the line of Tim Luke, Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thanks. I was wondering if you could just clarify, Bob, with respect to the expenses that you suggest will be up 5%, whether that relates to overall AMD expenses?

<A – Robert Rivet>: No, it's primarily – I'd kind of think of it this way. I mean as Hector said, you know, we started the first wafer start in the engineering mode in Fab 36, so it's mostly associated with Fab 36 of actually exercising the tools, so it's mostly R&D. Some of it will be marketing; as usual, that moves with the seasonality of the business. But the bulk of it, it's all CPG and it's mostly Fab 36.

<Q – Tim Luke>: And with respect to flash in the first quarter, do you have a percentage that MirrorBit represented in the first quarter?

<A – Hector Ruiz>: Tim, MirrorBit was in the same ratio it's been the last 2 previous quarters, double digit.

<Q – Tim Luke>: Okay. And then if you could possibly comment on the Turion and how we should think about that in terms of a framework for expectations?

<A – Hector Ruiz>: Sure. We announced the Turion 64 platform during Q1. We made very good progress in terms of the designing activities with all our OEMs. You should look at Q2 as the quarter where you see those design wins turned into platforms launched into the market by our customers with acceleration in terms of the volumes in Q3 and Q4. So, Q1 announce the technology, Q2 you're going to see the products, and then Q3 and Q4 we are going to start to see the ramp of sales.

<Q – Tim Luke>: Okay, just one more thing for Bob, just on the shape of the year and the progression of the margins, how should we think about the operating margin progressing in CPG as the costs go lower for Fab 36?

<A – Robert Rivet>: Well, Fab 36 actually – it continues to increase throughout the year, as we continue to ramp the capacity, hire more employees, etc. So we've got a cost increase that's building for Fab 36. On the other side, though, on the positive side, we'll see the full benefits of the 90 nanometer conversion and the continued penetration into the richer markets on the ASP front, so you've kind of got balancing between both sides of the equation. With additional capacity, you know, unit capacity that comes on line, so, you know, we are not at the top of the house.

<Q – Tim Luke>: If I could just clarify, to the extent that you are able to comment on it, the goal in terms of the IPO is that you will IPO a percentage of Spansion, and then distribute the rest to shareholders, is that the structure, why you can't provide any details that you are looking at?

<A – Robert Rivet>: No, that – that's not what the document says.

<Q – Tim Luke>: Can you clarify that then?

<A – Robert Rivet>: Basically the document says we will do the initial IPO for the appropriate structure to capitalize that business. AMD will still be the significant owner of that business.

<Q – Tim Luke>: And the majority shareholder?

<A – Robert Rivet>: Yes.

<Q – Tim Luke>: Who will be consolidated within your results going forward?

<A – Robert Rivet>: We – as we stated in the S1, our goal is not to consolidate that business. We think there will – you know, through that process of actually doing the IPO, that will probably move us to a level that consolidation would not be allowed.

<Q – Tim Luke>: So it would be a minority interest line in your income statement.

<A – Robert Rivet>: That's correct.

<Q – Tim Luke>: Thank you very much.

<A – Robert Rivet>: But please read the document. I think it's fairly clear in the document.

<Q – Tim Luke>: But for modeling purposes that's what we should frame it as?

<A – Robert Rivet>: Yes.

<Q – Tim Luke>: Thank you.

Operator: And thank you for your question. Our next question is from the line of Michael Masdea with CSFB. Go ahead.

<Q – Michael Masdea>: Thanks. Maybe Henri can give us a little bit of color on Japan, the market, since that – the Intel issue is a little bit behind us hopefully. Is that a market where your market share is a little bit lower and what's the dynamics of that market in terms of mix that you typically see over there?

<A – Henri Richard>: Well I think what's really relevant today in the Japanese market is the introduction of our Turion brand. This is a very competitive offering that we've got. Clearly some of the recent events are allowing us to take a different stance in terms of how we want to attack the opportunity that's in front of us in the Japanese market. We have a very good product that's available and I'm obviously expecting some market share gains in the Japanese market, and with our Japanese OEM partners.

<Q – Michael Masdea>: Good. And then on the dual-core side, we see some pricing from your competitors start to leak out there. Help us understand kind of what the cost structure looks like going from single-core to dual-core, and I believe it's a little different between you and your competitor. And then what you're expecting for pricing, is the pricing going to much relative to the single-core of similar specs?

<A – Henri Richard>: I cannot talk about my competitor's pricing strategy. But our strategy is very clear. We believe that dual-core brings significant value to the enterprise and the server space. They are probably not proposing a product there because they can't. There is a significant premium for performance in the server environment and we intend to take advantage of that opportunity that's in front of us. As far as the client space, as I stated before, we need to wait until the software ecosystem is ready to take full advantage of dual-core implementation, and at that time based on our customer feedback, we will be ready to take advantage of that opportunity.

<Q – Michael Masdea>: Great. Just a last question for Hector. Hector, you said earlier you've got 10% of the resources of your competitor. You've obviously made a number of shifts in the computing landscape with some technology introduced recently. Do you feel like you can continue to survive at that 10% rate or do you look to expand that over time now that you are more focused on the processor business?

<A – Hector Ruiz>: We've always stated that our goal is to become a relevant and significant player in the industry. So long as we're operating in an environment of free and open and fair competition, we have complete confidence that we'll continue to out-innovate the competition and gain the trust and business that our customers are going to wish to give us.

<Q – Michael Masdea>: Great. Thanks.

Operator: Thank you for your question. Our next question is from the line of Krishna Shankar with JMP Securities.

<A>: Lost him.

<Q – Krishna Shankar>: …between Sempron and Athlon 64 in terms of the PC mix, and for the new dual-core Opteron launch will the new product support things such as PCI Express, DDR2 memory, and will it incorporate your Power Now! savings technology?

<A – Hector Ruiz>: I'm sorry, Krishna, you were cut at the beginning. I didn't hear the beginning of your question but I get that you were asking if there was a shift between Q4 and Q1 in our mix between Sempron and Athlon 64? Is that the first part of your question?

<Q – Krishna Shankar>: That's right. How did your value as to performance mix do Q4 to Q1 --

<A – Hector Ruiz>: Well, we're seeing an increase – there was an increase in AMD 64 base product over all, and within those, architecture, obviously the Athlon 64 grew faster than Sempron. As I indicated, if you recall, in Q4, we had a very good surprise, a very strong success on Sempron. But in Q1 we came back to a more balanced ratio of Sempron to Athlon 64 in favor of Athlon 64. And then the second part of your question relative to dual-core, I guess you wanted to understand our strategy from a DDR1 to DDR2 transition and PCI Express support?

<Q – Krishna Shankar>: That's correct.

<A – Hector Ruiz>: Okay. Well PCI Express chip sets are available today to support the AMD 64 platform across all variations of it, in the mobile space, in the desktop space and in the server space. Relative to DDR1 versus DDR2, as you know, the direct connect architecture places a very different problematic in terms of system performance on the table. We don't need DDR2 to exceed the performance of our competitor on DDR2. We have a planned transition to DDR2 in 2006 that we're working in concert with our ecosystem partners and customers to make in a timely fashion, when finally DDR2 will provide a performance enhancement to our architecture. We are very confident that we'll continue to have superior benchmark capability based on DDR1 well into 2006.

<Q – Krishna Shankar>: Okay. And can you also comment on your chip set -- for Turion 64, who are your partners in terms of the mobile chip set and wireless LAN solutions?

<A – Hector Ruiz>: Sure, we took an approach of an open platform for Turion 64. The chip set partners that we have are the usual chip set partners you find in the AMD ecosystem, namely ATI, NVIDIA, VIA, SiS and others. As far as the wireless connectivity you've got of course Broadcom, Atheros and others. So it's the usual ecosystem that you find around AMD platforms.

<Q – Krishna Shankar>: And can you articulate a little bit your own sort of open platform strategy, versus your competitor's more closed platform approach, can you talk a little about your platform strategy going forward?

<A – Hector Ruiz>: Well, let's talk about it in – for at least the next 12 months. I believe that there is an awful lot of technology transitions occurring in platforms, particularly in wireless space where the standards keep evolving and improvement in performance and a lot of players are making a concerted investment in a core competency they have. Let me use the example of Atheros just as one. We're here as a company that's totally focused on being a premiere company in that space. And I believe it is our duty, our responsibility to offer our customers the choice of best in class in each of these categories. And I believe that at least in the foreseeable future you're going to see players that, like the ones Henri mentioned, where customers will have the opportunity to actually select the platform that will have best in class in every one of the components, not only just in the CPU but on the – in the peripheral circuitry that they will want and need.

<Q – Krishna Shankar>: Great. And finally can you give us some sense for how rapidly the Turion 64 could ramp up in the second half of the year and the ASPs there versus your premium Athlon 64 ASPs on the desktop?

<A – Hector Ruiz>: You know, Krishna, it's a little early. As I indicated, our customer platforms are going to be out in the market in Q2. What we've seen to date is from an acceptance perspective in the OEM community, it's our fastest design win with Velocity in the mobile space because it's a very competitive offering. How it will translate into end users and corporate users buying the products of our customers, it's too early to tell. But we expect to see obviously an increase in share in the mobile space thanks to the Turion 64 platform.

<Q – Krishna Shankar>: Thank you.

Operator: Thank you for your question. Our next question comes from the line of Glen Yeung with Smith Barney. Please go ahead.

<Q – Glen Yeung>: Thank you. Hector, I think I heard you say that you're going to be at 100% 64-bit architecture at some point. I didn't catch the timing of that. Could you just reiterate that?

<A – Hector Ruiz>: That's right. We believe that by the end of the year we will be at nearly 100% of all of our CPG microprocessors will be AMD 64 based.

<Q – Glen Yeung>: Then maybe, Bob, just to expand on that, if all else were to be equal could you talk about what kind of impact that would have on gross margins and then sort of as a subtext to that, is there a way to think about the mix between Athlon 64 and Sempron, is there a target mix that you guys are looking for?

<A – Hector Ruiz>: Well, it's not – I'll make a couple of comments and then Henri can add color to that, too. We build our strategy on some fairly powerful and unique platforms inside AMD, for example, the proxy technology is identical for all of our products and the core technology is fairly similar, so you can think of all of the AMD 64-based processors as being relative to each other so we dial them in as we build the products. And our desire, as we've shown for the last couple of quarters, is the growth rate of servers and mobile have been faster as you would expect, because that's where the market, the direction the market is going. We expect those two segments, server and mobile, to continue to outpace the growth of any other segment, and for us to be able to dial that in as appropriate, based on our customers. I believe that all of that leads then to an improved utilization of our factory, an improved utilization of our technology, and, as expected, our gaining position and the strengthening of the market leads to improved margins. Our expectation is that margins will continue to improve.

<Q – Glen Yeung>: Great. Actually, one more for Henri as we think about dual-core. We've done some work that suggests that your competitors' dual-core parts are something like 80% bigger. Recognizing that they have a different architecture or different approach than you have, can you maybe give us a feel for, relative to that bogie of 80%, whether or not your dual-core is above or below that watermark?

<A – Henri Richard>: Is that a die size question?

<Q – Glen Yeung>: Die size, yes.

<A – Henri Richard>: Yeah, clearly, we know our die size is smaller than our competitor but again I want to stress the fact that they don't have dual-core parts, they have two processors glued on the same chip.

<Q – Glen Yeung>: Exactly. I guess I mean relative – not relative to their part but relative to your single-core?

<A – Henri Richard>: Oh. No, I don't have that off my head. But again, I think that as you will see the competition form in the desktop space relative to dual-core are two-processor-on-a-chip versus single-core, at the high end of the market where the performance matters, single-core processor, particularly as our Athlon 64 FX brand continues to gain wide acceptance in that community, will outpace any dual-core offering for quite a while. So, you know, again, in the performance market we see our single-core processor retain the performance lead. As far as the penetration of dual-core in the value market, we believe that it will eventually happen, but it's not immediately, and that we'll be prepared by then to have a competitive offering, when our customers require it.

<Q – Glen Yeung>: Okay. By the way, I'm an FX 55 user and it's plenty fast, so it's great. Thanks.

<A – Henri Richard>: Thank you for your vote of confidence.

Operator: Thank you for your question. Our next question comes from Chris Danely with J.P. Morgan. Please go ahead.

<Q – Christopher Danely>: Thanks guys. Just a quick clarification and a few questions. So can we assume that the IPO is going to happen this quarter, or has that not been determined?

<A – Hector Ruiz>: Good try.

<Q – Christopher Danely>: Hey, 0 for 1. How about a couple of non-flash questions. On the CPU business, gross margins in the mid-50s, obviously a pretty good level there. Traditionally they've been up and down. What do you see as sort of the normalized gross margin on your CPU business and what do you see as the range? Are we talking 50 to 60% or 45 to 55? Can you just give us your thoughts on that?

<A – Robert Rivet>: This is Bob. I'll give you my thoughts. I mean 50 -- 55ish, 54, what I reported today, is fairly normal. Clearly with volume, depending on exactly what mix we ship, what die we ship, et cetera, we'll move that around fairly quickly on a small revenue base. But our goal is to be north of 60. So, you know, where we continue to try to move the organization is 60, and that's through continued cost reductions, of converting the factory to 90 nanometer, and continued penetration in the markets we've never played in before.

<Q – Christopher Danely>: Sure. And then can you guys comment on the 300 millimeter ramp?

<A – Hector Ruiz>: What we can tell you right now is that the factory build occurred on schedule and on budget, and we started engineering silicon this quarter, so we're running currently engineering in the factories, it's already buttoned up and it is a gorgeous factory, it's really executing incredibly well. Our plan is to start running actually prototype silicone toward the end of the year and be in production the first half of next year.

<Q – Christopher Danely>: Great. And then last question, what's the inventory mix between flash and CPUs?

<A – Robert Rivet>: We don't give that level of granularity, but clearly in the flash business part of my comments of some of the gross margin issue is we slowed the factories down because the demand environment is so slow. So bottom line is, we've got a little bit more inventory on the flash side than we do on the microprocessor side.

<Q – Christopher Danely>: Great. Thanks.

Operator: Thank you. Our next question comes from the line of David Wong with A.G. Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. With the IPO, and presumably there is going to be quite a bit of change to the balance sheet. Bob, do you have any goals in terms of your maximum level of debt or minimal level of net cash over the next year to two?

<A – Robert Rivet>: Not ready to actually talk about that since we've got a long way to go through the SEC process, etc., etc. But that's something I will talk about in the future as we go through that. But we still are working overall; we think a healthy company should be having a debt to capital ratio of about 20%. So long term we've not taken our sights off that. So that's what we'll continue to target. But obviously that's not going to happen in a very quick period of time, but that's where we're trying to get to.

<Q – David Wong>: Just one quick follow-up on that. If I understand correctly from the S1 filing, AMD is not selling any of its portion in this IPO. There will be no cash infusion as a result of this IPO, but there will be balance sheet improvement because debt goes away; is that correct?

<A – Robert Rivet>: Yeah. The IP – the cash proceeds from the IPO are for the Spansion organization.

<Q – David Wong>: Yes. Great, thank you.

Operator: Thank you. Our next question is from the line of Michael McConnell with Pacific Crest Securities. Please go ahead.

<Q – Michael McConnell>: Thank you. Bob, I don't know if you've already addressed this. If we were to back out the startup costs in Q1, what would operating margins have been in CPG?

<A – Robert Rivet>: Don't want to go there.

<Q – Michael McConnell>: Okay. Looking at kind of the above seasonal growth you've seen in Q1 and Q2 – and you're expecting in Q2, is this more a function of you taking advantages you believe of some of the product shortages from your competitor or is it more just a healthier market and just an ASP improvement as well?

<A – Hector Ruiz>: We believe, and again Henri can add to that, that we – you know, if you look at our growth rate in 2004 over 2003, we grew 29% in the microprocessor business. We believe that is significantly higher than the market for the processors. In the first quarter we grew 31% year on year. We also think that is also higher. That I think is an indication that the products that we are creating and building are products that are allowing us to win. And winning is gaining share and doing it while making money. I think the processor business has demonstrated that over the last several quarters.

<Q – Michael McConnell>: And just how would you characterize the overall PC market heading into Q2 just from a higher level, desktop versus mobile?

<A – Henri Richard>: Well, right now what we're seeing is a healthy market. You know, one of the characteristics of the first quarter was it was very linear for us. As you know, second quarter is always a little more back-end loaded. It's a tough quarter to close because of some of the seasonality factors in Europe. But, you know, again to build on what Hector said, we have two growth engines that were not traditionally in our business model, first our server business is definitely growing and we're winning big time, particularly in the Fortune 500 space. And secondly, our high growth markets. A large portion of our growth in the first quarter was derived from exceptional growth in the high growth markets where we believe we have a very solid offering. And markets like India or greater China or Russia are proving to be extremely good markets where seasonality is less effective than in the mature markets of Europe or North America.

<Q – Michael McConnell>: And has China, the strength in China continued thus far into Q2?

<A – Henri Richard>: Absolutely.

<Q – Michael McConnell>: Thank you.

Operator: And thank you for your question. Next question from the line of Chris Kassa with FBR. Please go ahead.

<Q>: I was wondering if you could give some color, and to the extent you can at this point, I realize it's early, but into the cost structure of AMD once the IPO is completed, and more specifically in terms of, you know, where the operating expenses might lie for a CPG-only business.

<A – Robert Rivet>: I think that's – to be honest, I think that's too premature to answer that kind of question. You know, there is so much information in the S1 that we'll have to execute to, so I don't think I can answer that question at this moment.

<Q>: Okay. That's fair. I'll try another one. With regard to, you know, performance of the CPG group in Q1, if you could give some color on the desktop business as a whole, was that in line with what you'd expect normal seasonality, a little better, a little worse – what you can tell us in terms of units and revenue in that business?

<A – Henri Richard>: Well, I'm not going to give you too much granularity except to say that we had an ASP increase Q4 to Q1 and that was less in the desktop business as we continued to take advantage of the excellent positioning of Athlon 64 and Sempron. We also had a very strong quarter in the channel, that's typically a desktop driven, you know, piece of the business, so, the desktop business continues to do very well for us but clearly we see a lot of growth opportunity in server and mobile.

<Q>: Okay, thanks.

Operator: Thank you for your question. Our next question is from John Barton with Wachovia Securities. Please go ahead.

<Q – John Barton>: Thank you very much. On the topic of ASPs, you commented that obviously they were up sequentially in the first quarter. If you were to narrow that calculation down to just AMD 64, quarter on quarter how did ASPs track?

<A – Henri Richard>: I'm not going to give you more granularity than what I said, which is that our ASP was led by desktops and we had stable ASPs on the two other segments.

<Q – John Barton>: Okay. Bob, you had commented that there were operating cost savings in the March quarter, in the first quarter for Spansion. Can you give us an idea of the magnitude of those savings quarter on quarter?

<A – Robert Rivet>: They are in the tens of millions of dollars, but obviously wasn't anywhere near close enough since the loss expanded by $70 million quarter on quarter.

<Q – John Barton>: Final question if I could, obviously tax benefit in the recently closed quarter, how should we be thinking about tax as we look out the next several quarters?

<A – Robert Rivet>: We're still at the same point. We're effectively in the 10% kind of range. It will move around a little bit depending on actually where the jurisdiction of the tax consequence takes place but 10% for modeling is not a bad number.

<Q – John Barton>: Thank you.

<A – Michael Haase>: Operator, we're going to take two more questions, please.

Operator: Thank you. Our next question comes from the line of Steve Eliscu with UBS, please go ahead.

<Q>: This is Steve Illiscu for Tom Thornhill. A follow-up to a prior question regarding filling Fab 30. I wanted to better understand what you feel is the market opportunity for x86 processors in the embedded and the consumer market.

<A – Hector Ruiz>: We believe that there is a fairly large opportunity and a strong desire for people in the industrial segment of the market, these are people like telcos, people that make switches for the communications environment, to really exploit the benefit that Opteron has as an embedded product. And we've seen a very large interest in that so we believe this market is large. And when you look at the total embedded potential market for x86 frankly it's something around $2 billion. So it's a fairly sizable market. We think we deserve a big chunk of that. Today we're a very small player in it, therefore that is one factor. And when you go to the other extreme of the curve, you are now into the much lower cost and lower power and smaller, you know, footprint applications where you look at a variety of consumer electronics, and that brings us into the digitalized – digital convergence. I'm going to ask Henri to make some comments on digital conversion because we believe that for us it gives us a great opportunity to expand the footprint of x86 on quite a different strategy than the competition.

<A – Henri Richard>: Yeah, what we've seen in the consumer electronics space is obviously a set of market makers that are not traditional, you know, PC market makers, we've have seen a business model develop in the P.C. industry that is not a favorable – it's basically a vendor driven industry rather than a customer-driven industry. Consumer electronics historically have been a customer driven industry and they want to retain that business model and so we're seeing a lot of interest for x86-based solutions manufactured by AMD because we are seen as a friendly partnership oriented company in that space.

<Q>: Great. As a follow-up, regarding 64 bits, just a clarification on Sempron, so you plan to actually market that as a 64-bit processor; is that correct?

<A – Henri Richard>: Yeah, we've always been clear that there is a differentiation between Athlon 64 and Sempron. It's not based on whether it's 32-bit or 64-bit. They address different markets. Sempron is for the value conscious buyer; Athlon 64 is for the performance-driven buyer. But we've also made very clear that our ambition is to lead this industry to pervasive 64-bit computing and as such it wouldn't make sense for us to keep alive 32-bit processors which frankly are rapidly becoming something of the past, and therefore you should expect that at some point in time the entire line-up of AMD 64 based – processors from AMD will be 64-bit enabled.

<Q>: And that's before the end of this year?

<A – Henri Richard>: Most likely.

<Q>: Okay. And just one final question, if you could comment if you believe you'll be shipping material volumes of dual-core desktop and notebook processors this year.

<A – Henri Richard>: The answer is yes.

<Q>: Okay. Thank you.

Operator: Thank you. Our final question comes from the line of Simona Jankowski with Goldman Sachs. Please go ahead.

<Q – Simona Jankowski>: Thank you very much. I just wanted to ask you on the inventory, what do you think your inventory will be in Q2 directionally, do you still think that you are going to be slowing down some of your fabs, and also, what is your target for later on in the year as far as days of inventory?

<A – Robert Rivet>: First, I can't comment on flash. That would be forward looking guidance so I can't comment there. In microprocessors, you know, we clearly build to the market demand, and we're – as we've stated before, we're executing quite well in that business, and so we are bringing on additional capacity to service the market so that we'll continue to be extraordinarily higher growth rate than our competition. So inventory to me is, you know, not an issue in the microprocessor area.

<Q – Simona Jankowski>: What is your comfortable range for days of inventory?

<A – Robert Rivet>: We're very comfortable. Actually I don't give that level of granularity but we're very comfortable in the microprocessor business.

<Q – Simona Jankowski>: Thank you very much.

Michael Haase, Director of Investor Relations

Okay. That concludes the call. I want to thank everyone for participating and hopefully a number of you will show up at our dual-core launch next Thursday as well. Thank you very much.

Operator: Thank you. Ladies and gentlemen, today's conference call is being made available for replay starting today at 7 P.M. Pacific time and running through Saturday, April 23rd, 2005. You may access our service by dialing 1-800-475-6701, and entering today's access code of 776654. Internationally you may reach us by dialing 320-365-3844, again with the access code of 776654. Those numbers once again, domestically, 800-475-6701, and internationally, 320-365-3844. That does conclude our conference call for today, we thank you for your participation as well as for using AT&T's executive teleconference service. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to AMD's Q4 '04 earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to the Director of Investor Relations, Mike Haase. Please go ahead, sir.

Michael Haase, Director of Investor Relations

Thank you. Welcome to AMD's fourth quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board, President and CEO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Executive Vice President of Worldwide Sales and Marketing. This call is a live broadcast and will replayed at AMD.com and StreetEvents.com. The telephone replay number is 800-475-6701. Outside of the United States the number is 320-365-3844. The access code for both is 765351. Telephone replay will be available for the next ten days starting at 7:00 p.m. Pacific time tonight.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about management's expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from current expectations.

The semiconductor industry is generally volatile and market conditions are difficult to forecast. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our risk factors and our business. You'll find detailed discussions in our most recent SEC filings including AMD's annual report on Form 10-K for the year ended December 28th, 2003, and AMD's quarterly report on Form 10-Q for the quarter ended September 26, 2004.

With that I'll turn it over to our Chairman, President, and CEO, Hector Ruiz.

Hector de J. Ruiz, Chairman of the Board, President and Chief Executive Officer

Thank you, Mike. You know, the fourth quarter of 2004 was for AMD a solid quarter in microprocessors but frankly a freaking dismal quarter in flash. In processors we showed some strong fundamentals but in my view despite dramatic year-on-year gains, it was still an under whelming year to an otherwise breakaway year. It is worth noting that in 2004, we grew our processor business by a commendable 29% year on year, and based on the strength of our AMD Opteron franchise, we continued our unprecedented growth in the commercial server and enterprise segments. And at the end of the year, over 40% of the companies in the Forbes 100 are satisfied AMD64 customers, a very strong sign of our possibilities for expansion in this year.

AMD64-based processors now represent one half of our processor business on this current combination of expanding demand, continued strong yields and world-class manufacture and execution. Our Athlon 64 FX processors held the performance crown from wire to wire through the course of the year. Almost unheard of in this business. And our new AMD Sempron processor family, in only six months since its introduction, has become a key part of our successful growth into high growth markets such as India, Russia, and China.

In the fourth quarter we saw record server and mobile processor sales and double-digit percent unit growth across all of our segments. Yet, despite these successes, we remain unsatisfied with our performance in processors where we believe we're not capturing yet our fair share of the overall opportunity that we see before us, and we will address this shortfall effective immediately.

In our Flash business we had an awful quarter. In the context of an aggressive pricing environment and a continued supply and demand imbalance, we suffered from poor execution in Japan and delayed product qualification in the wireless segment. Yet overall we begin the new year in Flash in much better shape than a year ago. We completed a successful integration of the AMD and Fujitsu businesses. Customer acceptance of our revolutionary MirrorBit technology continues, and we believe we're set to revolutionize the Flash memory business with our ORNAND architecture, providing the best of NOR and NAND technologies in a single device.

In short, while the fourth quarter was a disappointing end to an otherwise good year, we believe we are better positioned in both of our businesses than we have ever been. And at this point I want to ask Bob to review the financial results for the quarter as well as the outlook.

Robert Rivet, Executive Vice President and Chief Financial Officer

Thanks, Hector. As detailed in our press release, we reported record fourth quarter sales of $1.264 billion, up 5% compared to the fourth quarter of last year and up 2% compared to the third quarter of 2004. Key highlights in the quarter were: a 9% sequential microprocessor sales growth, record sales in server and mobile, and record desktop unit shipments. This helped drive all-time high quarterly sales, and our tenth consecutive quarter of increased gross margin percentage.

Operating income for the quarter was $20 million and declined from the third quarter due to the loss from our memory business. This performance represents the fifth consecutive quarter of profitability. Loss per share on a GAAP basis was 8 cents. Included in this were charges of 13 cents per share, largely associated with the conversion and retirement of debt, thereby allowing us to remain profitable on an EPS basis.

Gross margin improved to 41.2% for the quarter, above the 40.5% reported in the third quarter and a solid 5.8 percentage point improvement from the fourth quarter of last year. This improvement was driven by a combination of continued improvements in our CPG business, the mix of CPG business as a percent of our overall business, offset somewhat by a reduction in our memory business gross margin.

Research and development spending was $253 million for the quarter, up 9% from the prior quarter. The growth was driven by Fab 36 startup costs as planned and other server and workstation product development efforts. In December, we started placing equipment in Fab 36.

Fourth quarter marketing, general and administrative costs increased 21% as compared to the third quarter of 2004 due to seasonal merchandising activity, long-term branding investment and first year SOX certification costs.

Cash flow from operations was $362 million for the quarter, up 37% from the third quarter of 2004. EBITDA was $317 million for the quarter.

Now let's switch to the business overview for the quarter. I'll start with our Computation Product Group. CPG sales were $730 million in the quarter, a 26% increase over the same period a year ago and a 9% improvement from the third quarter. Unit sales in the quarter increased sequentially by more than 15% with double-digit growth in each of the product segments.

ASP in our AMD64 server and mobile increased. However, overall ASP decreased as compared to the third quarter driven by desktop demand in high-growth regions. Unit sales of AMD64 processors grew by more than 70% sequentially and now represent 50% of total CPG dollar sales.

We saw continued demand for our mobile processors and we shipped record server and desktop units in the quarter. CPG's operating income in the quarter was $89 million, or 12% of sales, flat from the third quarter. CPG's gross margin increased in the quarter due to strong microprocessor sales growth and increased shipments of 90-nanometer units. Incremental profit fall-through on incremental CPG sales was zero in the quarter due to the high seasonal marketing and long-term brand investments.

For the first quarter of 2005, marketing, general and administrative spending level is expected to return to third quarter levels.

Switching to the memory business. Fourth quarter sales were $504 million, down 11% from the fourth quarter of 2003, and 6% from the third quarter of this year. Flash memory sales were weaker than expected due to an aggressive pricing environment, particularly weak sales in Japan, and a delayed new product qualification in the wireless segment. However, MirrorBit-based products increased as an overall percentage of the sales in the quarter, unit shipments increased, and ASP declined from the third quarter.

Disappointingly, the Memory Group lost money in the quarter with an operating loss of $39 million, down from an operating income of $15 million in the prior quarter. The Memory Group's gross margin declined in the quarter, reflecting the aggressive pricing environment, only offset somewhat by record bit shipments.

Turning to the balance sheet. As outlined at our November Analyst Day, we made significant progress in the fourth quarter, delevering our balance sheet and as planned, we reduced our debt by $200 million in the quarter. We exchanged for stock $201 million of convertible senior notes, reduced our near-term debt by retiring $612 million of our Dresden Fab 30 asset-secure term loan, and issued a 7 3/4% senior note due 2012, thereby refinancing a near-term loan with a long-term one. As stated earlier, these actions contributed to a $49 million, or 13%, charge to earnings in this quarter.

Cash balances ended the fourth quarter at $1.2 billion, flat from the third quarter. Fourth quarter capital expenditures were $470 million, up as expected from $407 million in the third quarter. Inventories increased from the third quarter by $68 million, primarily in leading-edge 110-nanometer Flash memory technology.

Now I'd like to summarize a few comments about the year 2004. For the fiscal year 2004, we were at an all-time high for the company at $5 billion, up a significant 42% from 2003. Annual sales for CPG were $2 1/2 billion, up 29% from 2003. Flash memory sales concluded 2004 at $2.3 billion, up 65% from 2003. AMD's operating income for the year was $222 million, roughly a $455 million improvement. In CPG we had an operating profit of $303 million for the year and in Flash memory we reported a profit of $35 million for the year. This was good progress in both businesses.

Cash flow from AMD operations was positive for the year at $1.1 billion. For the year, EBITDA was $1.4 billion, a $602 million improvement from the prior year. Capital expenditures for 2004 were $1.4 billion, under our guidance of $1 1/2 billion.

Now I'd like to discuss the outlook. AMD's outlook statements are based on current expectations. The following statements are forward-looking and actual results may differ materially depending on market conditions. Based on strong acceptance of AMD64 technology, AMD expects its processor amount to increase as the year unfolds.

In the first quarter AMD expects processor sales to be flat to down slightly in a typically seasonal down quarter. AMD expects Flash memory sales to be down in the first quarter due to the continued imbalance in supply and demand, continued pressure on ASPs and seasonality.

For your modeling consider the following: In 2005 total research and development dollar expenses and as a percent of sales are expected to be up primarily due to Fab 36 startup costs of around $200 million. First quarter R&D expenses are anticipated to be up approximately $20 million from the fourth quarter.

Total marketing, general, and administrative dollar expenses are expected to be up in 2005 but as a percent of sales, are expected to decline. First quarter marketing, general and administrative expenses are anticipated to return to third quarter lows of 2004. Our quarterly tax rate is anticipated to be within a 10 to 20% range throughout 2005.

In fiscal 2005 capital expenditures are expected to be around $1 1/2 billion. 2005 depreciation and amortization is expected to be approximately $1.2 billion. Operating cash flow is anticipated to be around $1.2 billion with free cash flow relatively neutral for the year with the inclusion of Fab 36 grants and subsidies.

In summary we have made significant progress over the last couple of years to position AMD as a viable and financially sound competitor in the microprocessor and Flash memory markets. With record 2004 and fourth quarter sales, an improved balance sheet and despite seasonal trends, we are confident that AMD is well positioned as we head into 2005 to continue to impress our product and technology leadership on the microprocessor and Flash memory markets and to maximize shareholder value of our two principal businesses. With that I'll turn it back to Hector.

Hector de J. Ruiz, Chairman of the Board, President and Chief Executive Officer

Thank you, Bob. As we mentioned, 2004 was a record year for AMD in many ways, but the finish was disappointing. We're taking bold actions to address these issues and more aggressively capitalize on the opportunities before us and to maximize shareholder value. In that context AMD is entering 2005 with a formidable and unrelenting sense of competitiveness, a desire to demonstrate that our ultimate success in 2004 is only a point in the line towards reinventing the competitive balance of the industry.

We have many formidable assets, a clear and demonstrable performance advantage across a growing set of product segments; an expanded portfolio of world-class partners, companies like HP, Lenovo, Sun Microsystems, IBM and others who see AMD as a path to real differentiation and unprecedented customer satisfaction; an evolving community of top tier enterprise customers, Evangel is willing to share their successes with their IT peers, and a solid ecosystem of partners, vendors, governments and communities that are investing in our success; a design and technology team that is second to none; an expanding portfolio of leading brands from AMD Opteron to Athlon 64, and 64 FX, AMD Sempron and the newly announced AMD Turion 64 for mobile technology; a stellar manufacturing record in some of the world's most challenging technologies and technology leadership momentum, highlighted by our AMD64 and MirrorBit technologies and underscored by our leadership in the move to multicore processing, and an employee base of highly skilled and motivated employees who recognize the moment in time opportunity that's before us.

Most important we have developed a taste for sustained success, both in terms of the work we do and the economic prosperity that it produces. This success will continue. We are leading the industry to pervasive 64-bit computing, and we will increase our lead, bolstered by our leadership in multicore processors and the upcoming release of both the Microsoft 64-bit Windows OS and the highly anticipated Solaris 10 operating system.

We are reinventing the Flash memory business on the strength of our innovative MirrorBit technology and our revolutionary ORNAND architecture, and we are determined to make this business provide one way or the other a return, fair return to our shareholders, and we are empowering a new global generation of tech-capable consumers with a recently launched personal internet communicator and our emphasis on serving the high growth regions of the world such as India, Russia, Latin America, and China.

Like 2004, we are determined to do great things in 2005 and to continue to pursue our destiny to change the competitive dynamics of our industry. Thank you, and now I would like to turn it back to Mike for questions and answers.

Michael Haase, Director of Investor Relations

Okay, operator. If we could start the Q&A session, please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from the line of Mark Edelstone from Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Yes, good afternoon. I had two questions, if I could. Bob, it sounded like from your commentary that the gross margins in the processor business were actually up sequentially. Can you give us a general range as to how much the increase? Is that up like 100 to 200 basis points sequentially?

<A – Robert Rivet>: More than one, less than two, Mark, but definitely up.

<Q – Mark Edelstone>: Okay, great. And then just a clarification on your comments on the balance sheet that inventories were up primarily in 110-nanometer Flash. The distribution reserves were also up in the quarter, I think for the second quarter in a row, and I think in the prior quarter, that was due to a richer mix of processors. Can you talk about that as well and to what drove that increase during Q4?

<A – Robert Rivet>: As we continue to ship more and more AMD64 which has much higher value to us and to the whole marketplace, that number continues to increase. Actually units are not up. It's actually a dollar shift. So you'll see that trend continue as time moves on just from the shift, I'll call it, to higher valued products.

<Q – Mark Edelstone>: Okay. But that did not have an impact on your own balance sheet, on your own inventories?

<A – Robert Rivet>: Memory, microprocessor inventory was up a little bit, but we had a pretty good quarter. We hit record units. So we actually shipped a lot of product. But most of our inventory build, as I highlighted, was in the Flash memory area where, as Hector said, we were disappointed and we actually missed our sales expectation and built some inventory. But all the inventory we did build was the leading-edge 110-nanometer type product, particularly for the wireless segment.

<Q – Mark Edelstone>: Okay. Thanks a lot, guys.

<A – Robert Rivet>: Thank you.

Operator: Thank you. And our next question is from the line of Adam Parker from Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: Hi. In the Flash memory business, given bit demand, it looks like it's strong. What did you underestimate about the NOR Flash pricing environment? I think Bob you mentioned supply and demand is a problem yet kind of on the surface it looks like Intel's got capacity and other do and you guys are investing a lot of CapEx into Flash. So how do you think the capacity environment for Flash will shake out in the coming quarters here and what can you guys do over the next couple of quarters to generate profits again in Flash?

<A – Hector de J. Ruiz>: Let me make some comments about the capacity and the technology and then I'll ask Henri to comment about the pricing environment in Flash. First of all, the market in total is unbalanced right now, there's definitely a lot more capacity in place than there is demand. It is my judgment, my view, and my opinion that there is across the board in general, except for perhaps for isolated cases, an underutilization of capacity today, and – but the one being used is, you know, competitive pressures are pretty high. So we expect that that will continue even though bit demand is still pretty strong and will continue to increase over time.

Our plans frankly based on the results of the last two quarters are now being modified as we speak. We intend to drive hard, fight hard, drive utilization and capacity better and, you know, be more competitive and more aggressive in the marketplace. We thought and, you know, made a judgment call that beginning late in the fourth quarter and early in the first quarter there would be a stabilization and more normalcy in the capacity demand equation. That has not happened and as a result we're going to modify our strategy and aggressively go after business. Henri?

<A – Henri Richard>: Hector, from an environment perspective although overall obviously the quarter was very challenging. We had particular pressure in Asia and – within Asia and Japan where the embedded market was a little softer than expected. And overall if you look at our business around the world, we had a much better performance in the wireless segment than the embedded segment where the pressure was the most severe with some ASP declining over 30% quarter to quarter.

<Q – Adam Parker>: Okay. Just as a follow-up, I remember, I guess in the fall of '02 I wrote a piece that maybe AMD should exit the Flash memory business, and Ben and Jerry told me in the most polite way that that was not going to be possible. I guess I'm wondering what would have to transpire here in NOR Flash for you guys to consider sort of exiting the business or what your thoughts about that would be, you know, depending on the environment in '05?

<A – Hector de J. Ruiz>: Well, first of all, let me tell you that the Flash technology is unique and pervasive, and our invention of MirrorBit is also uniquely positioned. I think it's an awful – and one example of that is when you look at the fact that I have $504 million of revenue in a quarter, we lost $39 million which I hate, it makes me puke to lose $39 million, but in all – when you think about it, put it in perspective, I don't think there is a Flash company in the NOR space anywhere in the world with that price, that cost competitiveness that would allow you to lose only $39 million on $504 million of sales. So we – and we're a long way from yet milking the benefits of MirrorBit. Having said all that, we are prepared to do whatever it takes to make sure that we add value to our shareholders going forward.

<Q – Adam Parker>: Okay. So you are leaving that open ended then?

<A – Hector de J. Ruiz>: We're open to anything that would allow us to increase value to our shareholders.

<Q – Adam Parker>: Okay. Sorry, one last quick housekeeping question. What do you guys expect depreciation to be in 2006? Because I'm trying to understand how you have flat depreciation two years in a row here when your CapEx is ramped so significantly from '03 through '05?

<A – Robert Rivet>: This is Bob.

<Q – Adam Parker>: Hey, Bob.

<A – Robert Rivet>: When, in particular I'll call it in last year, the investments we were making in Fab 36, which is the disproportional amount of money the company is spending last year and this year, that does not depreciation until we actually turn the facility on to manufacture product.

<Q – Adam Parker>: Right.

<A – Robert Rivet>: So it's not in the depreciation rate. So depreciation will step up fairly significantly in the '06 period of time as we start turning on the billion-plus investments we're going to make in Fab 36. Fab 36 over the two-year period was roughly $600 million last year and an equivalent $600 million this year of investments that will turn on to depreciation in the beginning of '06.

<Q – Adam Parker>: So like another 100 million a quarter from this year's rate?

<A – Robert Rivet>: Divided by five years. So give to you a ballpark. Divide the billion six by five years.

<Q – Adam Parker>: Okay. Thanks, guys.

Operator: Our next question is from the line of Ben Lynch from Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Yeah. Hi, guys. Just a couple of questions. First one, is there any signs of Intel becoming more aggressive in the server space? And has that had any sort of impact on the business, the processor business in Q4?

<A – Hector de J. Ruiz>: I'll – again, I'll make a few comments and Henri can follow up. You know, when somebody asks me that question, I have to smile because we are in a very competitive space, and I don't know of a segment where AMD and Intel are not aggressively competing big time. So to me that question is sort of like, yeah, it is tough, it is competitive. And do we see anything unusual than just, dog gone, you know, fight hard in the marketplace? No. Henri, would you like to answer that?

<A – Henri Richard>: I would just underline that, Ben, we had again a record revenue for server in the quarter. So we got continued momentum. We were expecting our competitor to aggressively seed their new Nocona technology in the marketplace. We have seen that, but frankly on some of the key parameters that matter for the customer like thermals and efficiency, that technology is not revolutionary and the leadership that Opteron provides to the customer remains intact. And we, in fact, expect that as we move into 2005 and we introduce our dual-core based Opteron technology we'll further enhance our competitive positioning in that market. So, yes, it's tough out there as Hector outlines it, but customers put a premium on the value of our architecture and that's not changing.

<Q – Ben Lynch>: Okay, great. And then the second question I had was Flash revenues and operating profit were down a lot in what's typically the seasonally better quarter. And now for Q1, you know, you're guiding that down because of, you know, continued price pressure and seasonality. Without getting – trying to force you in a corner on this, you probably have, you know, at least better visibility than us there. Is it sort of sequential change or environment for Flash now, is it comparable to what it was in Q4 as it were, is it better? Just help us think about that, please.

<A – Henri Richard>: Well, first, you know, what we've got to do in the first quarter is accelerate in Japan. As we outlined, we have a challenge there. If you recall, Ben, when we put together two organizations historically, AMD had a very strong presence in the wireless space; our partner, Fujitsu had a strong presence in the embedded space. In Japan the wireless market is a booming market. We need to do a better job at penetrating that market but we don't expect that to turn around within the first quarter. So that's the area of focus for us is to go and aggressively, you know, defend our position in the wireless space, which is still very strong with all of the key customers around the world and to be more aggressive and attack the embedded opportunities that are in front of us.

<Q – Ben Lynch>: So the intent – so the intensity of the issues facing you, it's going to be just as hard in Q1 as it was in Q4, I guess?

<A – Hector de J. Ruiz>: From a mark – yes, the answer is yes, the intensity's going to be there. And, you know, we are going to – as I mentioned earlier without being too specific right now, I'm going to take some aggressive action to contain costs, accelerate technology because one of the good things that's going to come out of this is that some of the underutilized capacity we have in place and some of the energy in our people is not going to be totally focused in figuring out how we can even move faster on technology and new products and take advantage of these market conditions that exist because the cost competitiveness of MirrorBit is pretty awesome and the faster we can get there totally, the better off we're going to be. So we are going to redirect energy and resources to accelerate that rather rapidly.

<Q – Ben Lynch>: All right. Thank you.

Operator: Our next question is from the line of Michael Masdea from Credit Suisse First Boston. Please go ahead.

<Q – Michael Masdea>: Yes, the first question, and I have a quick follow-up after, on the strategy overall, obviously you guys have done a great job of coming out with processors that are very competitive with your competition and that's had a good impact. But your competition's talking a lot more about platform strategies than they have in the past, restructuring around that. Can you just talk about how you guys compete against that and how important it is to compete against that?

<A – Hector de J. Ruiz>: We believe that the market – the customers really would like to see all of us more focused on total solutions, whether you call it a platform or not, and I believe that doing that makes sense, makes sense for us, makes sense for the customer. And as a matter of fact, although I rarely do that, I'll pay a compliment to my competitor. I think that's very innovative to do and it's almost tempting to ace it. But I'd like to make a comment in the difference in how we might go about it is I think that the opportunity for us to establish deeper and stronger relationships with the ecosystem to provide customers the best solution, not the solution that we dream up in the lab and come up with and then cram it down their throat but to be able to provide the best possible solution and the combination of supporting infrastructure to accomplish that, we believe that we are a company capable of doing that, and our strategy going forward is to really strike at that. And you are going to see some moves in 2005 that are going to clearly indicate a strong move in the direction of being a strong ecosystem provider in total platform solutions, although with a different approach than our competition.

<Q – Michael Masdea>: Just a follow-up. ASPs were a little bit weaker this quarter. You talked about that coming from the new, the high growth areas, presumably emerging markets or other areas. Can you just talk about how business was in kind of a like-for-like, apples-for-apples other parts of the world, where maybe some of the lower growth areas?

<A – Henri Richard>: Sure. I just want to complement Hector's answer to your first question. You may have not noticed but when we first announced our Turion 64 mobile technology, it is not only a processor technology but also it really is a platform offering that over time with partners we will present to the market. Now turning to your second question, what you need to understand in the mix of the quarter is that we actually had stable ASPs in our server business, actually grew a little bit. The same our Athlon 64 business. In our mobile Athlon 64 business, what we've seen through the quarter is a very high demand for our new Sempron brand in high growth markets, and we decided to serve that demand. So the ASP variation is really a mechanical effect of a higher mix of Sempron products than we expected initially.

<Q – Michael Masdea>: Thanks a lot.

Operator: And we have a question from the line of Joseph Osha from Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Hi, can you hear me?

<A – Hector de J. Ruiz>: Yes.

<Q – Joseph Osha>: Hector, you appear to be picking up Jerry's penchant for colorful rhetoric. Two questions. First on the microprocessor side. Can you update me as to what percentage of starts or outs, whatever you prefer, is 90-nanometer and just give me an update as to what their roadmap is there, and then I have a follow-up.

<A – Hector de J. Ruiz>: Right now we're, within some sort of approximation, we're getting pretty close to over half of our starts being 90-nanometers, and our plan is to be, for all practical purposes, converted totally by the second quarter. The reason I say practical is because there are some products that have a unique customer requirement that may keep us for sometime longer at 130 but that's strictly just to serve a customer need for not changing the platform. So by the end of the quarter, the second quarter, we'll be fairly much done on 90-nanometers. And there's no way I am going to agree that I ever could dream to be as colorful as Sanders is.

<Q – Joseph Osha>: You have you have your own charms. Second question, Bob, I admit I'm struggling modeling operating expenses here. I had been looking for SG&A to be up by about the same dollar amount as it was in the third quarter. And I was surprised there and also surprised on R&D. Forgive me for being literal but can you please, again, nail down for me again what you expect in dollar terms for both line items in the first quarter and then to the extent that you can, dollar terms for both line items for all of 2005?

<A – Robert Rivet>: Sure, Joe. First on the R&D line, for the first quarter we will continue to see that increase from the fourth quarter levels to the tune of about $20 million from the fourth quarter level. So increasing by $20 million as we move in. That is driven by Fab 36 startup costs as we continue to hire more people and continue to exercise the equipment. That line in total by the end of the year will be up $200 million year on year.

<Q – Joseph Osha>: And then at that point –

<A – Robert Rivet>: It will ramp as we go quarter to quarter.

<Q – Joseph Osha>: Right. And then in '06 it presumably starts being absorbed to cost of sales as you ramp Dresden, right?

<A – Robert Rivet>: Absolutely, you got it.

<Q – Joseph Osha>: Okay.

<A – Robert Rivet>: In the SG&A, marketing and general, administrative area, fourth quarter was a high water mark. First quarter will drop to third quarter levels. So that delta we picked up quarter on quarter of about $42 million will go away. And for the year I would model marketing, general and administrative expenses will be up in absolute dollars but as a percent of sales depending on what you pick, it will be down. So we'll see some dilution as we go through the year. But first quarter we will quickly move back to third quarter levels.

<Q – Joseph Osha>: Okay. And then just a last quickie follow-up on the inventory number. Did you flow through any reserves relating to Flash memory pricing at all or Flash memory costs, more properly?

<A – Robert Rivet>: No. By actually building more inventory in the Flash business, we actually took on more reserves. So we actually continue to be conservative in valuation in the memory business, particularly in this pricing environment.

<Q – Joseph Osha>: I'm sorry. Explain that. You built more –

<A – Robert Rivet>: Gross inventory – just pick a number. Gross inventory went up by 100 and net inventory went up by 85.

<Q – Joseph Osha>: All right. So you flowed through some reserve value – you flowed through some reserves, I'm sorry, and you realized some reserve?

<A – Robert Rivet>: That's right.

<Q – Joseph Osha>: All right, thank you very much.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from the line of Tim Luke from Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thank you. I was wondering if you could provide some color on how you see the gross margin developing going forward. Thank you.

<A – Robert Rivet>: In both business – well, let me do it in both businesses.

<Q – Tim Luke>: Thanks.

<A – Robert Rivet>: First in the microprocessor business because clearly the company is dependent on the mix of the business because the gross margins between both businesses are significantly different. In the processor business we're actually, as we said, we're north of 50%. We improved quarter on quarter, and as we continue to penetrate deeper in the commercial space, both with Opteron and clients, we will see further expansion in the gross margin and further shipments of 90-nanometer. So we feel like we will continue to see improvements in gross margin in the microprocessor business on the continuum as we go through time. In the Flash business, it is very pricing-dependent. It's hard to anticipate right now improving gross margin in the first quarter with sales looking like a down quarter. Our – so right now we are modeling, we have budgeted the memory business to improve gross margin year on year, and that is predicated mainly on continued execution of making MirrorBit a significant portion of what we ship in that portfolio which clearly has a cost advantage which you clearly need in a very aggressive pricing environment.

<Q – Tim Luke>: Could you remind us what those metrics are for MirrorBit as a percentage of the mix then as we move forward?

<A – Hector de J. Ruiz>: At current we're in the double – we're in between 10 and 20% of our business today is MirrorBit and by the end of the year, it's expected to be 50%.

<A – Robert Rivet>: That's right.

<Q – Tim Luke>: Just one last clarification on the Flash side. Were the units up sequentially?

<A – Hector de J. Ruiz>: Yes.

<A – Robert Rivet>: Yes. Units were up. ASPs were down which obviously down more than the units.

<Q – Tim Luke>: And both would be down sequentially in the beginning of the year? Obviously.

<A – Robert Rivet>: You know, seasonally it's hard to tell at this point. Right now seasonality would say units would be down. ASPs continue to be drifting in that direction.

<Q – Tim Luke>: Thank you very much.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from the line of Krishna Shankar with JMP Securities. Go ahead.

<Q – Krishna Shankar>: Yes. In the Flash business have you resolved the product glitch that you talked about in the wireless segment?

<A – Hector de J. Ruiz>: Yes. We had a 256 megabit product that we had hoped to qualify in the fourth quarter. We had a glitch that required us to change a number of layers toward the end of the process because there toward the end of the process, we could address them rather fast. And as we speak, there are some customers that have already qualified the product and we have a number of other customers in the process of doing so. So we expect that quarter – that product to have an impact on sales this quarter.

<Q – Krishna Shankar>: Okay. And on the processor business, can you elaborate a little bit more on the Turion 64 introduction and the platform strategy that you talked about earlier, both in terms of timing and features for the Turion 64?

<A – Henri Richard>: The Turion 64 mobile technology was officially announced at CES. We intend to have partnership in the technology in the market towards the second part of the second quarter. And as far as the platform strategy, we have a series of ecosystem partners that are going to join us and provide Turion 64 certified platform that include, you know, both chipsets and wireless solutions to form a comprehensive and cost-optimized solution for the mobile market.

<Q – Krishna Shankar>: And the final question is on how AMD sees the adoption of PCI Express and DDR2 memory both for the PC space and the server space going forward in your performance product lines.

<A – Henri Richard>: All right. So on the PCI Express, obviously there is an aggressive conversion that's being driven in the industry. We have a number of platforms available on PCI Express, and we believe that that conversion will happen very rapidly on the basis of the cost structure of the solution. When it comes to DDR2, we believe that that transition will be slower because today DDR1 solutions are still cheaper and in particular in the case of the AMD architecture, there is no performance benefit to moving to DDR2. So we obviously have a strategy to move to DDR2 technology at the right time, and we're working on that timing with our key partners.

<Q – Krishna Shankar>: Thank you.

Operator: And our next question is from the line of Andrew Root from Goldman Sachs. Please go ahead.

<Q – Andrew Root>: Thanks very much. I'm curious what kind of traction you can report seeing in the enterprise desktop space following on your success in server, if that's started to radiate out at all to the desktop and if that has any impact on the first quarter outlook which is a little bit more robust than seasonal?

<A – Henri Richard>: Well, obviously when a Fortune 500 company is entrusting AMD with its server choices, which is a strategic choice for the enterprise, that bodes well for our ability to go and present client based solutions. In fact, out of the 40-plus members of the Forbes 100 list of companies, some of them already use both Opteron and client-based AMD solutions. I'm not going to disclose the details of this, but obviously for us as we walk into 2005, further penetration of the commercial client segment is a key priority on the strength of our Opteron offering.

<Q – Andrew Root>: How many of the – would any of those 40 companies in your client solutions have been customers before, or those are all new customers?

<A – Henri Richard>: They are all new customers.

<Q – Andrew Root>: Okay. And then how much – is the Sun launch of your new Opteron server line materially impacting your Q1, or is that sort of, we'll see as we go along?

<A – Henri Richard>: One of the key differences between Q4 and Q1 when it comes to Opteron will be the number of platforms available to the market. If you look at our Opteron offering, there were still certain segments that were not available. For example, you know, competitive blade solutions, more of the commercial type of implementation of the Opteron technology. As we outlined in our analyst conference, all of these segments will be covered by our OEM partners in the first quarter. And when it comes specifically to Sun, one of the key influence that Sun has helped us tremendously in the ecosystem is in the software area. They are driving a very aggressive expansion of 64-bit-based solutions in the software ecosystem. Of course in preparation of the highly anticipated launch of the Solaris 10 operating system.

<Q – Andrew Root>: And just one last quick question on Flash. Is there a price decline in the first quarter that would dictate a more significant write down of existing inventory across the market?

<A – Robert Rivet>: We don't think so at this point. We've been pretty conservative in our inventory evaluation. So, you know, the answer would be, no, we don't think so.

<Q – Andrew Root>: So could you absorb a fourth quarter type move again in the first quarter?

<A – Robert Rivet>: Absolutely.

<Q – Andrew Root>: Okay. Great. Thank you.

Operator: And our next question is from the line of Tom Thornhill from UBS. Please go ahead.

<Q – Thomas Thornhill>: Yes. Bob, could you review again the cash flow parameters and particularly relative to what was laid out in the November analyst meeting?

<A – Robert Rivet>: Yeah. Cash flow from operations, I won't go historically. You can pick that up. But going on a forward basis is – capital expenditures will be $1 1/2 billion which is identical to what we talked about at the Analyst Day. I'm flipping through my notes to make sure I say the exact right numbers. Depreciation for '05 you should model about $1.2 billion, and cash flow from operations will be about $1.2 billion with an assumed increase in working capital because we're assuming the business will continue to grow. Free cash flow will be relatively neutral, but that is counting the grants and subsidies we're going to receive from the European governments for Fab 36.

<Q – Thomas Thornhill>: Okay. And then looking at the operating margin on CPG which came down a bit in the December quarter but with MG&A coming down in gross margin, looks like it's holding. Should we – should operating margins come back to the September quarter levels?

<A – Robert Rivet>: Or better.

<Q – Thomas Thornhill>: Or a little bit better?

<A – Robert Rivet>: Yes, that's right.

<Q – Thomas Thornhill>: All right.

<A – Robert Rivet>: As we talked about, we made fairly significant marketing investments in the second half of '04 to provide some liftoff, as we called it, for AMD64 client-based products. Most of those programs are coming to an end. So you will see a drop back to more historical rates in the microprocessor area in marketing. So with continued good gross margin, a little less investment in those areas would yield better operating income.

<Q – Thomas Thornhill>: Thank you.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from the line of Kevin Rottinghaus from Midwest Research. Please go ahead.

<Q – Kevin Rottinghaus>: Yes. Could you remind us of where you are with the 110-nanometer transition in Flash and if there's – what's left to generate as far as cost savings out of that?

<A – Hector de J. Ruiz>: The 110-nanometer conversion to Flash will be fairly done here in the next quarter, completely, and now we're aggressively, as I mentioned earlier, due to the fact that, you know, we see a slowdown in the market for at least a couple of quarters, we're going to take advantage of that to do everything we can to accelerate the next generation even more than we had already planned. So although we're pleased with the fact that, you know, we led in the compression to 110 nanometers, that's probably going to be a short-lived technology and move rapidly to the next node, which will be somewhere around 90 nanometers. As far as the cost, benefits of that, we're experiencing those as we speak, and one of the reasons I think we did not experience heavier losses in the quarter is that the cost competitiveness of that technology is fairly solid. We expect that to continue and improve throughout the rest of the year.

<Q – Kevin Rottinghaus>: Okay. The transition or the qualification issue you had, was that at all related to either MirrorBit or to 110, or was that more just a manufacturing issue?

<A – Hector de J. Ruiz>: No, it was, you know, one of those things that happens in this compression technology. First of all, it was a MirrorBit part and it was a layout issue with part of the die when you lay out those very complex, high, dense parts, just the tiny little gates were in the wrong place and we had to redo the map set and do it over.

<Q – Kevin Rottinghaus>: Okay. Thank you.

Operator: And our next question is from the line of Glen Yeung from Smith Barney. Please go ahead.

<Q – Glen Yeung>: Thanks, Hector. You gave earlier in the call some expectations for what MirrorBit would be as a percentage of mix which I think were the same numbers that you had given out in the third quarter, and I wanted to get a sense, listening to you discuss accelerating some technologies in Flash, whether or not we should expect that mix to maybe accelerate a bit faster.

<A – Hector de J. Ruiz>: I think, you know, that would be the hope and the plan, and we're going to work hard as hell to make that happen. It's too early to try to change the guidance that we gave you before.

<Q – Glen Yeung>: What are the actual barriers that prevent you from actually doing that any faster?

<A – Hector de J. Ruiz>: Well, there are a number of things that affect that. One is customer qualifications. You know, customers that are today in a floating gate device, a design that works have to now requalify and justify the cost of that change. We think we – the attraction that allows us to induce such a change is the fact that the cost is significantly different, and customers are responding. But at this point in time it would be hard to forecast if we can actually change that rate of response at this point.

<Q – Glen Yeung>: Okay. And then just one other thought here which is at the Analyst Day, you talked about your outlook for 2005 PC unit growth of 10%. And now that we have come through another month and change since that meeting, I wanted to get your sense as to whether or not you think 10% is still a reasonable target for '05 and how you think you are going to gain share in that year, i.e., is it fairly linear throughout the year that you are going to keep gaining share or are there any sort of milestones we should be looking for?

<A – Hector de J. Ruiz>: I don't think there's anything we've seen in the last few weeks since the analyst that changes our view of 2005. We're very optimistic about 2005 in the IT world. I still believe that 64-bit technology will make an impact in 2005 as I said in the analyst meeting. I think we have an upcoming number of events that are very powerful, like the highly anticipated Solaris 10 release that's an operating system as well as Windows 64 which will happen in the first half of this year. All of that, I think combined with the value equation for our products makes us very optimistic, that at the end of 2005 we'll be looking like we did today where in 2004 we grew 29% in the processor business, which is significantly better than the market and we're certainly counting that we will also do that again in 2005.

<Q – Glen Yeung>: Very good. Thanks.

Operator: And our next question is from the line of John Lau from Banc of America Securities. Please go ahead.

<Q – John Lau>: Great. Thank you. Back over to the Flash. You mentioned Henri, that ASPs will be drifting down, drifting downward. For our modeling and longer term contracts, can we expect additional pricing impact as new contracts such as the handset Flash starts this quarter?

<A – Henri Richard>: No, John, we have a pretty good visibility. The wireless market is concentrated on relatively few accounts with whom we have long-term relationships. So this is not where our surprises are expected. The embedded marketplace, which is far more fragmented and relies heavily on the channel is where we've seen a lot of the turmoil. And frankly a lot of the smaller players in the NOR Flash market are taking desperate action to just manage for cash.

<Q – John Lau>: Great. And then finally, what is the typical seasonality that you anticipate for Flash in Q1, if you were to take a look at the overall market?

<A – Henri Richard>: Your question is from a revenue perspective, units, bits?

<Q – John Lau>: Actually let's say, for example, units. Typical for Q1.

<A – Henri Richard>: Flat to down a few percent, maybe between zero to 5% down.

<Q – John Lau>: Great. Thank you very much.

Operator: And our next question is from the line of Michael McConnell from Pacific Crest Securities. Please go ahead.

<Q – Michael McConnell>: Thank you. Question on unit growth we've seen now in the industry. So if my model's correct, you guys saw about 11% unit growth in Q3. Looks like your units were well north of 15% in Q4. If you look at your competitor, they had units up about 15% in Q4 as well. Could you talk a little bit about inventory out there in the marketplace? Are there any – what kind of revisions you are putting out there to make sure there is no double-ordering going on? If there's some shortages out there in the channel? Just anything on that side would be very helpful.

<A – Henri Richard>: Well, first, you know, our channel business had a record quarter but it's been the case throughout 2004, both in units and in dollars. We continue to drive a very aggressive conversion of what we call a tray processor, which are typically OEM processors to what we call product in a box, which is a retail version of our processor. That again hit an all-time high as a percentage of the total channel business. And as weeks of inventory, we exited the year at the same level that we entered the year, and we have a policy to keep our weeks of inventory between four and five weeks. So we keep a very close leash on that aspect of the business.

<Q – Michael McConnell>: You feel relatively comfortable that double-ordering at this point is not – you are not having any of those issues right now with customers?

<A – Henri Richard>: No, absolutely, absolutely not. In fact, at the very high end of the spectrum in some weeks, demand exceeds supply. It's a very strong market.

<Q – Michael McConnell>: Okay. And then another question I had was just on Sempron. Looking at kind of what happened with Q4, it was a surprise to some people. Is this looked at as – could you talk a little bit kind of what the mix shift, what went on there in Q4? I assume most of it was a mix shift to Asia. Is this something that's going to be just a one-quarter issue, or is this – do you expect Sempron sales to continue to exceed that of AMD64 and weigh on mix as we kind of get through the next two quarters or so of 2005? Thank you.

<A – Henri Richard>: Well, I think, you know, what we've seen in Q4 is really the result of a good positioning of our AMD Sempron brand. You're correct that part of the demand came out of Asia, but frankly, you know, the high growth markets of Europe were also showing very strong demand. We continued to see also very good success in Latin America, and it seems to me that in those high growth markets, you know, the Sempron brand is very well accepted and perhaps to a degree is demonstrating better value for the user than our competitor. So I don't expect that demand to go away. We obviously want to make sure that in those markets we have a proper mix and we participate in all aspects of the business, and we don't want to saturate the market with the ultra value parts. So it's a matter of managing the brand and managing price positioning of our solution.

<Q – Michael McConnell>: Thank you.

Operator: And we have a question from the line of John Barton from Wachovia Securities. Please go ahead.

<Q – John Barton>: Yes, thank you. On the topic of the Flash JV, just looking at the numbers of the operating loss and then what was shipped off to Fujitsu, it would imply, if I'm doing the math right, that the non-operating expense allocated to that division was about $3.5 million which is down significantly from, you know, low to mid-20s over the last several quarters. Can you give us some insight as to why that number's changing the way it is, please?

<A – Robert Rivet>: I'm not sure I follow your math. I mean, we continue to have shared service models between the two businesses – between AMD and the business. That has not changed very dramatically. Of course, we've tried to rein in as much cost as possible with the weak business environment. We will continue to do that on a go-forward basis.

<Q – John Barton>: The operating loss reported was $39 million. It was about 16, 17 million shipped off to Fujitsu which represents 40% of the overall loss. And this is the number I'm backing into is the difference in the operating loss and the total loss and that spread looking like it's about 3.5 million versus, again, something in the mid-20s. Am I just missing something in the math, Bob?

<A – Robert Rivet>: No, I think you got the math right. So, you know, I don't know that specific answer to your question I guess is the real issue. But we can – I think off-line we can figure that one out together.

<Q – John Barton>: Fair enough. Then on the topic of gross margins, again just trying to triangulate back into your data. My model would imply that gross margins for Flash went from somewhere in the mid-20s to, call it somewhere in the mid teens quarter on quarter. Am I in the ballpark on those numbers?

<A – Robert Rivet>: You are not wildly crazy.

<Q – John Barton>: Okay. Then finally, the $49 million charge for the debt restructuring, from a line item perspective, all in the interest and other or was that broken across multiple lines?

<A – Robert Rivet>: No, except for the 2.9 million that's sitting in the restructuring line, the rest of it's in the interest, income and other line on the P&L.

<Q – John Barton>: Okay. And, I lied, one last one. Just from the convertible interest add-back perspective, relatively zero in this quarter I believe, and then what do we look at going forward?

<A – Robert Rivet>: Zero for this quarter because we lost money. So you are not seeing the diluted share come in from the convertible. So it kind of depends on your model of how profitable you want us to be. But clearly it will be back in like it was in prior quarters. All the other quarters of 2004. But at lesser count, remember, because we did retire 200 million of the 400 million, 4 ½% security.

<Q – John Barton>: Thank you.

Operator: Our next question is from the line of Chris Danely from J.P. Morgan. Please go ahead.

<Q – Christopher Danely>: Thanks, guys. Bob, just to follow up on John's questions. So that means that you guys think you'll be profitable in Q1?

<A – Robert Rivet>: Yes.

<Q – Christopher Danely>: Great. And then just another nit on the CPU gross margin. So you think that they go up or stay flat in Q1 with the revenues of flat to down?

<A – Robert Rivet>: We think we're on a path to continue to see progression in gross margin. It's obviously easier in a growth environment of the top line than in a shrinking environment. I mean, there's no surprise in that. But with our cost reductions and as Henri said, the continued mix management to actually participate in every segment of the market, we believe ASPs can continue to move in a northward basis as they did really throughout 2004 except for the fourth quarter and therefore gross margins will improve.

<Q – Christopher Danely>: Okay. Great. And last question. On the inventories, it's getting up above 100 days. What are your plans for utilization rates in the first half of the year? Do you plan on bringing down that inventory and bringing down utilization rates or just keep running like you are right now?

<A – Robert Rivet>: It kind of depends on business. In the microprocessor business, we run every wafer we can run, maximizing the revenue for that facility based upon where we are and where we need to be for our customers. Flash, to be honest, we actually slowed down a little bit in the fourth quarter. It was a little late but we're actually reviewing that as we speak to actually be more aggressive, as Hector said, to accelerate technology migration to the 90-nanometer node, increase MirrorBit as a percentage of the total, and actually move this inventory that we have.

<Q – Christopher Danely>: Sure. So on that point it doesn't sound like the CapEx is going to change?

<A – Robert Rivet>: No.

<Q – Christopher Danely>: Okay.

<A – Robert Rivet>: Not at this point. We'll obviously continue to review it as we have, I think we've demonstrated good financial scrutiny on CapEx to try to modulate that with the business environment.

<Q – Christopher Danely>: Got it. Okay. Thanks a lot, guys.

<A – Robert Rivet>: Thank you.

Operator: And our next question is from Paul Leming from Soleil Securities. Please go ahead.

<Q – Paul Leming>: My question's been answered. Thanks very much.

<A – Michael Haase>: Operator, we're going to take two more questions, please.

Operator: Very good. And our next question is from Allan Mishan from CIBC World Markets. Please go ahead.

<Q – Allan Mishan>: Hi, can you tell us if desktop grew faster than server in unit terms this quarter, please?

<A – Hector de J. Ruiz>: Yes. We had in pure units we had slightly higher growth.

<Q – Allan Mishan>: Great. And being that Sempron, I guess, is a consumer-oriented product and Q1 is generally not the big consumer quarter, would you expect for your ASPs to trend back up in Q1?

<A – Henri Richard>: As a result of the mechanical mix, yes, we expect ASPs to trend back up in Q1. Also because we expect, as I indicated previously, an acceleration in the Opteron server sales in Q1.

<Q – Allan Mishan>: Right. Okay. Great. And just one last housekeeping one. Do you have a share count number if you did the, I guess what is it, 5 cents without the 13 cent charge?

<A – Robert Rivet>: It's right in the 4 – yeah, the number would be right in the 410 million share range.

<Q – Allan Mishan>: Okay, great. And just remind us what the break points are for when the different converts hit now that you did that change?

<A – Robert Rivet>: 9, I think it's 9 cents on the $200 million convert that's still out there and 20 some cents on the 500 million, 4 ¾. Mike will check that if you want to call Mike back, but that's in the ball – that's a pretty good ballpark. It's 8 or 9 and just maybe north of 20.

<Q – Allan Mishan>: Okay. Thanks very much.

<A – Robert Rivet>: Sure.

Operator: And our final question is a follow-up from Ben Lynch at Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Yeah, hi. Henri, it's probably a question for you. You guys have pretty consistently been gaining revenue market share from Intel the last 18 months or so and it looks like, you know, you lost some in Q4, although your unit share stayed sort of flattish. When do you think we could expect to see you guys, you know, just based on momentum and stuff, resuming your revenue share wins?

<A – Henri Richard>: Well, Ben, first I would remind you that, of course, we started from a pretty good performance in Q3 and had a high water mark. So, quarter to quarter indeed we're not pleased with the fact that we lost a bit of revenue share, but on a year-to-year basis, we still achieved a pretty good performance in Q4. As we indicated, you know, we believe that in Q1 the acceleration of our commercial segment efforts will pay dividends and, you know, of course, it's our strategy to continue to focus on gaining both revenue share and unit share and not simply unit share.

<Q – Ben Lynch>: Okay.

<A – Robert Rivet>: One other comment I'd make, Ben, just to make sure we're all – we do not have a 14-week first quarter. 2005 is not our year to pick up that extra week versus our competitor. So I just want to make sure that's on the table; you don't assume that. We are not the same. We've only got a 13-week quarter.

<Q – Ben Lynch>: Yeah. That's important as well. Thanks very much.

Michael Haase, Director of Investor Relations

Okay, great. That concludes the call. Thank you, everyone, for your participation.

Operator: Thank you. And, ladies and gentlemen, once again as a reminder, this conference is available for replay after 7:45 p.m. Pacific time today through January 28th at midnight. You may access the replay service by dialing 1-800-475-6701 and enter the access code of 765351. International participants may dial 320-365-3844 and again, use the same access code, 765351. That does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the AMD Q3 '04 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. If you should require assistance during the call, please depress "*" then "0". As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Director of Investor Relations, Mr. Mike Haase. Please go ahead.

Michael Haase, Director, Investor Relations

Thank you. Good afternoon everyone. Welcome to AMD's third quarter earnings conference call. Our participants today are Hector Ruiz, our Chairman of the Board, President and CEO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Executive Vice President of Worldwide Sales and Marketing. This call is a live broadcast and will be replayed at AMD.com and StreetEvents.com. The telephone replay number is 800-475-6701. Outside of the United States, the number is 320-365-3844. The access code for both is 749551. The telephone replay will be available for the next 10 days starting at 7:00 p.m. Pacific Time tonight.

As a reminder, AMD will be hosting its Analyst Day in Sunnyvale, California on November 12. We will be sending invitations next week.

Before we begin today's call, I would like to caution everyone that we will be making forward-looking statements about managements' expectations. Investors are cautioned that our forward-looking statements involve risks and uncertainty that could cause actual results to differ materially from current expectations. The semiconductor industry is generally volatile and market conditions are particularly difficult to forecast. Because our actual results may differ materially, from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our risk factors and our business. You will find detailed discussions in our earnings release and in our most recent SEC filings, including AMD's Annual Report on Form 10-K for the year ended December 28, 2003 and AMD's Quarterly Report on Form 10-Q for the quarter ended June 27, 2004.

With that, I will now turn it over to our Chairman, President and CEO, Hector Ruiz.

Hector de J. Ruiz, President and Chief Executive Officer

Thank you, Mike. The third quarter of 2004 was another solid performance for AMD despite challenging markets dynamics in the Flash memory business. I'm pleased to report that we delivered on our fourth consecutive quarter of operating profits. We achieved strong EPS growth. We improved the gross margin over the prior quarter and we grew our top line 30% over the same period a year ago. On another level, the quarter was one of the strongest in showcasing the three defining characteristics of what we have been calling the new AMD. Allow me to elaborate.

We lead through our customer-centric innovation approach. There is no better example than our evolutionary AMD64 technology, which offers our growing list of customers a completely differentiated, yet compatible path, to pervasive 64-bit computing. On the strength of AMD Opteron superior performance and power consumption characteristics, AMD's enterprise customer base now includes world-class companies like: Credit Suisse First Boston, Merrill Lynch, Time Warner AOL, Microsoft's Treasury, QUALCOMM, Sabre Holdings and many others. AMD64 processors now represent over one-third of our processor business, on track to becoming 50% of our processor revenues by the end of the year.

Customer-centric innovation applies to branding as well. As an example, we're very pleased with customer response to our new AMD Sempron brand around the world, and particularly in China. We created the AMD Sempron family to reinvent everyday computing and it is an important component of our commitment to deliver world-class computing technology to the broadest possible customer base. Because of our customer-centric approach, our processor business grew by 21% over the second quarter and our ASP improved. And we believe that we grew share in that period.

The second defining characteristic of the new AMD is world-class design and manufacturing performance. Construction of our new 300-millimeter Fab 36, in Dresden, is on track with production plan in the first half of 2006. We began shipping 90-nanometer processors for revenue in the third quarter, as promised. And we expect that approximately 50% of the total 8th generation wafer starts will be 90-nanometers by the end of this year. In Flash, we have completed the conversion of our Fab 25 and substantially completed the conversion of JV3 in Japan to 110-nanometer; the smallest production geometry in the NOR Flash industry.

Finally we continued to lead the industry on the path to mainstream, multi-core technology. We were the first to demonstrate an x86 dual-core processor. We have begun sampling customers with 90-nanometer parts designed to work in today's platforms. And AMD expects to be first to introduce dual-core for the one to eight-way server and workstation markets by mid 2005.

Like pervasive 64-bit technology, multi-core processing is the future. And once again, AMD is leading the industry there.

The third defining characteristic of this is new AMD is what I have referred to as the discipline of operational excellence. And I'm proud to report that despite declines in the in the Flash market, our Flash operation was not only profitable, we actually were able to improve gross margin. This is a direct reflection of the warp speed transition to a110-nanometers, aggressive cost management, as well as another solid increase in MirrorBit shipments. Across AMD, our commitment to the disciplines of customer-centric innovation, world-class design and manufacturing and operational excellence, result in strong overall operating performance and position us for success in the coming quarters.

I would like to ask Bob now to review the results of the quarter and provide comments regarding the outlook.

Robert J. Rivet, Senior Vice President and Chief Financial Officer

Thanks, Hector. As detailed in our press release earlier this afternoon, third quarter sales were $1.239 billion up 30% compared to the third quarter of last year and down 2% compared to the second quarter of 2004. The combination of a 21% sales growth in our Computation Products Group, improved Flash memory gross margin and excellent execution of our process technology transition both businesses helped drive sequential improvements in net income and gross margin percentage. Net income was $44 million, or $0.12 per diluted share, for the third quarter. These results incorporate the same tax rate from the prior quarter of 10%. Gross margin improved to 40.5% for the quarter, 2.6 percentage points above the 37.9% reported in the second quarter and a solid 6 percentage point improvement from the third quarter of last year.

As guided, third quarter marketing, general and administrative cost increased 13% from the second quarter levels as we accelerate our marketing investments across Athlon 64, Opteron and Sempron products. Cash flow from operation was $263 million for the quarter up 10% from the second quarter of 2004. EBITDA was $374 million.

Switching to our two businesses, a quick overview. I'll start with our Computation Product Group [CPG]. CPG sales were $673 million in the quarter, a 34% increase over the same period a year ago and a 21% improvement from the second quarter. Unit sales and ASPs increased compared to the second quarter. Unit sales of AMD64 processors grew by more than 50% sequentially and now represent over one-third of total CPG sales.

In addition, we successful launched the AMD Sempron processor family in the quarter, enjoying particularly solid success in China. CPG's operating income in the quarter was $89 million or 13% of sales. This represents a 53% improvement from the second quarter.

Switching to the Memory Group business, third quarter sales were $538 million, up 27% from the third quarter of 2003 but down 20% from the second quarter of this year. Flash memory sales declined due to the softness in the wireless handset market supply chain. But embedded sales remain solid. Unit shipments and ASPs declined from the second quarter. Excuse me. The Memory Group made money in the quarter with operating income at $15 million, down from the $45 million in the prior quarter. The Memory Group's gross margin improved slightly in the quarter due to the successful transition to 110-nanometer technology and increased shipments of MirrorBit technology.

Now, let's talk to the Balance Sheet. Cash balances in the third quarter at $1.2 billion, up slightly from the second quarter. Third quarter capital expenditures were $407 million up from $361 million in the second quarter. Inventories increased from the second quarter by $81 million, primarily in leading-edge 110-nanometer Flash memory technology.

Now, I would like to discuss the outlook. AMD's current outlook for the fourth quarter of 2004 is that we expect overall sales to increase driven by microprocessor sales that exceed seasonal trends and flat to up Flash memory sales.

In summary, we are pleased with our net income and gross margin progress in the third quarter and are well-positioned for the fourth quarter. With that, back to Hector.

Hector de J. Ruiz, President and Chief Executive Office

Thanks, Bob. In summary, I am pleased to report that once again, we're delivering on the promise that we have made to our customers, our partners, to our investor and to ourselves. We committed to lead the industry to pervasive 64-bit computing and we are delivering on that promise. With our superior AMD64 technology and rapidly expanding product portfolio and solid growth trajectory and a growing collection of key strategic relationships with industry leaders such as: Microsoft, HP, IBM, Sun, Lenovo and many others.

We committed to penetrating the enterprise and we are delivering on that promise. With notable enterprise caliber system deployment at Credit Suisse First Boston, Microsoft Treasury, Agere, Merrill Lynch, Phillips Electronics, QUALCOMM, AOL, BNP Paribas, Sabre Holdings. In fact, AMD64 technology is now being employed in 25 of the Fortune Global 100 companies.

We committed to building a strong portfolio brand and we are delivering on that promise. With the introduction of AMD Opteron, AMD Athlon 64, AMD Athlon 64 FX expansion, and in this past quarter the AMD Sempron processor family. We are a strong company and getting stronger.
In our manufacturing capability, which is benchmarked as best-in-class, in our design capability where we have taken a clear leadership position with our current generation of designs and our product portfolio, which has never been stronger, more diverse and better positioned in the market and in our ecosystem, which the best in our history and getting better every day, in our customer

base, which has expanded and improved globally and in terms of its strategic competition, and in our financials where we're demonstrating a pattern of sustained profitability.

And finally, in our people where we continue to attract and retain the best people in our industry to what has become a new leader in the processor and memory solution business. As with any company, AMD is only as good as the people who work here and our people have demonstrated, with a strong sense of urgency, their passion and desire to reformulate this Company into a new engine of innovation; customer-centric innovation with our own path to success.

Thank you and let me give it back to Mike Haase for the question-answer period.

Michael Haase, Director, Investor Relations

Thanks Hector. Tammy, if we could get started with the Q&A.

QUESTION-AND-ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press "*" and then "1" on your touchtone phone. You will hear a tone indicating you've been placed in queue. You may remove yourself from queue at any time by pressing the "#" key. If you are using a speakerphone, please pick up the handset before pressing the numbers. Once again if you have a question, please press "*" "1" at this time. One moment for our first question. Our first question comes from the line of Michael Masdea from CSFB. Please go ahead.

<Q – Michael Masdea>: Yes. Thanks a lot. Yes. We have been enjoying your chips here at CSFB. Thanks for those, guys. I guess the first question is on the inventory on the Flash side. Just – are we – it sounds like you're going to be burning through more of that in the fourth quarter. Does that continue into the first part of next year and when do you think that will be cleared up?

<A – Hector de J. Ruiz>: Bob, do you want to take a crack at that?

<A – Robert Rivet>: Yes. Actually, if you stand back in our inventory position, we actually depleted a lot of inventory in the first half of the year. We are actually down about 14% from the same point in time from a year ago. All the inventory we built is 110-nanometer technology. So we feel very comfortable and very well-positioned to take advantage of the wireless marketplace as it continues to evolve over the next couple periods of time. So we're very confident, we're in great shape to really take advantage of the marketplace.

<Q – Michael Masdea>: Great. Thank you.

<A – Hector de J. Ruiz>: I'll add to just Bob's comment, just a little bit, is that, obviously, with the technology we have in place and the going with a healthy inventory position into the quarter, we intend to be aggressive.

<Q – Michael Masdea>: Great. And on the manufacturing side real quick, I think changes on the 300-millimeter plan with some of the kind of outlooks for next year may be a little bit more cautious, or are you still pushing forward on the same timeframe?

<A – Hector de J. Ruiz>: We're not changing our plans at all. We're doing it as fast as we can and we're on plan at the moment.

<Q – Michael Masdea>: Great. Just a last question on the cost side. Your cost declined more than your revenue. You talked about MirrorBit and 110-nanometer, is there anything on the processor side that helped you do that in the quarter?

<A – Robert Rivet>: A continued expansion of the 90-nanometer. We started the conversion in May, shipped our first product in the July August kind of timeframe and that continues to evolve as time goes on. Plus, we continue to enjoy world-class yields in both the 130-nanometer and in the 90-nanometer node.

<Q – Michael Masdea>: Great. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Tim Luke [Lehman Brothers]. Please go ahead.

<Q – Tim Luke>: [Inaudible] give us a sense of the percentage of the business that has now moved to MirrorBit and give us a sense in terms of – regionally, I think you've spoken earlier about China being an area where there were some issues. Give us some color there? Thank you.

<A – Hector de J. Ruiz>: If you wouldn't mind repeating the second part of the question. I lost it.

<Q – Tim Luke>: Can you hear me, Hector?

<A – Hector de J. Ruiz>: Yes.

<Q – Tim Luke>: I am sorry. The question just related to MirrorBit as a percentage of the Flash business now. And also I think previously you had commented on some issues you said with China in the wireless area. Could you give us any sort of regional color in terms of how you're seeing Flash demand?

<A – Hector de J. Ruiz>: I'll make some comments and welcome Henri to add whatever he would like. First of all, we continued to ramp and move aggressively to a shift towards MirrorBit because, of course, as we've said before, it's a great technology with great performance and great cost. We expect to, in terms of bits shipped, that we could go out of this year with 50% of bits being shipped in the embedded space in MirrorBit. And by the end of this year, 50% bits for all Flash being MirrorBit. So we are in a fairly good ramp. As a matter of fact, this quarter versus last quarter, we had a double-digit growth in units relative to MirrorBit. We are pleased with that and that performance. And relative to China, if you are referring to the fact that we made two comments relative to China, one, we did well in China in the processor side and that was −

<Q – Tim Luke>: Right.

<A – Hector de J. Ruiz>: − because there was a lot of acceptance of the introduction of Sempron in China. It was received very well. It was a product that they actually − it met the needs and exactly hit – right at the time of things they wanted to do and we did very well there. Henri, would you like to add anything to that?

<A – Henri Richard>: Just a clarification, Hector. You said that in terms of MirrorBit shipments, we'll be at over 50% for the embedded space at the end of 2004 and we'll be at 50% overall at the end of 2005.

<A – Hector de J. Ruiz>: Okay.

<Q – Tim Luke>: Could you also, Hector, just secondly, just with respect to the processor side, you talked about the seasonal outlook for the fourth calendar quarter. Could you give us – I think you sort of said microprocessor is above seasonal trend. Could you just clarify your commentary there? Is that because of your share gain or any commentary on this – the turn of the overall market? Thank you.

<A – Hector de J. Ruiz>: Let me ask Henri to make some comments about the market I think are appropriate.

<A – Henri Richard>: Well, clearly in the microprocessor side, which is your question, we're seeing continued acceptance of the AMD64 architecture, particularly in the enterprise as was outlined with significant wins in mainstream enterprise business during Q3. We intend to continue to see this trend accelerate. And so we think we can gain share in the fourth quarter of this year.

<Q – Tim Luke>: Thank you.

Operator: Thank you. Our next question comes from the line of Hans Mosesmann from SoundView. Please go ahead.

<Q – Hans Mosesmann>: Yes. If you can clarify the last statement regarding enterprise, are you implying that it's Opteron that is driving better the than expected acceptance of the 64 architecture?

<A – Hector de J. Ruiz>: It's across all of the AMD64 products - but clearly for the Opteron product which is an enterprise product, it is that segment. But we're also enjoying significant growth quarter-to-quarter on both the mobile Athlon 64, the desktop Athlon 64 and the Athlon 64 FX.

<Q – Hans Mosesmann>: And I have a follow-on on the wireless market. If you can comment on seasonality or any inventory situation in the various markets that you participate in? Thanks.

<A – Hector de J. Ruiz>: The wireless market is − this is going took be a little bit of a lengthy answer. It's important to put it in perspective. We think that the hand cell – the cell phone market is actually a healthy market this year. We think it will have a reasonably good growth year-on-year. However, I think that the cell phone manufacturers' expectations probably were a bit higher than just a good market. And as a result, in the first and second quarter of this year, there was a concern that there were not enough Flash capacity available to meet the needs of those customers. As a result, what I did, I think it triggered some conservatism in purchasing on the part of these cell makers. But it was particularly compounded on the second and third tier players, that of course they feel that the fear that they might get left behind and they not only double order but they triple order. And so we believe that in the second quarter, there was an accumulation of inventory that was unreasonable, particularly in the second and third tier players, which seem to be very focused in indigenous cell makers in China. And the indigenous cell manufacturers in China ended up then compounding the situation because of the Chinese government decided to curtail economic activity. And that had a profound effect on them too. So when you combine those two effects, the Asian market was actually really affected. And I am to be fortunate that the last three weeks of the quarter I spent in Asia, mostly in China. And I personally talked to CEOs of various cell phone companies and processor companies and I got a very strong feeling of how severe it was. The combination of inventory accumulation as well as the curtailing of economic activity really had an impact on these folks. However, having said at the same time, they also felt like towards the end of September, they began to see a somewhat of a recovery of purchasing pattern. And although it wasn't as strong enough to really affect or have any impact on the third quarter, it is encouraging for us that we're going into the fourth quarter with some activity pick up in those areas that were severely affected. And for that reason, we have cautious outlook in the fourth but optimistic that if the market is there and they did indeed recover and the supply chain logistics get fixed, we'll do well.

<Q – Hans Mosesmann>: Okay. Thank you very much.

Operator: Thank you. The next question comes from the line of Mark Edelstone from Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Good afternoon, guys. Couple of questions on processors, if I could? The first one is, what was the change in Athlon units in the quarters; those increased or decreased sequentially?

<A – Henri Richard>: Was that – is that an Athlon 64 question or an Athlon XP question?

<Q – Mark Edelstone>: That was basically the Athlon XP.

<A – Henri Richard>: There was obviously a decrease – a significant decrease in Athlon XP as we're end-of-lifing that product line.

<Q – Mark Edelstone>: Okay. Great. And then I guess for Hector or Bob, obviously, you were able to improve your profitability in processors but the incremental margins there were perhaps less than what one might have suspected given the strong growth you had in revenues. Is that largely because we've yet to really see the positive impact of the transition to 90-nanometer at this point in the AMD64 and Opteron product lines?

<A – Robert Rivet>: A combination of two things, Mark. One, yes, we're still the early phases of transitioning to 90-nanometer. But two, we also spent a fair amount of money. Almost all of the increase, the $20 million increase you're seeing quarter-on-quarter in sales and marketing went against the microprocessor business, as we did some pretty aggressive campaign and work to – for Opteron, Athlon 64 and the Sempron brands.

<Q – Mark Edelstone>: Okay. And then just lastly, it looks like there is a restatement of some of the Balance Sheet items in Q2 relative to the Q that you put out. Can you walk through that if that is the case?

<A – Robert Rivet>: Boy, I'm not aware of that.

<Q – Mark Edelstone>: Then maybe we can just take it offline then.

<A – Robert Rivet>: Yes. We'll need to take it offline.

<Q – Mark Edelstone>: Okay guys. Thanks a lot.

Operator: The next question comes from the line of John Lau from Banc of America. Please go ahead.

<Q – John Lau>: Okay. Thank you. I wanted to take another try at the PC question. I was wondering what do you believe is a typical PC seasonality for Q4 in your expectations? And while you may be growing faster than the seasonal, is the overall market fairly robust and seasonal at this point? And I have a follow-up. Thank you.

<A – Henri Richard>: We believe the traditional seasonality is between 10% and 12%.

<A – Hector de J. Ruiz>: I would like to add to that is that going forward, it may not be as meaningful for us sometimes to talk about seasonality as it applies to us. We've now departed significantly in terms of architecture products, features, et cetera. For example, we had a very healthy back-to-school activity for us. We felt good, very positive about it. I'm not so sure that that was exactly in line with general trends. And being this small, in terms of dollar share, being at 10% or less of the dollar share, frankly, what we see may be more applicable to what we see for AMD rather than for the industry. And so, therefore, given the momentum we're building on penetration in the enterprise, which we still believe will let us gain share and go out of the year at a healthy number that we communicated before, and the acceptance of the AMD64 technology in the client space has positioned us to have a very optimistic outlook this quarter.

<Q – John Lau>: Great. And in terms of the follow-up, based on what you see in the channel there, do you believe the inventories for PCs in the channel are seasonally normal at this point, or do you see any issues?

<A – Henri Richard>: We don't see any issues at all. In fact, in certain aspects, there were some shortages that we've heard happened in the market for chipsets in Taiwan. So it looks like the whole supply chain, starting from chipsets going to motherboards, is very healthy.

<Q – John Lau>: Great. Thank you very much.

Operator: Our next question comes from the line of Andrew Root from Goldman Sachs. Please go ahead.

<Q – Andrew Root>: Thanks. I had a question on brand positioning. I think you mentioned that the Athlon XP, obviously being phased out with the Sempron launching, are there any campaigns or anything planned to transition that in the customers' mind? On the retail side, the XP brand has been very successful, launched with great fanfare in '99, 2000. Just curious, what's planned?

<A – Henri Richard>: Well, there is a extensive campaign that's ongoing since the beginning of the summer. Clearly, we recognize the strength of the Athlon XP brand. But as you know, we ended up in a situation where we were competing with a single brand against our competitor's two brands.

<Q – Andrew Root>: Right.

<A – Henri Richard>: So what we started at the beginning of this year is a repositioning in order to be able to be aggressive in the value segment with a brand positioned appropriately, and that's Sempron, and to compete head on with the Pentium brand with our Athlon 64 product. And frankly, part of the successful result is this increase in ASP that we've seen because we're now competing appropriately against the two brands. The Athlon XP was very solid but ended up being a tweener in certain markets and that was affecting our ability to position properly.

<Q – Andrew Root>: And then I guess sort of six to 12 months from now as the desktop moves to Athlon 64, the XP gets phased out. So a year from, we won't be talking about it?

<A – Henri Richard>: No. The XP phase out is much faster than this. We don't expect to have any significant Athlon XP shipments beyond Q1 '05.

<Q – Andrew Root>: Okay. That makes sense. And then one quick follow-up on inventory, just wondering if you can give us a sense if the days inventory is higher on Flash side, which I think it is? And then if you sort of step back and say, you have 99 days inventory, Intel has 90, how does this eventually resolve itself because they're trimming production? Whether they're successful bringing in inventory, and I don't know. But is this just a level we can run at for awhile until demand gets better, or does this need to – does this have to resolve itself some other way?

<A – Hector de J. Ruiz>: I don't – we're not concerned about the inventory at this point in time. As Bob pointed out in the comments, we actually were concerned in the second quarter we didn't have enough when we thought there was a severe shortage. And we are right now, even today, we're still at 14% below of where we were a year ago, in Flash. In processors, it's an entirely different story. Frankly, we are able – really fortunate that we're making every product we make has a highly desirable SKU and a highly desirable 'bin.' And so we're not at all in any way concerned of inventory from the microprocessor side. I think if the market does what we hope it does, and I mentioned earlier that supply chain logistics issues on the cell phone business get sorted out in the fourth quarter, we're pretty solidly positioned to gain share.

<Q – Andrew Root>: Okay. Thanks.

Operator: Thank you. Our next question comes from the line of Krishna Shankar from JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes. In the processor business and the AMD64, did you have good growth both in desktops and notebooks Q2 to Q3? And also going into the fourth quarter, will – did you say more than 50% of your processor production will be on 90-nanometer?

<A – Henri Richard>: I will answer the first part of the question. We had a double-digit growth in both mobile and desktop Athlon 64 processor.

<A – Hector de J. Ruiz>: And in terms of the 90-nanometer, we expect going out of the year to have over half of our wafer starts to be 90-nanometer AMD64.

<Q – Krishna Shankar>: Okay. And for the Flash market, it sounds like most of the shortfall was because of cell phone, finished goods inventories. Can you talk about the pricing environment in the in Flash market both for embedded, low-density Flash and high-density Flash applications?

<A – Henri Richard>: Sure. I mean the market is competitive. There were some irrational pricing that happened at the beginning of the quarter as people were facing the softness. Frankly, if you look at our situation, we had a slight decline in ASP but that's normal because we intended to be competitive and we are leveraging our 110-nanometer technology. Overall, there wasn't a disaster. And as Hector pointed out, as the supply chain clears out and I think the market returns to a more positive tone, we will then continue to see a competitive environment but no particular concern on the front of ASP.

<Q – Krishna Shankar>: And finally a more sort of strategic question. You had a phenomenal processor quarter but obviously the response in the market has been dampened by what's happened in the Flash market. What are your thoughts on in terms of unlocking shareholder value for the spectacular performance you've had here in processors versus a more volatile environment in the Flash market which seems be to commoditizing more rapidly?

<A – Hector de J. Ruiz>: Well, first of all, we have a long-term view of the investments we're making in the Flash memory business. We're not going to let a one quarter blip in performance to obscure the vision of our future. And we have a tremendous confidence that this is a fast-growing market, pervasive in its applications for a very unique technology that is unique. Nobody else has it. We believe that we can go a lot of exciting things. So we have a lot of faith in that and on the long-term, I believe this is going to be a way in which shareholder value will be created.

<Q – Krishna Shankar>: Thank you.

Operator: Our next question comes from Ben Lynch from Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Hi, guys. I must congratulate you in a very difficult environment for really such a good quarter. I also have two questions. I'll just take one at a time, if that's okay? Back to the seasonality thing that people have been on about and how you sort of define it, when I look in the last seven years, in six of them it looks like you've had processor growth of 13% or above. And in fact, in several of the years, significantly higher than that. Is that a good sort of framework for us to be thinking about what you mean by seasonality this year?

<A – Hector de J. Ruiz>: I don't believe so. I believe that this, frankly, we don't know. I mean, that's the truth. We believe the market in the fourth quarter will be better than the third quarter. And it is our belief that in an environment like that, we will do better than the market. But frankly, we don't – I think the world has changed a lot where seasonality discussions are not as appropriate. Henri?

<A – Henri Richard>: Yes. A couple of comments, Ben. Historically, this data that you've indicated may be right but you have to keep in mind that there are two factors that have changed at AMD. First, we have a growing part of our revenue in microprocessors that's derived from enterprise and commercial business. And second, a fast growing part that's coming from strategic accounts. And so some of the seasonality that we saw in the past was really related to more of a consumer based business than we were evolving towards. And so I'm not sure that the past models are going to be as relevant going forward.

<Q – Ben Lynch>: Okay. Great. And then the follow-up question I had was clearly you guys have been showing consistent share gains now against Intel and Intel is a tough competitor. They never like to lose share for long. Realistically, what things are you guys worried about that they might do or can do in both the short-term and the medium-term to at least attempt to turn things around?

<A – Hector de J. Ruiz>: At the risk of sounding flippant, which I don't mean to, we worry a hell of a lot more about what our customers really want from us and what they are expecting and making sure that we're turning this place upside down to do that for them. And I think if we do that well, there is less of a risk of our competitor doing anything that could harm that situation. So, yes. You have got a gorilla that's big and can do a lot of other things but our focus and our energy, believe me, is totally, totally focused on trying to understand how we can serve the customers and a lot less just to worrying what the competitor may or may not do because we don't know.

<Q – Ben Lynch>: Okay. And you just said you're in a stronger position now than in the past where it's – you've got your own destiny more in your own hands than you have in the past and you are going to focus on customers to make sure that remains so.

<A – Hector de J. Ruiz>: Yes. And across the board, if you look at Flash and microprocessor both, you have products that are unique. Technology that's different. Differentiating products. And we believe we have created a situation where it's our execution and how well we can meet our customer needs and demands that will determine our success.

<Q – Ben Lynch>: Thank you very much.

Operator: Our next question comes from the line of Kevin Rottinghaus from Midwest Research. Please go ahead.

<Q – Kevin Rottinghaus>: Yes. I didn't catch this. Did you give any guidance on operating expenses in the quarter?

<A – Robert Rivet>: No. We did not. But I'll give them to you verbally. Everything should be relatively flat except continued investment in the SG&A category for the branding efforts and marketing investments on Opteron, Athlon 64 and Sempron brands.

<Q – Kevin Rottinghaus>: Okay. Second question, can you give any kind of scope or do you have any thoughts on where handset densities are or how much they are increasing quarter-over-quarter as people continue to move to high-end phones?

<A – Henri Richard>: Well, clearly, I can give you our average. We had a single-digit, about 5% increase on average density. The sweet spot right now for handset is moving from 32 to 64 meg.

<A – Hector de J. Ruiz>: And just to add to that, it appears that just a little over a year ago, the average density in megapixels in the phone was less than one megapixel per phone. We are now entering 2005; so with that beginning to approach too. And we believe that shortly after that we should see in the year 2006 probably phones with four megapixels which is thoroughly indicative of the acceleration of the density in Flash.

<Q – Kevin Rottinghaus>: Okay. And I guess my last question on that note, can you talk at all about the threat from NAND over the longer term becoming the Flash of choice going into handsets?

<A – Hector de J. Ruiz>: I think what customer is going to look for is what product solves their needs, what – what is – provides the features, the cost, the things they're looking for. NAND happens to be a technology. It's not a product, like NOR is a technology. We've stated before, and we'll continue to do this and we're going to do it in more detail in the Analyst Meeting coming up next month, it's – that's the technology that we've created, although it's perceived to be only a NOR technology, MirrorBit actually is going to be providing NAND-like features with improved performance and cost. And therefore, we believe we'll be able to be a player in all of those areas where NAND today is beginning to play a big role.

<Q – Kevin Rottinghaus>: Okay. Thank you.

Operator: The next question comes from the line of Michael McConnell from Pacific Crest Securities. Please go ahead.

<Q – Michael McConnell>: Thank you. Hector, I just wanted to kind of clarify a couple of comments. You had said that obviously in China, you are starting to see some stabilization, some reordering. Yet, you were planning on being more aggressive. Was that just meaning being more aggressive with market share – trying to take market share in Q4 because of the shrink to 110-nanometers or is that something with pricing?

<A – Hector de J. Ruiz>: More along the lines of the fact that in the second quarter, we were a little tight on supply. And as we migrated to 110-nanometers, we have a much more breadth of product and capabilities to serve other customers and needs. So we're going to go out to aggressively gain share.

<Q – Michael McConnell>: Okay. And then just one question on the gross margin side, maybe for Bob, looking at obviously the growth you're going to be expecting in CPG, now looking at Flash kind of stabilizing the growing, maybe low single-digits, we should probably assume a pretty sizable bump in gross margin in Q4? Any kind of color there would be helpful. Thank you.

<A – Robert Rivet>: Well, we continue obviously you saw the impact of the shift in mix of business toward more processors, less Flash. We continue to be almost – microprocessors is twice as large gross margin than the Flash business. So as you model forward and put more CPG in than Flash, yes, indeed, the gross margin of the Company will go up. But to – I want to make sure it's clearly noted, we continue to make progress in gross margin in the Flash business as a standalone business. We've been on that kick for quite awhile and we will continue to make progress in that business to improve the gross margin and maybe actually even close the gap between the distance between microprocessor and Flash.

<Q – Michael McConnell>: Thank you.

Operator: Thank you. Our next question comes from the line of John Barton from Wachovia Securities. Please go ahead.

<Q – John Barton>: Thank you very much. Bob, you made a comment when you were asked about operating expenses that things will remain flat with the exception of SG&A, continuing spend for promotion, et cetera. Is that to imply that, just looking at it real quick, it looks like you ramped about $24 million – and absolute dollars sequentially in Q3. Does that type of ramp continue into Q4 and does it get rolled back post Christmas or post Chinese New Year? How do we think about that trend line longer term?

<A – Robert Rivet>: Yes. I mean we are into a big season, a very big retail season from that standpoint. So there is a lot of increased cost. So modeling that same kind of growth quarter-to-quarter is fine. As we've demonstrated in the past, though, that will retract a little bit in the first quarter as we move forward.

<Q – John Barton>: Okay. And then also on the Memory side of the house, it looks like the non-operating expenses have declined for an actual number of about 22.5 million in Q3 over 28.5 in Q2. First, if my math is right and if not right, please correct me. But trend line going forward, is there anyway we can think about that?

<A – Robert Rivet>: Well, we will continue to make – I mean we continue to make cost reduction progress in the Memory business. So while that was a fairly steep movement from quarter-to-quarter, because of converting 110-nanometer, as Hector said, we're almost complete with that movement. So obviously, the line flattens out a little bit on progress. But we will continue to make progress.

<Q – John Barton>: Then last question, if I could? Convertible interest add back in the quarter is, I believe, about 4.2 million and any comments on the trend line of that going forward, please?

<A – Henri Richard>: No. That's – right now, obviously, it's in the money. If we could, it would be soft callable but that position doesn't start until December of next year to be able to soft call it. So I would continue to assume that interest will be there.

<Q – John Barton>: Thank you.

Operator: Thank you. Our next question comes from the line of Chris Danely from J.P. Morgan. Please go ahead.

<Q – Chris Danely>: Thanks, guys. You said on the CPU business, both the units and ASPs were up sequentially in Q3. Can you give us a sense of did units increase more than ASPs or vice versa?

<A – Robert Rivet>: They both increased in double-digits. And the only thing I will tell you is units increased slightly more than ASP.

<Q – Chris Danely>: Okay. And can you give us a sense of the relative increase in units and ASPs or your expectations for Q4?

<A – Henri Richard>: Well, I think that we'll, obviously, see an increase in the units. And as far as ASP, as the mix continues to move towards our new generation of Opteron, Athlon 64 products, we should see another slight increase in ASP.

<Q – Chris Danely>: Sure. And then moving over to the Flash side, did you say you expect Flash pricing to stabilize/go up sequentially in Q4?

<A – Henri Richard>: No. I said that we expect the environment beginning to be challenging. And also, as Hector pointed out, we have our 110-nanometer technology which allows us to be aggressive in the market to gain share. So I believe that we will continue to see a fairly competitive environment on the pricing side.

<Q – Chris Danely>: Okay. And then assuming Q4 goes as you guys expected, what you thinking on CapEx for next year?

<A – Robert Rivet>: I'm not ready to talk about that but we will talk about that at the analyst conference in mid-November.

<Q – Chris Danely>: Okay. Great. Thanks, guys.

Operator: Thank you. Our next question comes from the line of 'Dave Lefue' from UBS. Please go ahead.

<Q>: Yes. This 'Steven Lisque' for Tom Thornhill. You've answered most of the questions. I just have one regarding this other category. We haven't spoken about that. But it seems to be an increasing drag on earnings. What are your plans in terms of business to reverse those trends?

<A – Hector de J. Ruiz>: There is a piece of that. There are two pieces to that. One, there is a – it's almost an incubating place for new businesses and I'll talk about that a little bit. But there also, we put other costs in there that have nothing to do with that and I'll ask Bob to comment on that.

First of all, we got some pretty exciting things in our x86 dual-core strategy. We are going to be fairly public and disclose that this quarter, the fourth quarter. We're very excited about some of the things we're doing with the x86 technology in low cost, low power activities. We think that has an awful lot of potential for us as a Company. It leverages the investments we've already made and it really puts us in a position that we can have a phenomenal leverage on technology and the customer relationships that we have built. So I have a pretty – very high hopes that that will turn out to be another element of our strategy going forward that will grow well and fast. But in addition in that category, we also dumped a lot of costs in there that are different than just that business. Bob?

<A – Robert Rivet>: Sure. Actually, it's not that many costs. It's really more corporate oriented costs really driven on bonuses and profit sharing. So with those kind of costs associated, the results of the corporation versus the results of an individual business. Obviously, as we make more money, those numbers would go up but, obviously, our game plan is to fix the business and actually generate a lot of sales and profits from the other business that Hector just talked about to cover those kind of costs.

<Q>: And the expected timeframe for that?

<A – Hector de J. Ruiz>: Well, this is the business that today it's, as we've said, an investment business. So we expect that business to not lose money next year.

<Q>: Thank you.

Operator: Thank you. Our next question comes from the line of Cody Acree from Legg Mason. Please go ahead.

<Q – Cody Acree>: Thanks. You mentioned earlier that Flash profitability, on a gross margin standpoint, would likely be making some trends towards processors. With the pricing pressure, with the continued expansion of capacity in that space and obviously, a lot of competition but yet your improvements in manufacturing technologies, where do you see a longer-term sustainable operating target, if not a gross margin target, for Flash memory?

<A – Robert Rivet>: >: First, one correction. We are continually working on cost reduction in the Memory business to improve its gross margin, to try to close the differential between the microprocessor business and the Flash business. But we have no expectation that the Flash business will actually get to the margins of the microprocessor business. But one, I just want to make sure level is set there. Our long-term game plan is that business needs to be in the 30 to 35% range in gross margin which would translate into a 15 to 20% operating income. So that's kind of the model we think a very healthy world-class memory organization should be driving to on a continuum. And clearly, it's a technology game. Pennies count and you have to drive – be the technology leader to make sure you take every penny out of the system and share it with your customers to continue to have enormous market share and the appropriate return on investment.

<Q – Cody Acree>: Are you assuming in that 15 to 20%, I would assume a pretty aggressive pricing environment or is that – does that negate some of those profitability objectives?

<A – Robert Rivet>: No. We – unfortunately, the – because it's called memory, it's always aggressive pricing environment. So we have to always assume it will be an aggressive pricing environment and that there will be – occasionally that will change when there is supply demand imbalance. But most of the time, it is cost per bit continues to go down, period decimal point.

<Q – Cody Acree>: And then lastly with Sempron ramping in, obviously, doing very well in the 64-bit side, do you get some bump out of the Sempron pricing or the Sempron gross margin initially or does that start to have some maybe negative impact to the 64-bit improvement in margins over time?

<A – Henri Richard>: Well, clearly the Sempron product is aimed at the value space. And, as Hector pointed out, we have a lot of market share gain potential in that space, as well. But our focus is to build an enterprise business. So we're going to continue to put all our efforts in building a very strong Opteron brand. Continue to gain share in the Athlon 64 and Athlon 64 FX space. We have some opportunities in the mobile space, as you know. We're using Sempron strategically to make sure we respond to customer needs in important markets where the Sempron value proposition is the best suited to the customers.

<Q – Cody Acree>: Great. Thanks guys.

<A – Michael Haase>: Tammy, we're going to take two more questions, please.

Operator: Thank you. Our next question comes from the line of David Wong from A. G. Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. Spending on your 300-millimeter fab, I think originally you had a number like – was it 2.4 billion? Can you tell us how much of your cumulative spending has been invested already, how much is left to go and roughly how that will be divided over the next several quarters?

<A – Robert Rivet>: Sure. Yes. You have the number right. The initial investment we're still working to, is about 2.5 billion. 600 million of that is for the building. The rest is in equipment. Our spend rate this year is around 600 million. We've probably spent in the order of 250 million so far to date. Obviously, the building is coming toward the end. We will actually start receiving equipment in December. Next year, will be a fairly large ramp of equipment which is effectively the first tool set that will go in. And so you can plan for around the same kind of number of about 600 million next year as a thought process. Again, I'll give more clarity on this in November. And then the balance fills into '06, '07 as you continue to fill out the equipment line.

<Q – David Wong>: Great. Thank you very much.

Operator: Thank you. Our last question comes from the line of Allan Mishan from CIBC. Please go ahead.

<Q – Allan Mishan>: Hey, guys. I'm not going to ask you to give any March guidance but I would just ask that based on the ASP trends that you expect to see, because 64-bit is really ramping up as a percentage of your mix, if March is seasonally down in unit terms, do you think that ASPs will rise enough to offset that? Thank you.

<A – Henri Richard>: My crystal ball doesn't go that far. I'm sorry. You're right in stating that we expect to continue to see our AMD64-based processor to represent a larger mix. But we're enjoying also a very strong Sempron acceptance in the marketplace. So for me to give you two quarters out a balance between the two brands and how it's going to affect ASP is impossible.

<Q – Allan Mishan>: Okay. Then, if I could try another question? I just want to ask you the Intel question maybe in another way. If you look at their inventories that they say they are going to try and get off their books in this coming quarter, it's $700 million over the last two quarters. That's larger than you entire Computation business. With that coming into the market, can you talk about what you think insulates you from the types of levers that they have as monopolist that they've shown they can be to prevent adverse effects on your ASPs or certainly on your unit shipments because you're dual sourced for a lot of stuff you do? Thank you.

<A – Hector de J. Ruiz>: Well, first of all, as I said before, that's been a good question that you should ask them what they plan to do. I have no idea what they plan to do. Let me tell you what we are going to do. We continue to put efforts in really making sure that we execute to the plans that we have and get the products out that we need that our customers really want. I believe that we're now differentiated enough that we're not second source or compatible. And therefore, we're now addressing different needs, differentiated products in different markets. What they do, frankly, I think it's appropriate for them to ask them. Now what we're going to do, we're going to stay focused and continue on the path to improve our Athlon 64, and our Opteron brand, our Sempron activity. And I think the momentum and progress that we have is one that gives us confidence that we'll continue to gain and do well and particularly in this next upcoming quarter.

<Q – Allan Mishan>: Great. Thank you very much. Nice quarter.

Michael Haase, Director, Investor Relations

And thank you everyone for participating in the call.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to AMD's Q2 '04 Earnings Conference Call. At this time, all participant lines are in a listen-only mode. Later, we will conduct a question-and-answer session with instructions being given at that time. If you should require any further assistance, please depress “star”, then “zero” and we will assist you offline. As a reminder, this conference call is being recorded.

I'd now like to turn the conference over to the Director of Director of Investor Relations, Mike Haase. Please go ahead, sir.

Michael Haase, Director of Investor Relations

Thank you and good afternoon everyone. Welcome to AMD's second quarter earnings conference call. The format of the call today will include prepared comments followed by Q&A. The participants are Hector Ruiz, our Chairman, President and CEO; Bob Rivet, our Chief Financial Officer; Henri Richard, our Executive Vice President of Sales and Marketing. This call is a live broadcast and will be replayed at amd.com and streetevents.com. The telephone replay number is 800-475-6701. Outside of the United States the number is 320-365-3844. The access code for both is 736792. The telephone replay will be available for the next 10 days starting tonight at 7 p.m. Pacific Time.

Before we begin the call, I would like to caution everyone that we will be making forward-looking statements about management's goals, plans and expectations. As you know, the semiconductor industry is generally volatile. Our product and process technology development projects and our manufacturing processes are complex. Current worldwide economic and industry conditions make it especially difficult to forecast product demand at this time. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our risk factors and our business. You'll find detailed discussions in our most-recent SEC filings, including AMD's Annual Report on Form 10-K for the year-ended December 28, 2003 and AMD's Quarterly Report on Form 10-Q for the quarter ended March 28 2004.

With that, I'll turn it over to Hector Ruiz, AMD's Chairman, President and CEO.

Hector de J. Ruiz, Ph.D., Chairman of the Board, President and Chief Executive Officer

Thank you, Mike. The second quarter continued a very important trend for AMD, delivering on our promise of sustained profitability. This was our third consecutive quarter of operating profits with solid contributions from both our Memory and Computation Products Groups. We continue to demonstrate the three important fundamentals that define this new AMD: the strategy of customer-centric innovation, world-class design and manufacture and performance and a strong discipline of operational flexibility. This three-part approach is generating a strong positive momentum across our Company and in the markets that we choose to serve.

Our Memory Group set another record for sales in the quarter, with strong growth in every region in both wireless and embedded segments. Products based on our revolutionary MirrorBit technology continued to earn strong customer acceptance. We remain on track to doubling bit capacity in our Flash memory business by the end of the year. And our ramp to 110-nanometers technology in each of our leading-edge fabs continues on plan. And in line with growing market demand, we begun production of our first 110-nanometer MirrorBit product in the second quarter, and AMD is the first to have commenced NOR Flash production below this 130-nanometer level. In only one short year of existence, our expansion operation has taken the number one position in NOR Flash market. We have grown dramatically in each major segment, and we have doubled our revenues year-on-year while keeping our headcount relatively flat in that timeframe.

In our microprocessor business, our focus on penetrating segments of most strategic value to our customers is progressing well. Both our server and mobile franchises grew at a healthy rate quarter-on-quarter and they continued to be the fastest segments of growth in our processor group. Our AMD Opteron processor family is redefining the competitive landscape of the four peak category in servers. And as announced, we plan to lead the way to dual-core processor and solutions for the x86 server and workstation markets in mid-2005 and for high-end client PCs later that year.

With the recent launch of our AMD Japan Engineering Lab, we underline our commitment to serve the unique customer requirements of the mobile segment, as well as those of the Japanese market. We now count hundreds of computer manufacturers as AMD64 customers worldwide, including four of the top five OEMs in the industry. And we were pleased to add China's Lenovo Group to our stable of world-class customers and to report that Lenovo systems, based on AMD Athlon 64 processors, are already well received in that vibrant and expanding market. AMD64 technology is being implemented by a growing number of global enterprises and Fortune 500 companies, including 2 of the leading financial institutions in the United States, 2 of the Top-5 Internet infrastructure leaders, and 5 of the Top-10 international players in the automotive industry, as well as one of the largest lab sciences companies in the world. The AMD64 ecosystem is taking off and our customers and their customers are delighted with the performance, reliability, simplicity, and security advantages of solutions based on AMD64.

Our transition to volume 90-nanometer production is proceeding on plan. We began 90-nanometer volume production in May and we're on target to ship 90-nanometer microprocessors for revenue this quarter. In addition, construction of our new 300-millimeter Fab 36 in Dresden, Germany is on track, with production planned in the first half of 2006.

Across AMD, our customer-centric innovation approach is working in the growing list of markets we choose to serve. We continue to demonstrate world-class design in manufacture and performance in each of our core businesses and we remain committed to the discipline of operational flexibility across and throughout the organization.

At this point, I would like to turn this over to Bob Rivet to review the results of the quarter.

Robert J. Rivet, Senior Vice President and Chief Financial Officer

Thanks Hector. As detailed in our press release earlier this afternoon, second quarter sales were $1.262 billion, up 96% compared to the second quarter of last year, and up 2% compared to the first quarter of 2004. In what is typically a seasonally down quarter, this was an all-time quarterly sales record for AMD.

Major highlights for the quarter were: One, solid profitability highlighted by a more than tripling of the Memory Group's operating income, and two, very strong growth in our next-generation technologies, as demonstrated by record Spansion Flash memory sales and a greater than 50% quarter-on-quarter sales increase of our AMD64-based processors from the first quarter. The combination of top line growth and solid execution resulted in another profitable quarter, with net income at $32 million or 9 cents per diluted share for the second quarter. These results incorporate a tax rate of 10%, double the rate applied from the first quarter.

Operating income was $72 million in the quarter and an improvement of 11 million from the first quarter, representing a 44% fall-through on incremental sales. This improvement was driven by higher sales, strong execution of the Company's technology transitions and solid manufacture and performance. Compared to the second quarter of last year, operating income improved by $196 million on $617 million of incremental sales, a reflection of our operational flexibility strategies we put in place over a year ago.

Gross margin was 38% for the quarter, equal to the first quarter and a 4-percentage point improvement from the second quarter of last year. Below the operating margin line are two noteworthy charges to point out. One, the foreign exchange loss of approximately $6 million was recorded in the interest and other income line and, two, an expense of $6.5 million for minority interest, reflecting the significant profit improvement in our Spansion operation this quarter. Cash flow from operations was a positive $240 million for the quarter, which represents our fourth consecutive quarter of delivering positive cash flow from operations. EBITDA was $353 million.

Now I'll switch to the business overview for the quarter. First, I'll start with our Memory Group. In the second quarter, sales grew to $673 million, up a strong 220% from the second quarter of 2003 and up 7% over the first quarter. Spansion Flash memory sales grew in all major regions and across both the embedded and wireless segments driven by continued strong demand from Tier 1 customers. Memory Group tripled its operating income to $45 million; this is a $31 million improvement over the first quarter, on $45 million of incremental sales for a 69% fall-through. Memory Group's gross margin improved a couple percentage points in the quarter, due to the successful transition to 110-nanometer technology and benefit recognized from the integration of the AMD and Fujitsu Flash memory businesses.

Computation Products Group, sales were $554 million in the quarter, a 36% increase over the same period a year ago and a slight decrease from the first quarter. Unit sales were slightly higher in the second quarter compared to the first and ASPs were modestly lower. Sales of AMD64-based processors grew by more than 50% sequentially. CPG's operating income in the quarter was $58 million, or 10.5% of sales.

Now we turn to the balance sheet. Cash balances ended the second quarter at $1.14 billion, down from the first quarter by $166 million. This was largely due to ongoing investments in new technologies and facilities resulting in second-quarter capital expenditures of $361 million, up from $202 million in the first quarter. Inventories increased from the first quarter by $34 million, a planned 5% modest increase in anticipation of the seasonally strong second half of 2004.

Now let's talk about the outlook. AMD's current outlook for the third quarter of 2004 is that we expect sales in both our major business to increase, and that we expect total AMD sales in aggregate to increase moderately. For your modeling purposes, please consider the following. We expect second-half 2004 marketing, general, administrative cost to increase approximately 10 to 15% from the first-half level as we accelerate our marketing investments across AMD64 products. We still expect fiscal 2004 capital expenditures to be around $1.5 billion and we are confident they will be largely funded by cash flow from operation and partner contributions; both from the Free State of Saxony and M&W, our building partner associated with Fab 36.

In summary, AMD is executing soundly to its financial and technology road maps. We had another profitable quarter with record sales for Spansion Flash memory, and our AMD Opteron and Athlon 64 processors. We continue to focus on our core competency to deliver solid results and remain committed to growing AMD across all business lines.

With that, I'll turn it back over to Hector.

Hector de J. Ruiz, Ph.D., Chairman of the Board, President and Chief Executive Officer

Thank you, Bob. In conclusion, I want to place the new AMD in a broader context. Because beyond the fundamentals of the quality of our relationships with key customers, our world class design and manufacturing capability and the streamlining of our overall cost structure, something transformative is going on at AMD. Something that can be explained perhaps more by the growing independence of our financial performance than by any other metric or measure.

If you look at our financial performance over the last few quarters, it is becoming evident that we're increasingly defined by our innovations, designs and technologies, our manufacturing execution, and our customers and partners. In short, by AMD's ecosystem and trajectory, we have deliberately and methodically positioned ourselves to be in more control of our own destiny. In each of our core businesses, we have moved to strengthen our customer relationships, particularly with our Tier 1 customers. We have worked with them to create solid customer-centric innovations that are truly differentiated and we're constantly working to accelerate our capability to ramp new processes and technologies in the manufacturing realm.

AMD is gaining widespread recognition as an industry leader. And in leading the Company industry to – computing industry to pervasive 64-bit computing, and in establishing MirrorBit as the new industry standard in Flash memory, and in empowering a new generation of tech-capable consumers around the world. We have the design and manufacturing expertise to deliver on these and many other promises in the years ahead. We're very proud of the progress that we have made and of the leadership opportunities we have created with and for our customers. We look forward to demonstrating our capacity to exercise increasing control over a destination defined by the AMD ecosystem in the quarters ahead.

As I always do, I would like to thank the thousands of AMD employees around the world for all their hard work to get us back to sustained profitability in this past quarter.

Now back to Mike for the Q&A.

Michael Haase, Director of Investor Relations

Thank you very much, Hector. Let's start the Q&A process, please.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, if you would like to ask a question, please depress "star", then "one" on your touchtone phone. You will hear a tone indicating you have been placed in queue, and you may withdraw yourself from this queue at any time by depressing the "pound" key. One moment, please, for the first question.

And our first question is from the line of Krishna Shankar from JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Yes. Even though AMD64 revenues are up, I guess, more than 50% sequentially, ASPs declined modestly. Can you elaborate on pricing pressure that you're seeing in the processor marketplace?

<A – Hector de J. Ruiz>: Henri, would you like to comment on that?

<A – Henri Richard>: Yes Hector. As you recall, a majority of our shipment of Athlon XP have been based on the same technology for over a year. We haven't introduced new speed rates. We've done excellent brand management and we maintained our ASP and actually grew it a little bit at the beginning of that cycle. But eventually, the forces of the market prevail and we've had to admit the fact that the wonderful performance of the Athlon XP needed some price adjustment. So what you're seeing is a modest decline of the ASP on the Athlon XP line and a strong progression on the Athlon 64, which resulted in a blended slight decline in ASP.

<Q – Krishna Shankar>: Okay. And in Flash, your large competitor, I guess, grew Flash revenues almost 40% sequentially. Can you talk about the environment for NOR Flash pricing both in embedded and wireless applications?

<A – Hector de J. Ruiz>: Let me make a few comments about the Flash. We – we've focused significantly on Tier 1 multinational customers who I believe are providing tremendous opportunities for us to grow. That allows us to grow from a year ago from about $200 million to the current level of 687 or so, which is a significant growth in our position of marketplace, which led us to become the number one NOR player in the market. We see this multinational Tier 1 players continuing to have a very strong participation in this market in the quarters ahead, and our strategy will be – will continue to be to focus on them in particular. What we've seen in pricing, and we think will continue into the third quarter, is somewhat of stabilization in pricing, not a degradation and not a significant increase at all. And so, we expect pricing to be fairly stable going into the third quarter.

<Q – Krishna Shankar>: Thank you, and congratulations on a great quarter.

<A – Hector de J. Ruiz>: Thank you.

Operator: And our next question is from the line of Mark Edelstone from Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: Hi. Good afternoon guys, and nice job on the quarter overall. A couple quick questions if I could. The first one was on manufacturing. Hector, if you look at the 90-nanometer ramp that you have in place right now for microprocessors, when do you expect to see that crossover 0.13, and when would you think that the majority of that transition is over? And I'm looking at that question both on an outs basis.

<A – Hector de J. Ruiz>: Mark, I think that, we – we're off to an awfully good start in the transition and if I look at the experience we have from 180 to 130 and what we're seeing from 130 to 90, I believe we'll be able to make that transition reasonably fast. I think the – if I assume that the customer transition on some of the products, because we're making not only a technology transition but also a product – a number of product transitions, that the customer acceptance is in line with our ability to ramp. Physically, we should be able to ramp totally to factory by the end of next year to be totally converted to 90-nanometers. If there is not total conversion, it will be mostly because there might be some remnants of products that cannot be transitioned from a few customers.

<Q – Mark Edelstone>: And when would the crossover be you think in terms of outs, Hector?

<A – Hector de J. Ruiz>: I don't remember the exact timeframe, but I would say we're probably talking about a crossover sometime in summer, second quarter summer, next year.

<Q – Mark Edelstone>: Okay. Great. And then just another question, if I could, on the processor business, either for you, I guess, or Henri. If my data is right here it looks like this might be the first quarter in a few where you guys actually gained some unit share. And I know you've obviously been gaining some dollar share, but you did gain some unit share here in the quarter. Can you talk about what the factors were that drove that from your perspective?

<A – Henri Richard>: Mark, you know, we just service our customers. As you know, we're very focused at increasing our business in the server space, in the mobile space. I guess we had some significant growth in those two areas. And, if you were to look, you know, for where some of the growth happened in units, I would look in those areas.

<Q – Mark Edelstone>: Great. Thanks a lot guys.

Operator: And we have a question from Michael Masdea from Credit Suisse First Boston. Please go ahead.

<Q – Michael Masdea>: Yes. Thanks a lot. Can we get a gauge of what you mean by moderate? I mean, are we talking – how does that relate to seasonal, and are we talking kind of mid-single digits or any guidance there at all?

<A – Henri Richard>: Mike, I believe that the second half of the year will be a good second half. I think it'll improve over the first half. I believe we're looking at both the third and the fourth quarter that will give us an opportunity for growth. We're excited, optimistic, looking forward to it. And frankly, I think a moderate increase in revenue in one quarter is a very good performance. I don't want to pin it down to a number because frankly nobody knows what the market exactly is going to do. But we'll be in line and we expect to perform in the expectations of what the market will do.

<Q – Michael Masdea>: Or at least keep share for whatever the market's growing?

<A – Hector de J. Ruiz>: Actually, we – our plans are to grow share.

<Q – Michael Masdea>: Great. You addressed a little bit your focus on the Tier 1 customers. If we see a bunch of – in the Flash side, if we see a bunch of Flash going up in the distribution channel, I mean how much impact does that have on your pricing situation and contracts and relationships with the Tier 1s? Are they going to start turning some of that into your products and going to distribution channel or how do you see that playing out?

<A – Henri Richard>: This is Henri. Frankly, everybody knows that the distribution channel prices are, on average, higher than the Tier 1 contracts. And so we're nowhere near our situation of demand/supply imbalance that would drive the distribution channel to offer better prices than the Tier 1 OEM contracts. So I don't see this happening. I don't see this being a factor.

<Q – Michael Masdea>: Okay. I guess another follow-up kind of in the same sort of vein. If you see, with the processor inventory up from your competitor out there needing be to be worked down, if you see a substantial pricing coming down, how much impact do you think that will have on your business? Will it be substantial or do you find yourself not really in price-to-price competition on your customer relationships on the PC side?

<A – Hector de J. Ruiz>: As I mentioned in the comments, Mike, we – we have spent a considerable amount of time trying to create our own financial ecosystem, our economic ecosystem to build a partnership with our customer and I think that we're seeing a situation where the – while even though our inventory increase was very modest, practically all of it was really AMD64 product, there is no competitor in that space at the moment and, and so I don't see that – you know, being in any way affected. Frankly, also, I believe that, personally I think the inventory build in our competitor, perhaps it's overblown and these guys might actually be delighted to have built that inventory if the second half of the year turns out to be healthy.

<Q – Michael Masdea>: Great. I appreciate it. Just a last question on the Flash side. Can we get any sort of idea what's happening on the bits per handset side given that we've seen some continued outgrowth relative to the end markets. Does that just continue to go up or do you see stabilization there? Or any comments would be helpful?

<A – Hector de J. Ruiz>: Right now, again Henri can add to this, we see a rather healthy continued need for bits in hand-held devices. And the applications go from larger software systems these devices need to accommodate, which increase the demand for NOR, to larger data uses such as better pictures or whatever you – which also increases the demand for NAND-like product, not necessarily NAND, but products that can offer the cost performance advantages. So we see, at least in the foreseeable future, a continued explosion of bit density.

<Q – Michael Masdea>: Thanks a lot.

Operator: And our next question is from the line of Chris Danely from J.P. Morgan. Please go ahead.

<Q – Chris Danely>: Great. Thanks, guys. Just a couple of quick questions. One quick thing on Flash. Did you guys have any sales of written down inventory on Flash in this quarter?

<A – Robert J. Rivet>: No.

<Q – Chris Danely>: Okay. And then you said you expect both Flash and CPU sales to increase in Q3. Do you expect operating income to increase in both in the third quarter, too?

<A – Robert J. Rivet>: Yes.

<Q – Chris Danely>: And the last question, have you seen any irrational pricing behavior by Intel out there, yet?

<A – Henri Richard>: Absolutely not.

<Q – Chris Danely>: Great. Thanks.

Operator: And our next question is from the line of Glen Yeung from Smith Barney. Please go ahead.

<Q – Glen Yeung>: Thanks. Just also a follow-up on the Flash. Can you talk about what percentage of MirrorBit was in the second quarter, what you think it'll be in the third quarter and maybe how you think that factors into your outlook for a stabilized pricing environment?

<A – Henri Richard>: Yes. First, MirrorBit was a record, performance for us in the second quarter in the sense that we almost quadrupled our pipeline of opportunity. So the momentum of this product line within our total portfolio is really strong. It continues to be a double-digit contribution and we see that continuing particularly with the introduction of the second generation of MirrorBit.

<Q – Glen Yeung>: And when you talk about stabilized pricing is that sort of mix adjusted? In other words, are you talking across your entire output of NOR that the price will be stable because I'm under the assumption here that MirrorBit's selling at a premium.

<A – Henri Richard>: Well, our ASP went up slightly quarter-to-quarter so that gives you a good indication that pricing was stable. As I mentioned in the past call, we have a very large proportion of our wireless business with Tier 1 customers, which are long-term engagements, strategic in nature, and so that has a stability factor on our overall pricing. We're also in the embedded space under tight constraints. Frankly, there's a lot of demand out there for Spansion Flash, particularly new MirrorBit design. And so by nature, that also provides us with a fairly stable price environment.

<Q – Glen Yeung>: Great. And just one last question, which is, in the balance sheet I see this line for deferred income to distributors and that seemed to go up pretty substantially in the quarter. I wonder if you could just elaborate a little bit on what went on there?

<A – Robert J. Rivet>: Yes, this is Bob. That reflects obviously that's the amount of product that we have out there in the distributors' shelves that we don't record as revenue until they actually sell it through. What you're actually seeing is the continued shift to AMD64. As we continue to migrate and get more traction on the AMD64-based products, they carry a much higher value to both us and the end markets. So, therefore, that's what you're kind of seeing on the balance sheet.

<Q – Glen Yeung>: Well – so, that was up 15% quarter-on-quarter and looking just back in the past, it's usually down something like 20%. If we were to take out the price issue and just look at a unit basis, I guess your suggestion is that the unit growth is not as much as 15%?

<A – Robert J. Rivet>: Correct. The unit growth is actually relatively flat.

<Q – Glen Yeung>: Great. Thank you very much.

Operator: Next question from the line of Ben Lynch from Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Yes. Thanks very much. Just in recent quarters you guys have, one; been outgrowing Intel processor revenues and, two; guiding in line with Intel because they're the big guy and whatever they say probably goes. It's not the case this time. What's going on and is this a trend?

<A – Hector de J. Ruiz>: Could you elaborate on your question a little bit more?

<Q – Ben Lynch>: Yes. In the last few quarters you guys have managed to, prior to Q2, where you just outgrew Intel in process, it's looks like about 1% or so, but in prior quarters you've been outgrowing them a lot and now that's slowdown and the numbers you have reported and also in the guidance, Intel is for their processor business I guess seems like they're guiding up 7% or 8%. They haven't been explicit about it but you guys don't seem to be guiding up anywhere near as much. Who's wrong here or who is losing out here?

<A – Hector de J. Ruiz>: No. I don't think, let me just and Henri can add when I finish. First of all, I think the one thing you're absolutely correct on is they are the behemoth and they are the market in the sense that in the near term, they can call their number fairly accurately because of – first of all, their size and the type of customers they have. Longer-term, as I mentioned before, we intend to grow share over a long period of time. But calling a number on a quarter-to-quarter basis is not really what we're about. What we're about to is I'd like you to judge us at the end of each quarter about what we do relative to how the market did. And I believe that our guidance is saying that we'll be – we'll have a moderate increase in revenue. I think that's an indication of a good quarter expectation ahead of us. And nothing – bad quarter or not, it's just a good expectation for a good quarter and I expect that we will continue to modestly gain share.

<Q – Ben Lynch>: Okay. It just seemed like in prior quarters you were happy to give guidance that was referenced to Intel's own guidance because they are the market, as you say yourself, whereas this quarter your guidance seems a lot less robust than theirs is and that's really where I'm coming from. Maybe I'll come at it from another angle, Hector, if that's okay. How do you feel about visibility in general now versus how you'd say you felt three months ago or so, in both CPU and Flash? And on top of that, how was the linearity in the current quarter and then coming out of the quarter? So, that there's like two questions there.

<A – Hector de J. Ruiz>: Well, we feel – let me start with Flash and I'll cut to CPUs in a second, but we are – the demand for Flash is strong. We continue, as Henri mentioned, to engage heavily with Tier 1 players who give us some visibility beyond what you normally get from other players. And we see it, going into the third quarter, as really a good quarter ahead of us in terms of Flash. On the processor side, perhaps one of the things you might be sensing has to do with some of the comments I made in my opening remarks is that we've created an ecosystem now based on the AMD64. And we have partners now that are partnering with us to take product to market and infrastructure, supplies, motherboard chipsets who are also part of the AMD64 ecosystem. So we almost have to now project what we think is going to happen based on our customers' needs, plans, etcetera. Not so much based on what our competitor does. And we're in an eighth generation product growing fast and rapidly. Competition is still in the seventh generation product and so the comparison has become less important and, frankly, maybe somewhat irrelevant at some point in time. So Henri, is there anything you'd like to add to that?

<A – Henri Richard>: Just the point that, specifically to the Q2 question, then – we have a higher proportion of our business in Europe than our competitor, as a total of percentage of total revenue and as you know, Q2 is seasonally more affected in Europe. So that has a play, but you also noted that we still managed to outgrow them in both revenue and units, so not as much as in the past, but the trend continues to be very positive.

<Q – Ben Lynch>: Okay. Thanks, Hector. Thanks, Henri.

Operator: And we go to a question from the line of Tom Thornhill with UBS. Please go ahead.

<Q – Thomas Thornhill>: Yes. With the acceleration in the 64-bit processors, within the processor business, approximately what percentage of shipments or unit shipments now are accounted for in the 64-bit families?

<A – Hector de J. Ruiz>: Well, we're not going to provide you the granularity. But obviously we made the comment earlier that by the end of the year, we would have slipped the 50% mark on the change to AMD64 from the older K7 and we're on a fairly fast ramp. So we're happy with our progress, very happy with the rate and the ramp.

<Q – Thomas Thornhill>: So that's to reach 50% of processor – so the 64-bit family would reach 50% of unit shipments by the end of this calendar year?

<A – Hector de J. Ruiz>: 50% of the dollar revenue will be from AMD64 by the end of this year.

<Q – Thomas Thornhill>: Okay, the end of '04. Okay. And you mentioned the ASP being down slightly was largely an issue with the Athlon XP. What was the ASP – is there an ASP trend that's noticeable for the 64-bit families as well, Opteron and the Athlon 64?

<A – Hector de J. Ruiz>: No, on both Opteron and Athlon 64 the ASP was stable and in particular, it was up in the mobile space.

<Q – Thomas Thornhill>: Okay. And that's a blend on higher speeds, or…

<A – Hector de J. Ruiz>: It's a blend on the higher mix for the overall line. Absolutely.

<Q – Thomas Thornhill>: Okay. And if you could, one comment I'd like to get your opinion on, an end-market comment. Now that you're – with Opteron participating in the server market to a larger degree, can you provide any insight into the trend that you see in IT spending in the corporate market?

<A – Hector de J. Ruiz>: We believe that IT folks are very eager to improve the productivity of their businesses. And they want to do it to investments in products that return, of course, a significant better return than they've been a accustomed to, and they're looking for value more than anything else. And what we see is modest signals coming from the IT community that they are going to increase spending, but extremely focused on return of the value, you know, the value equation. And as a result, one of the reasons I think Opteron is getting a lot of traction and credibility in that space is because the value question is just so strong and it's pretty difficult to ignore. And I'd like to add just to the previous comment that the previous question you had, is that as we increase our participation in that space, which goes from a zero a couple years ago and growing rapidly, that the impact on ASPs will be in the upward trend because the mix will change. Not because the ASPs on a particular product will improve but because the mix will improve for us. And we're in a unique position to be able to do that because we're going from, as I said earlier, a mix of almost zero servers a few years ago to an expectation that we'll play a big role in that in the quarters ahead.

<Q – Thomas Thornhill>: Do you expect the blended ASP in processors to increase, stay flat, or decrease again in Q3?

<A – Hector de J. Ruiz>: I would say we're going to be modestly up due to the AMD64.

<Q – Thomas Thornhill>: Thank you very much.

Operator: And we have a question from the line of John Lau from Banc of America Securities. Please go ahead.

<Q – John Lau>: Yes, thanks. Looking ahead, is there any significant divergence or weakness in PC demand from normal seasonality or region and could you give us a color as to what is happening out there? And also, if you can comment on what the – what you believe are inventory levels are out in the channel? Thank you.

<A – Henri Richard>: The first part of your question, I believe we're going to walk in a very solid second half of the year. Clearly, the demand is shifting from desktop to notebook and that's the only trend to watch out for. As far as the second part of your question, our inventory management is very tight. We don't have any concern with our direct inventory management. As far as our OEM customers, I think you really have to ask themselves what their position is? There was a glut of inventory at the beginning of the year in the notebook space that I believe has been resolved, and we're looking for very solid second half because I think that there's no particular issues with that inventory position.

<Q – John Lau>: Okay. And then – Henri, thank you. I had a follow-up question with regards to the different product segments that you have. Traditionally AMD has participated in the value segment. What do you see going on in that value segment because there was a comment by the competition that they are seeing a mix shift? Can you give a little bit more color on those shift dynamics?

<A – Henri Richard>: In the value segment, what's happening is that you have a little bit of what I would call a "good-enough" phenomena. Clearly, as the performance continues to waterfall down, the product that you could buy in the – at the low-end of the value space are increasingly performing. Most of the tasks that you would want to do with a PC can be done today with some of these products. And so I believe that the features and functions are going to go increasingly enriched in terms of the audio, the video capabilities of those products, the display. And so, the out-of-the-box value in the value space may increase significantly in the second half of the year and going into next year.

<A – Hector de J. Ruiz>: And I'd like to just add, and Henri if you can comment on that too, this is an important segment for us. We intend to be a significant player in the value space. And one of the reasons we introduced Sempron as a value brand in that space is that we believe we can bring a lot of that learning we've had in the products we build, particularly as we have migrated to 64-bit eventually, to bring a lot of value to that segment at the original price.

<A – Henri Richard>: Yes. Hector, we have, as you know, we've introduced the Sempron brand, which is clearly aimed at the value space. It's going to allow us to be more competitive in that market and to service the needs of the customers that have expressed the interest of having an AMD-based technology to address the opportunities in that market.

<Q – John Lau>: And as the Sempron launches, are we anticipating that it will have a pretty neutral effect on the ASPs or is that value proposition on higher performance with higher ASPs associated with it? Thank you.

<A – Henri Richard>: Well it's going to have, as we just told you, we expect the ASP to continue to grow. So, obviously, it would have a neutral to positive effect and, again, the rest of the ASP growth will be driven by AMD64 in the high-end of our offering.

<Q – John Lau>: Thank you, Henri.

Operator: Our next question is from the line of Tim Luke from Lehman Brothers. Please go ahead. Mr. Luke, your line is open. Do you have your phone on mute? Once again, Mr. Luke, do you have a question, sir? We will move on then to the line of Hans Mosesmann with Schwab SoundView. Please, go ahead.

<Q – Hans Mosesmann>: Thank you. A couple of questions. Going back to the Athlon XP, is the issue Durons – are the Durons now out of the product lineup and is that why ASPs could have been down?

<A – Henri Richard>: No. So, first, Duron has been out of our product for quite some time. As we indicated, we're launching Sempron and some of the business that the Duron brand was addressing in the past is going to be covered by the Sempron new brand in the value space.

<Q – Hans Mosesmann>: Okay. Can you give us a sense on gross margins? There seems to be an improvement in operational efficiencies and gross margins should improve. Can you give us a sense of what kind of improvement we can see in the second half?

<A – Robert J. Rivet>: This is Bob. I'll give you a little directional first though and I'll break it down by business. As we've stated repeatedly, in our memory business, we see continued gross margin expansion. As we enjoy the benefits of full implementation of 110-nanometer, that's a positive. As we convert to more MirrorBit, that's a positive. We're already at fairly good, I'll call it "factory utilization", so we're seeing that benefit. But we see margin expansion in both those businesses. And also, we continue to offer higher and higher density products which definitely carry the premium ASP in the product portfolio. In the microprocessor space, as we talked about, we just launched the 90-nanometer product in May. That output will take place in the third quarter. That will become, as time goes on, a bigger portion of the output. Clearly, the die cost is way cheaper at 90-nanometer. And so the margin expansion is also available in the CPG product line. Also, as we continue to penetrate the server market and the mobile space, as we've demonstrated over the last couple quarters, in the next couple quarters you'll see margin expansion there. So we think, we were set in both major businesses for good margin expansion in both businesses.

<Q – Hans Mosesmann>: Great. Thanks a lot.

Operator: Joe Osha from Merrill Lynch. Please, go ahead.

<Q – Joseph Osha>: Hi guys. Yes. I just wanted to first hit this issue of average selling prices. You said that you expected them to be up in the September quarter moderately. Is that correct?

<A – Henri Richard>: Modestly, yes.

<Q – Joseph Osha>: Modestly. Sorry. Okay. But I understand that there's a pretty dramatic shift going on towards Athlon 64. Why? Why? Is Sempron sort of counterbalancing that? It seems as if ASPs should be moving rather dramatically. What am I missing?

<A – Henri Richard>: Well as we continue to move forward, we are addressing more and more price band with the Athlon 64 product and therefore you have access to Athlon 64 at lower price points than we did in the initial ramp of the product line. As an indication, starting in Q3, there is price parity between Athlon XP and Athlon 64.

<Q – Joseph Osha>: Okay. That clears it up.

<A – Henri Richard>: You have a very – a large increase in the volume is coming from price bands that are at the bottom of the stack.

<Q – Joseph Osha>: Okay.

<A – Henri Richard>: And, therefore, although you have expansion of ASP on the Athlon 64 product lines as well, you have to remember a lot of the volume is going to come from the volume price bands in the market.

<Q – Joseph Osha>: Okay. That's helpful. The second, just to clarify something you said earlier, you talked about 64-bit being more than 50% of revenue in the fourth quarter. Does that include the server business or not?

<A>: Yes, It does.

<Q – Joseph Osha>: It does. Okay. You mentioned in the third quarter that you expected profits to – operating profits for both groups to go up, right?

<A>: Yes.

<Q – Joseph Osha>: Okay. Just come back of the envelope math, I believe you said that SG&A was going to be up second half of the year, that the total was going to be up 15 – 10 to 15% on the first half. Is that correct?

<A – Robert J. Rivet>: That's right, Joe.

<Q – Joseph Osha>: Okay. So the implication then would be that you got some pretty significant expansion in gross margin occurring in the third and fourth quarters to cover that?

<A – Robert J. Rivet>: Revenue and gross margin. Correct.

<Q – Joseph Osha>: Okay. But clearly, I mean, that you're adding, by my math, almost $40 million. That's $20 million a quarter. So are you saying here that gross margins are going to increase in the third and fourth quarter?

<A – Robert J. Rivet>: Yes.

<Q – Joseph Osha>: I'm sorry?

<A – Robert J. Rivet>: Yes. I mean, a combination of revenue and continued margin expansion opportunities that I just went through a couple seconds ago.

<Q – Joseph Osha>: Okay. Fair enough. I'm just wanting to make sure I'm getting the numbers right here. And then, finally, I hate to – I know Hector's – gets a lot of credit for his determined – sort of clinging to the term "moderate" in the third quarter here, but what has changed? I mean this is the first time I've seen you guys this skiddish on the guidance. Is it simply that you've identified some higher margin opportunities and you don't want to grow the business as quickly? It seems something has to have changed in terms of you guys being more cautious in terms of putting a number out than you normally are. Can you help me understand what that is?

<A – Robert J. Rivet>: Well, Joe, I don't want to debate you totally on the phone, but we've used words like "last quarter" modestly. So I'm not sure we're changing anything besides saying, as Hector said, back half of the year we see for both business to be seasonally up and very strong and that we see moderate growth in the third quarter. Decode is it's a good quarter, as Hector said.

<Q – Joseph Osha>: Okay. Great. And you did indicate that your R&D expectations hadn't changed, right?

<A – Robert J. Rivet>: That's right.

<Q – Joseph Osha>: Okay. Thank you very much.

<A – Robert J. Rivet>: Thank you.

Operator: And we go to the line of Simona Jankowski with Goldman Sachs. Please go ahead.

<Q – Simona Jankowski>: Yes. Hi. Thank you very much. This is on behalf of Andrew Root at Goldman Sachs. I just wanted to get your perspective on the end-demand environment as far as the consumer side, and how are you seeing the back-to-school season shaping up as of this point?

<A – Henri Richard>: Well, as AMD, as you know we're very involved in the consumer space. We are seeing very strong demand for our AMD64-based architecture in the consumer space. But it's too early to say how it's going to pan out because the back-to-school season, really it's starting in three weeks in the US, will not start in Europe until the beginning – the end of August, beginning of September. But so far, the indication is positive.

<Q – Simona Jankowski>: So you're seeing right now a normal seasonal demand as far as the back-to-school season is concerned or is it just too early to tell?

<A – Henri Richard>: No. The demand is absolutely seasonal.

<Q – Simona Jankowski>: Okay. And just a quick follow-up on the NOR side also. I just wanted to see if you can provide an update on your 90-nanomater transition in NOR?

<A – Hector de J. Ruiz>: All I can – I guess all I can do is repeat what I said because I don't know what other thing I could provide you. But, it's going on plan. It's going well. We started production in May, we expect to ship product – I'm sorry.

<A>: Not 110, but 90.

<A – Hector de J. Ruiz>: I'm sorry. I thought you meant CPU.

<Q – Simona Jankowski>: No, 90-nanometer in Flash. Yes.

<A – Hector de J. Ruiz>: Flash. I apologize that. We will begin that conversion at the end of the year. We can start converting some of our factories. We will start with our leading most advanced factories which are one in Japan and one in Austin, Texas and then we will ramp as fast as we can beyond 2005.

<Q – Simona Jankowski>: Great. Thanks very much.

Operator: And our next question is from the line of David Wong with A.G. Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. Can you give us any idea of plans for new products on notebook microprocessors side, especially low-power products?

<A – Hector de J. Ruiz>: As we – we had mentioned before that the Gate 7, which is our – I would call it our "old" generation product, was running into the point for the – its ability to deliver a power performance at the right wattage level was limited. And that we had to wait until we introduce both 130 as well as 90-nanometer Athlon 64, which we just started doing and we started providing. Our customers started shipping the first thin-and-light as well as portable and transportable products in that space and they are doing very well. So they're doing a very, very well. We have a road map that continues to get stronger on K8, our eighth-generation product. We believe that in the next couple of quarters we will see some new products that we will continue to improve that performance, power dissipation equation. Henri?

<A – Henri Richard>: And just – today, the thermal envelope that you can have on a K8 is 35 watt. We will introduce a 25 watt part in the fourth quarter.

<Q – David Wong>: Right. Thanks.

<A – Henri Richard>: Which will allow us to address specifically the thin-and-light market.

<Q – David Wong>: Great. Thanks.

Operator: And next to go to the line of Adam Parker from Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: Yes. Hi. Just a couple questions. First of all, did you see any slow down in processor demand in the second half of June?

<A – Robert J. Rivet>: No. As a matter of fact, the second half of June was just – you know, a modestly better than the first half of June.

<Q – Adam Parker>: Okay. And have you seen any improvements in July so far in the processor space relative to the back half of June?

<A – Robert J. Rivet>: Too early to tell, frankly.

<Q – Adam Parker>: Okay. Bob, this might be a semantic that was unintended that I'm picking on but and you're talking about the 1.5 billion in CapEx I think you said the word was it would be largely funded by CFO and partners. Did you not earlier say it was your expectation it would be entirely funded by CFO in the past, or am I just splitting hairs here?

<A – Robert J. Rivet>: I think you're splitting hairs. I probably wasn't as granular as that in prior statements.

<Q – Adam Parker>: Okay. Just because this whole modest versus moderate language has got me focused on every word you saying now.

<A – Robert J. Rivet>: Okay.

<Q – Adam Parker>: Okay. Can you remind us also what is going to happen to your share count here in the next couple quarters?

<A – Robert J. Rivet>: Well, it really depends on profitability. There's a triggering point at about the 8-cent level for the first $402 million convertible which is in the current quarter's EPS calculation. I think the next price point is about 27 cents and the other shares associated with the $500 million convertible will kick in. So it kind of depends on how profitable you think we'll be over how many shares you throw into the –

<Q – Adam Parker>: Okay, fine. And one last question. Hector, maybe just a long-term question. You know, because it kind of occurs to me when I look at Intel trying to build some capacity for unknown demand a couple of years out. Maybe you can just help a little bit with what you think PC unit growth is over the next two to three years? And as you try to allocate capital, given you're building a big facility in Dresden, what do you think PC unit growth is going to be over the next couple of years?

<A – Hector de J. Ruiz>: Well, I think that we believe, as the rest of the industry does, that the PC market is somewhat mature and stable. And all I'm saying that PC unit growth in total is ever going to be, as it was back in the late '90s of double-digit growth. But you got to remember that we are coming from a position wherein our share in dollar terms is less than 10% and, therefore, our focus is more in the customers that we serve and growing our business in that space. And, we in a – in our technology and product road maps are based on quite a different approach than others have taken in terms of, we put all our energy and resources in x86 and when we cover x86 from consumer products, hand-held devices to servers, and you realize that our share of participation in dollars is under 10% –

<Q – Adam Parker>: Right.

<A – Hector de J. Ruiz>: – we have a tremendous opportunity for growth just by gaining customers to accept our product. And that's the focus we have on as opposed to just expecting the overall number units to go up. Based on that, we need to have perfect execution in our factory. Fab 36 must come online when we said it's going to be because we're going to need it.

<Q – Adam Parker>: So I guess just from the other side of the equation, though, I mean, is there any – with the Intel quarter still fresh in mind, I mean, is there any risk that you create manufacturing capability that by 2006 or so is well in excess of what you would need?

<A – Hector de J. Ruiz>: You know, our confidence and expectations on the products we've created, AMD64, x86, every core strategy and all that. Frankly, we have a fairly high degree of confidence that this capacity will be fully utilized.

<Q – Adam Parker>: Okay. Thanks for your time, guys.

<A – Michael Haase>: Operator, we'll take two more questions, please.

Operator: Very good. And we will go to the line of Cody Acree [Legg Mason]. Please go ahead.

<Q – Cody Acree>: Thanks. You talk about normal seasonality here in Q3, but obviously your positioning is a little different with 64-bit than maybe it's been in years past. Can you talk about what is your normal historic seasonality into the third quarter and maybe how you see things a little differently now from the competitive front and from your product as well?

<A – Henri Richard>: Well, historically, our seasonality is in the range of 7 to 9%, second to third quarter. Clearly, we have opportunities to grow our business. As Hector just pointed out, we have a relatively small market share in the PC microprocessor market. The AMD64 architecture got some momentum. So there's an opportunity but historically our growth has been in the 7 to 9% range.

<Q – Cody Acree>: And can you talk a little bit about your dual-core processor strategy? You talked about, a timeline in the second half of next year starting to get those into really into revenue. When would you expect to that this becomes more of a mainstream application that really begins to drive growth and not just kind of the early adopter status?

<A – Hector de J. Ruiz>: Let me – if we could answer that question in two parts and I – Henri can comment on the market and the rate at which customers and consumers will adopt the dual-core products. And I'll just mention now, because it's so important to know that the multi-core strategy, the first of these products which is the dual-core, was really conceived from the moment that the K8 was designed. The "Hammer" K8 architecture was conceived with this feature, we call a Direct Connect Architecture. And this is part of the HyperTransport technology, the onboard memory controller, all those things that is going to allow for these multi-core capability to be implemented and developed as the technology migrates to 90-, 65-nanometers, etcetera. So from day one, this was birthed with that in mind and, therefore, what you're going to see is a very powerful scaling of performance and features with this kind of technology. And perhaps Henri could comment on our view, our opinion as to how fast we think the marketplace will accept that.

<A – Henri Richard>: Hector, well you know our view is really shaped by our customers' view and what you have to remember is that what we've introduced with the Opteron processor is a positive disruptive technology that really allows to move to 64-bit very quickly while maintaining this legacy to 32-bit and getting performance improvement. One of the interesting factor in our current business is that the distribution of speed is towards the high-end of what's available. So that shows that the appetite, from our customers at least, the appetite for the best-performing parts is non-stop. Clearly, they will like to have our dual-core products as early as possible and I believe that the ramp will be very, very fast because by then, Opteron will be an accepted architecture and will be in full swing in terms of 64-bit application availability. And, therefore, the immediate improvement in performance and the enablement that this performance will provide end-user customers, in terms of new applications or way to use that computing power that they didn't think they could in the past, will drive I think very fast acceptance of the multi-core strategy.

<Q – Cody Acree>: And we should begin to see meaningful revenues late '05, early '06?

<A – Henri Richard>: Yes. I think that's fair assessment.

<Q – Cody Acree>: Thanks, guys.

Operator: And our final question comes from the line of Tim Luke with Lehman Brothers. Please go ahead.

<Q – Timothy Luke>: Thanks. So just within the context of your – the guide of modest growth given that normal historical seasonality, one should anticipate that the process should – growth should come in a little stronger than the Flash growth. Is that the way we should see it sequentially?

<A – Hector de J. Ruiz>: I don't – if you mean that the Flash growth will be less than the processor growth, is that what you meant?

<Q – Timothy Luke>: Yes. That whether…

<A – Hector de J. Ruiz>: No. I think right now, frankly, we expect both businesses to have a reasonably equal shot at growing from second to third quarter.

<Q – Timothy Luke>: But somewhat below historical seasonality, that's the direction that we should anticipate?

<A – Hector de J. Ruiz>: No. And like I said before, we're not going to pin down on a number but we believe a good quarter.

<Q – Timothy Luke>: Okay. And then just with respect to the gross margin dynamics, is that something with a better revenue we should think about a framework for that moving somewhat higher?

<A – Robert J. Rivet>: Yes. As I outlined earlier, we have opportunities for gross margin expansion in both businesses and we've demonstrated that in both businesses this quarter. So I think that's – I mean we believe that trend will continue.

<Q – Timothy Luke>: And I think the last quarter on MirrorBit did you say – you gave a range for MirrorBit as a percentage of Flash. Could you give any more sort of precise a range for what it was this quarter?

<A>: No. It stayed in the same range in the double-digit.

<Q – Timothy Luke>: The same kind of range as a percentage.

<A – Robert J. Rivet>: That's right.

<Q – Timothy Luke>: Okay. Thank you very much.

<A – Robert J. Rivet>: Thank you.

Michael Haase, Director of Investor Relations

Thank you. We'll conclude the call now.

Operator: Thank you. And ladies and gentlemen, this conference is available for replay after 7:45 p.m. Pacific Time today through July 25th at midnight. You may access the AT&T replay service at any time by dialing 1-800-475-6701 and the access code is 736792. International participants may dial 320-365-3844 and use the access code of 736792. Once again, those numbers are 1-800-

475-6701 and 320-365-3844 with the access code of 736792. That does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to AMD's First Quarter 2004 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. If you should require assistance during the call, please press "star" then "zero." As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, AMD's Director of Investor Relations, Mr. Michael Haase. Please go ahead, sir.

Michael Haase, Director of Investor Relations

Thank you very much. Welcome to AMD's first quarter earnings conference call. The format of the call today will include prepared comments followed by Q&A. The participants are Hector Ruiz, our President and CEO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Senior Vice President of Worldwide Sales & Marketing.

This call is a live broadcast and will be replayed at "www.amd.com" and "www.streetevents.com." The replay number is 800-475-6701; and outside of the United States, the number is 320-365-3844. The access code is 727052 for both of those numbers. The telephone replay will be available for the next 10 days, starting at approximately 8:30 PM, Pacific Time, tonight.

Before we begin the call, I'd like to caution everyone that we will be making forward-looking statements about management's goals, plans and expectations. As you know, the semiconductor industry is generally volatile. Our product and process technology development projects and our manufacturing processes are complex. Current worldwide economic and industry conditions make it especially difficult to forecast product demand at this time. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC, where we discuss in detail our risk factors and our business. You'll find detailed discussions in our most recent SEC filings, including AMD's "Annual Report" on Form 10-K.

With that, I'll turn it over to Hector Ruiz.

Hector de J. Ruiz, President & Chief Executive Officer

Thank you, Mike, and thank you everyone for joining us today. The first quarter of 2004 was a high watermark for AMD. It was a quarter that produced a record top-line for the company. Impressive in any quarter but remarkable in the first quarter of the calendar year. As important, it was a quarter, in which we delivered on a very important promise to ourselves – to make money. This was our second consecutive quarter of operating profit and a highly important milestone in our march towards delivering consistent operating profit each and every quarter year-in and year-out.

The key was, as I had mentioned before in this call, an example of what we call the new AMD; and we are very proud of the progress that we're making with our strategy of customer-centric innovation, our continued world-class design and manufacturing performance, and our strong discipline of operational flexibility. Our expansion of Flash memory operations is an excellent example of this winning combination. In the first quarter, we enjoyed record revenues in Flash, as we continue to expand our market leadership position in the NOR Flash memory segment.

Products based on our revolutionary MirrorBit technology continued to earn strong customer acceptance. We continue to strengthen our solid relationships with our top customers around the world, resulting in our especially strong growth in Asia Pacific and the Americas. In response to this strong customer demand, we continue our aggressive ramp to 110-nanometer technology in each of our leading-edge Flash fabs. We commenced production of a 110-nanometer floating-gate Flash product this quarter – the quarter that just ended – and we expect to begin production of our first 110-nanometer MirrorBit product, this quarter – the second quarter. I would like to reinforce that AMD is the first to have commenced NOR Flash production below a 130-nanometer.

In the meantime, it is important to remember that, while in only the third quarter of Spansion's formal business integration efforts, we again delivered strong quarter-to-quarter growth and the first operating profit in our memory group since we combined the operations only nine months ago. The story in our Spansion operation is very straightforward. We are expanding both the breadth and depth of our customer base. We are expanding our capacity with new technologies to meet the growing demand. And we continue to work over time to capture the efficiencies of our new global operations.

In our microprocessor business, we again generated strong profits on solid execution in across our complete portfolio of brands. Our customers continue to show a strong interest in the unique value propositions of our AMD64 technology. The value proposition delivered only through the combination of a 64-bit instruction set, integrated memory controller, and HyperTransport technology. AMD64 is also the only way to get the benefit of enhanced virus protection within the x86 software ecosystems, which will be enabled by the upcoming Microsoft Windows XP Service Pack 2; and it's an important additional benefit, as customers consider replacement systems in the coming months.

We now count over 1,000 partners in our growing ecosystem. AMD64 unit shipments more than doubled quarter-to-quarter, powered by growing acceptance in the enterprise segment. And our commitment to delivering for basic 64-bit computing continues with the early success of our new Athlon 64 Mobile processor, which we launched in this past quarter.

Systems based on our AMD Opteron processor family are seeing a strong customer adoption in financial services, web infrastructure, pharmaceutical, petrochemical and digital content creation segments. And our new low- and mid-power AMD Opteron EE and HE processors will continue to drive the Opteron footprint into high performance for web server and workstation solutions.

With these products, we’re introducing for the first time 64-bit performance in this power envelope and it has become increasingly clear that the 32-bit only server segment is rapidly approaching obsolescence. The Athlon 64 FX franchise continues to enjoy the strong acceptance among gamers and PC enthusiasts. And with the introduction of the Athlon 64 FX-53, we have once again set the standard for the definitive cinematic computing experience.

We're very pleased to report that in the first quarter, the AMD64 processor family received awards from Gartner at their Systems Builder Summit from PC World, PC Game Magazine and PC Professionell, which recognize AMD for our revolutionary Cool and Quiet technology. AMD64 technology has earned over 45 awards worldwide during its first year of existence, and we're very proud to be recognized as the true technology leader.

In fact, across our brand portfolio, we saw healthy sales growth worldwide, including record sales in Latin America and continued strength in Asia. We're very pleased that Founder Group, one of China's premiere IT firms, has joined the list of over 80 customers, building Athlon 64 processor-based desktop systems. Our ASP trajectory continues upward for the fourth consecutive quarter, a reflection of a strong brand discipline, a differentiated value proposition and solid execution.

Our manufacturing on AMD64 is on plan. Yields are solid. We continue our C brand to 90-nanometer technology, remaining on track for volume production in this second quarter of 2004 and delivering products for revenue in the third quarter of this year. Our customer-centric innovation approach is working, as we present a superior alternative to the competition in the market we choose to serve.

In manufacturing, AMD continues to demonstrate world-class operating performance in each of our core businesses; and we remain committed to the discipline of operational flexibility across and throughout the organization.

To summarize, we're seeing increased confidence among our growing portfolio of customers about AMD and our growing leadership profile; and we're looking forward to demonstrating that leadership throughout the course of the coming year and for many years to come.

At this point, I would like to ask Bob to review, in more financial details, the results of our recent quarter and provide some comments regarding the current outlook.

Robert Rivet, Senior Vice President & Chief Financial Officer

Thanks Hector. As detailed in our press release earlier this afternoon, our first quarter sales were $1.236 billion, up over $500 million, or 73%, compared to the first quarter of last year, and up 3% compared to the fourth quarter of 2003. This is an all-time quarterly sales record for AMD.

Top-line highlights include: one, solid sales in a seasonally down quarter for both our microprocessors, Computation Products Group – excuse me – or CPG, and our memory group; two, especially strong sales in Asia Pacific and Latin America in both businesses; three, increased ASPs in CPG and our memory group; and four, increased unit shipments in our key new product families, more than doubling our AMD64 unit volumes and continued penetration of products based upon our MirrorBit Flash technology. The combination of top-line growth and our operational flexibility measures resulted in a profitable quarter with net income at $45 million, or 12 cents per diluted share for the first quarter.

Operating income was $61 million in the quarter, an improvement of $15 million from the fourth quarter, representing a 50% fall through on incremental sales. Compared to the first quarter of last year, operating income has improved by $187 million, on an increase of $522 million of sales – a nice turnaround. Gross margin was 38% for the quarter, up 2 percentage points compared to the fourth quarter of 2003, and a 7 percentage point improvement from the first quarter of last year. First-quarter gross margin dollars increased by almost $41 million, a 9% increase from the fourth quarter of 2003. The gross margin improvement was largely driven by a richer product mix and higher ASPs in both of our major business lines.

Marketing, general, administrative spending was $180 million for the quarter, up 11% compared to the fourth quarter, due mainly to the following three items: one, increased marketing expenses associated with our ongoing brand efforts and incremental investments in sales and marketing in our emerging markets; two, Fab 36 startup expenses; and three, other strategic administrative expenses. Roughly a third of the increase quarter-over-quarter were one-time events. Cash flow from operation was a positive $206 million for the quarter, which represents our third consecutive quarter of delivering positive cash flow from operations. EBITDA was $373 million, a 4% improvement over our fourth quarter performance.

Now I'll switch to the business overview for the quarter. First, I'll start with our Flash memory group. In the first quarter, sales grew to $628 million, up 188% from the first quarter of 2003, and up 11% over the fourth quarter. The sales growth was due to strong performance in the wireless and embedded markets and increased shipments of products based on MirrorBit technology. I am pleased to report that the Flash memory group was profitable in the first quarter with an operating income of $14 million. This is a strong reflection of very solid progress and rapidly integrated AMD's and Fujitsu's Flash memory businesses.

Gross margins improved in the quarter due to increased sales, higher ASPs and the initial realization of cost synergies. The memory group reported a $17 million bottom line improvement over the fourth quarter, on $61 million of incremental sales, or a 27% fall-through.

First quarter sales in CPG were $571 million, a 22% increase over the same period a year ago, and a slight decrease from the fourth quarter. In line with normal seasonality, unit shipments were down. ASPs improved for the fourth quarter in a row, and were enhanced by continued penetration in the enterprise market. With a richer product mix, the CPG business increased its operating income in the quarter to $67 million, a 7% increase from the fourth quarter.

Turning to the balance sheet, a few highlights. Cash balances ended the first quarter at $1.3 billion, about flat from the fourth quarter. We ended the first quarter with inventory levels at $693 million, roughly flat from the fourth quarter levels. Capital expenditures were $202 million in the first quarter, compared to $164 million in the fourth.

Now, let's talk about the outlook. AMD's current outlook for the second quarter of 2004 is based on the following projections. In our memory group, we expect sales to increase modestly. For our computation products group, we expect sales to decline modestly, in line with industry seasonal patterns. In aggregate, AMD expects seasonal patterns to prevail, and sales to be approximately flat.

For your modeling purposes, please consider the following. We still expect fiscal 2004 capital expenditures to be around $1.5 billion, and we are confident they will be largely funded by cash flow from operations. We recorded a first quarter tax rate of 5%, and we continue to anticipate that our quarterly tax rate for fiscal 2004 to be within the 0 to 10% range. Given our memory group sales expectations to be modestly up, we expect the minority interest line to be approaching zero in the second quarter. Once again this quarter, approximately 55 million shares were included in our diluted share calculation to reflect the shares from our $402 million convertible. Likewise, the diluted share calculation does not include the interest expense associated with this convertible. Quarterly earnings of 9 cents per share would trigger the inclusion of these shares. Similarly, the $21 million – the 21 million shares – excuse me, from our $500 million convertible will be included when our quarterly earnings reach or exceed 27 cents per share.

In summary, we are very pleased with the progress in the first quarter, as we increased sales and profits in the seasonally down quarter, and saw our memory group reach profitability. Looking ahead, we will continue to tightly manage our cost structure by complete – by completing rapid transition to our new technology node in both of our major business units. In short, we will continue to do what we said we're going to do, an important operating principle in the new AMD.

And with that, I'll turn it back to Hector.

Hector de J. Ruiz, President & Chief Executive Officer

Thank you, Bob. We have begun this New Year with substantial momentum in each of our major businesses. In our AMD64 and MirrorBit technologies, we have designed truly customer-centric innovations that have begun to reset the competitive balance of their respective markets. And each has a lot of market head room in which to expand. With continued market health, we can be quite bullish about prospects for increased demand over the coming quarters and years, which is why I would like to take the last few minutes of my prepared comments to discuss what I consider an under-recognized capability at AMD, our design and manufacturing leadership. Because, in addition to a clearly superior portfolio of products and healthy customer demand, leadership in this industry is characterized by sustained mastery of highly complex and evolving manufacturing. And AMD has build some important, arguably distinctive design and manufacturing capabilities which will allow us to continue to thrive as our new technology is coming to full maturity.

It all starts with revolutionary designs. AMD takes a great pride in creating elegant customer-centric designs that are simpler, more in line with the specific needs of our customers and their customers. But, beyond this, we design for manufacture ability. For instance, because it is largely derived from prior generations of our technology, our AMD64 technology takes advantage of the great legacy of manufacturing knowledge developed over years of advanced logic manufacturing techniques.

Our MirrorBit technology is revolutionary in another way. It is actually a very elegant design in its simplicity, requiring few practice tests and resulting in a product that is both superior in its performance and easier; and therefore, more cost effective to manufacture.

Our fab-management discipline has been well regarded in the industry both in the context of our performance against leading industry benchmarks, and its importance in the feedback from our world-class customers and partners.

But what only a few in the industry understand, is the leadership position AMD has quietly established in the process automation arena. AMD's Automated Precision Manufacturing, or APM, is our patented suite of more than 250 leading-edge fab automation and optimization technology used to reduce time-to-yield on new technologies, improve wafer yields and decrease manufacturing cost.

With APM, each generation of Flash memory has ramped to mature yields better and faster than prior generations. Our best time-to-yield in our Flash business has been in converting to 130 nanometers, which is now fully accomplished in both of our leading-edge fabs. And it is important to note, that we're already ahead of the ramp in our conversion to 110 nanometers in fab 25.

With AMD Opteron, we experienced a 66% improvement in our time to mature yield ramp over the prior generation of technology. And all indications are that our performance on 90-nanometers will be on the same or better ramp.

APM is one of our sources of competitive advantage, and we continue to evolve it as an important part of our growing leadership in manufacturing.

AMD is gaining widespread recognition as a clear industry leader: leading the computer industry to pervasive 64-bit computing, in establishing MirrorBit as a new industry standard in Flash memory and in empowering a new generation of tech-capable consumers around the world. We have the design and manufacturing expertise to deliver on these and many other promises in the years ahead.

As I've said before, we are the new AMD, and we're very proud of the progress that we have made, and at the leadership opportunities that we have created with and for our customers. I would like to again thank the thousands of AMD employees around the world for all the hard work to get us back to profitability in these past two quarters. I thank for your attention, I'd like now to turn it back now to Mike Haase for the Q&A.

Michael Haase, Director of Investor Relations

Operator, we are ready to start the Q&A session, please.

QUESTION AND ANSWER SECTION

Operator: Thank you sir. Ladies and gentlemen, if you wish to ask a question, please press "star" then "one" on your touchtone phone. There will be a tone indicating that you have been placed in the queue. You may remove yourself from queue at anytime by pressing the "pound" key. If you are using a speakerphone, please pick up the handset before pressing the numbers. Once again, if you have a question at this time please press "star" then "one."

One moment, please, for the our question, which is from the line of Tim Luke with Lehman Brothers. Please go ahead.

<Q – Tim Luke>: Thank you and congratulations on the quarter, I was wondering with respect to the gross margins in the quarter improving whether you could give some color on how you see the margin outlook developing and how you see it longer term as you transition to 90 nanometer? Thank you.

<A>: Only upward from here, in both businesses we see actually improvement as we transition – as we continue to complete the transition to 110-nanometer in Flash, and as MirrorBit continues to gain more traction as a bigger part of the portfolio, we will see significant gains in gross margin in our memory business. And in microprocessors, really the story is the same. As we transition to 90 nanometer, we will see improvement from that and also as we continue to ramp AMD64.

<Q – Tim Luke>: Can you give us any sense of the range to which that might apply. Could we on flattish sales anticipate a similar jump to the one we've just seen in terms of the gross margin in terms of the order of the magnitude of the improvement?

<A>: So it really depends on how you model the mix. Obviously the Flash business is quite a bit lower than the microprocessor business, and kind of think it is as almost 50% to 1. So it kind of depends on that and really what mix you assume for our business model. That's about all the color I'll give you.

<Q – Tim Luke>: Thank you very much.

Operator: And our next question is from the line of Mark Edelstone with Morgan Stanley. Please go ahead.

<Q – Mark Edelstone>: A nice sum on the quarter guys, I had two questions, first one just related to the incremental profitability you can drive from the operations in Flash, maybe just give us a sense as to how far along you think you are in terms of bringing out some of the efficiencies in the merged business and where that could go from here, all other things considered equal, in the Flash business for you?

<A>: Well, Mark, there are a number of things that are going to help us improve as Bob pointed out in no particular order, frankly. It's just the fact that the synergies of the two institutions combined are just now beginning to be realized. As Bob mentioned in his comments, we just saw the beginning of the impact in this past quarter. We expect that to continue to between now and the end of the year, and to continue to improve. The second part is we're aggressively moving to 110-nanometer technology in our Flash product line. That would also have an impact. And late in the year, as we begin 90-nanometers that would also continue, that trend to improve. However, probably one of the things that's very critical here to get a sense for is that the conversion to MirrorBit is going to be very significant in our ability to improve profitability in that business. As I mentioned in my prepared remarks, MirrorBit is an incredibly powerful technology, simple, elegant, easy to manufacture in relative terms, because nothing is easy in this business. And so we're really looking forward to that. The combination of all these things gives us confidence that quarter-after-quarter we'll see an improvement in our margins in Flash.

<Q – Mark Edelstone>: I guess, Hector, is there a way just to try to calibrate how much you can get from each of those variables?

<A>: Yes, probably anyway we calculate it today, it will probably change tomorrow – so I can tell you they are all good, they are all roughly equal in contributions, but they're all positive. And that's about all I can tell you.

<Q – Mark Edelstone>: Okay. Thanks a lot. And just one last follow up on the processor business. Can you just tell us what happened to ASPs in the 32-bit processor family, were those flat or did those actually increase again?

<A – Henri Richard>: Mark, this is Henri, the ASP increased slightly in the 32-bit family.

<Q – Mark Edelstone>: Great. Thank you, guys.

<A>: Thank you.

Operator: And our next question is from the line of Andrew Root with Goldman Sachs. Please go ahead.

<Q – Andrew Root>: Hi. Thanks a lot. Just continuing on the topic of mix, your 64-bit unit shipments doubled in the quarter. I'm curious if you're expecting similar momentum of that product – do those product families ramp in 2Q as part of your guidance?

<A>: We have gained a lot of momentum; we're happy with it. We expect our momentum to continue. In terms of dollar terms, as I mentioned at the last earnings call, and I'll repeat it on this one, is towards the end of the year, we expect the dollar revenue on AMD64 will switch over over our K7 architecture.

<Q – Andrew Root>: Okay. And then related to that as the 64-bit architecture ramps, when you launch 90-nanometer Opteron for commercial volume in Q3, do you expect at that time that any other key food chain partners, chipset partners will come along side that would be interesting to the industry?

<A>: I'm not really sure I understood the question.

<Q – Andrew Root>: Well, do you think that, for example, you'll see additional producers of chipsets for the Opteron product when 90-nanometers launches volume in Q3?

<A>: Yeah. We're not going to announce or preannounce product from our partners, but it's clear that there is a growing momentum in the chipset arena for service solutions based on the AMD64 Opteron processor.

<Q – Andrew Root>: Okay. I'll take that as a yes for the moment. Thanks.

Operator: Our next question is from the line of Michael Masdea with CSFB. Please go ahead.

<Q – Michael Masdea>: Yeah, thanks a lot and congratulations. If I understood you correctly, you guys are talking about fairly seasonal computing unit demand, but you continue to see the ASP work in your favor. If you can talk about – if that's right, if you can talk about, is this just a continued kind of customer perception change and how much more room do you think you can close the gap with your competitor there? The first question.

<A>: Well, there is a – there has been a concerted effort as we introduce the AMD64 family of products to continue to penetrate segments where we did not serve before. And the most obvious one that stands out is the server space and the workstation space, high performance computing, we went from pretty much a year ago, being zero in that space and we're gaining traction. And as you know, with more customers signing up now with Sun, HP, and IBM continue and in others, we will continue to move into that space where prices are higher and therefore the mix change will continue to put some upward potential in our ASP.

<Q – Michael Masdea>: Okay. Just – quick follow-up maybe on your Flash side. Can we have some milestones in terms of where you are in MirrorBit now and where you expect to be kind of by the end of the year, if you can give those out?

<A>: What I can tell you is that the growth in MirrorBit is – it's robust and aggressive and we're moving it as fast as customers are able to move to that, and we believe that roughly in round numbers give or take a little bit toward the end of the year, half of our products that be in manufacturing will be, MirrorBit or more.

<Q – Michael Masdea>: Thanks a lot.

Operator: Our next question is from the line of Joseph Osha with Merrill Lynch. Please go ahead.

<Q – Joseph Osha>: Hi, guys. I have two ones. First on the Flash side of the business. How close are you to capacity, your being capacity limited, and I have a follow-up?.

<A>: In the first quarter, the one that we just ended, our Flash capacity was very tight. You know, we live hand to mouth in many, many of our products but particularly the heaviest challenge was definitely on the low-density part of the equation. As we go into the second quarter, we're going to improve our ability to make product, but we still expect to be very, very tight. We believe that the conversion to 110-nanometers will begin to improve in the third quarter.

<Q – Joseph Osha>: In the third quarter?

<A>: Yes.

<Q – Joseph Osha>: Okay. And then the second one, I know you can't, you're not going to give me a number, but as I look at my model, it looks to me like Opteron plus Athlon 64 in the first quarter was probably in the neighborhood in unit terms of about 10% of your volume, am I in the right –excuse me, 5% of your volume, am I in the right zip code perhaps?

<A>: You're too low, and I'm not going to give you the number but you're too low.

<Q – Joseph Osha>: Okay. Okay so, 5% is too low. All right. Thanks.

Operator: Our next question is from the line of Hans Mosesmann with Schwab SoundView. Please go ahead.

<Q – Hans Mosesmann>: Yes, thank you. A couple of questions, can you give us a sense of the Athlon 64/Opteron ramp, is it coming along as expected, a little better than expected, and the follow-on is on Flash, if you can comment on the level of allocation, if you are on allocation of this product for the next couple of quarters? Thanks.

<A>: Yeah, we've modeled our – the balance between our AMD64 product, which is our K8 architecture and our Athlon XP product which right now is mostly known as our K7 architecture based on what customers and – want from us. For example, if the customer wants a – the best value you can get at a given performance for a 32-bit system only, it is hard to beat Athlon XP today. And so we've dialed that as we've – the quarter evolves and we have managed to stay on plan relative to the ramp that we can – are happy to have on AMD64. We expect that to accelerate, as in the second half of the year, the software ecosystem begins to get stronger and Microsoft will begin to release the Client OS that will address the needs of the 64 systems. So we expect that also to accelerate. Well we're very fortunate. We have now the broadest portfolio in x86 architecture we've ever had in the history of the company, when you go from the value space, mainstream, 32/64 client server, workstation, and we're dialing in the proper mix based on our customer needs and demands. And on the Flash side is as I said before that we're tight on manufacturing, we're having a tremendous challenge on the very low-density part respective on Flash. We expect that very tight situation to continue in the second quarter and begin to be alleviated in the third quarter as the 110-nanometer takes hold.

<Q – Hans Mosesmann>: Okay. Thanks a lot.

Operator: Our next question is from the line of Krishna Shankar with JMP Securities. Please go ahead.

<Q – Krishna Shankar>: Can you give us an indication of what channels and markets seem to be most receptive to adopting the Athlon 64 architecture? And can you also give us an update on your FX in the notebook PC market?

<A>: Sure. In terms of channels, we had again a record quarter in the distribution channel, which indicates continued strong adoption by enthusiasts, PC enthusiasts, gamers and the small and medium businesses, and that's the statement for the client side. As we indicated in our remarks, on the server side, the quarter was characterized by increasing adoption of the Opteron processor in the enterprise outside of its traditional high performance-computing segment and into computational needs that are more considered mainstream. So I see across the board. As far as the notebook, as you may know, we introduced in the first quarter our Athlon 64 mobile processor, and I'm very pleased with the initial response that we've got in the marketplace. As you know, the most dynamic portion of the notebook market segment is the desktop replacement and the AMD Athlon 64 mobile processor brings an incredible level of performance for that particular type of usage. So we're seeing strong demand in that segment.

<Q – Krishna Shankar>: Okay. And on the Flash market, given that you're running almost at full capacity, what steps can you take to improve your mix of units so that you get to significantly higher levels of profitability before the 110-nanometer technology gives you effectively more capacity?

<A>: Well, the step, I mean, its not a question of dialing a different product mix, it's a question of what our customer demand is. And we're working with our customers to look at their needs and particularly in the embedded – in the wireless space, where the need for higher density continues to be strong and moving up. And we have a very strong partnership with many of the – all of the key suppliers in the mobile space. And working with them, the density of our products continues to increase in that particular space. So we're spending a lot of time and energy working with them to be able to make sure that we meet their needs. And in addition to that, on the embedded side of the house, we're working to try to move people also to MirrorBit, because it is a much more effective technology, better for the customer, better reliability, better cost, etcetera. That will also lead to improve margins. And we're putting in place – expansion seen in our Flash factory in Japan, which is called JV3, which is one of the factories that came from Fujitsu, in order to add more capability on these leading-edge type of technologies, both for floating-gate and MirrorBit. We expect all of those things will continue to modestly increase pricing. The one thing I want to just reemphasize is that, despite the capacity constraint being tight, there is still a pretty heavy-duty competition out there in the marketplace and although prices are firming, they are definitely not a rocket going up.

<A>: I just want to underline that in the first quarter we had an improvement in both average megabits shipped and also ASP. So there is already a trend towards an enrichment of the product mix.

<Q – Krishna Shankar>: Thank you.

Operator. Our next question is from the line of Ben Lynch with Deutsche Bank. Please go ahead.

<Q – Ben Lynch>: Hi. First question. CPU revenues declined, EBIT went up, you know there's been some concern that you guys were maybe having some problems at 130-nanometer yields, which of course, well, which you have denied. How shall I interpret this revenue/EBIT divergence? Is it, you know, AMD 64-bit products have higher margins than 32-bit, or is there something else behind it? And I have a follow up question please.

<A>: Well I guess I'll repeat a portion of what I said before is that the introduction of AMD64 has given us the opportunity to penetrate segments that we did not serve before. And those segments have allowed us and to improve our ASPs and product mix. That is a very positive statement and has helped in our ASPs. The second part in that, you know, I'm looking for ways in which I can dispel this belief in the market place. We – our manufacturing is at an all time high in terms of yields, performance, cycle time, benchmarks done by third parties, which are made up of practically every semiconductor manufacturer in the world, indicate that we are the premiere manufacturing site, premier manufacturing company . Our customers as we present data to them, they are pleasantly receiving the data that we present them because we are very strong. So that 130-nanometer is mature, the yields are outstanding and as we begin to make the transition to 90-nanometers, which I said in my prepared remarks, we're going to begin within a matter of few weeks. We already have data that indicates that we will begin 90-nanometers on a higher level of productivity than 130-nanometers. So, we're very pleased with manufacturing and that's why I took some additional steps in my prepared remarks to try to convey to you how strong we are in that particular area.

<Q – Ben Lynch>: Right. Yes. Thanks. The second question I had was maybe for Henri, CPUs revenues outgrew Intel a lot, lets say they under-grew less, probably about 8 percentage points or so. For the second quarter you are guiding maybe only 1 to 2% better it seems. You know, are you losing sort of momentum in terms of the rate of share that you're gaining or do you think you are more sort of just being conservative?

<A>: Well, Ben as you know the second quarter is always a tricky quarter for this industry, in particular, in Europe where we have a very strong presence. So I would say we are conservative.

<Q – Ben Lynch>: Great. Thank you very much.

Operator: And our next question is from the line of John Lau with Banc of America. Please go ahead.

<Q – John Lau>: Thank you, Henri. Given the rapid adoption of the AMD64 and looking at the forecast for the second half of 2004, are you going to be constrained by capacity at the 130-nanometer node? And what is the percentage of the best guess you have in terms of what the AMD64 percentage would be at 90-nanometers by the end of the year? And I have a follow up. Thank you.

<A – Henri Richard>: Do you want me to answer the demand question?

<Q – John Lau>: Yes.

<A – Henri Richard>: Well, John, from a -- as we can see today based on our plans and forecast, I don't foresee any constraints of supply of AMD64-based processors for the second half of the year. That's the response from the demand perspective. As far the 90-nanometer question?

<Q – John Lau>: Yes.

<A – Henri Richard>: Can you clarify exactly what you want to know there?

<Q – John Lau>: Yeah. What percentage of the AMD64s will be at 90-nanometer by the end of the year?

<A – Henri Richard>: You know, I won't give an exact amount. I think it will be significant because we're ramping the technology fairly aggressively beginning this quarter.

<Q – John Lau>: Okay. And then, in terms of the follow-up, looking into the second half of 2004 and into 2005, in terms of the relative growth – growth rate on a unit basis, do you believe the notebook market units will be growing faster or is the server unit still the catalyst for 2004?

<A – Henri Richard>: Well, clearly the – from a unit perspective, the mobile market will be a catalyst for growth for us. As I've mentioned, we introduced the AMD64 mobile processor in Q1 that was the first quarter and we except to grow that business very quickly. From a revenue perspective, we're going to see both the mobile segment and the server segment generate good revenue growth, obviously because of the ASP driven in the server segment.

<A>: The only thing I would add to that is that because we are going from an incredibly low level of participation in the server space, our opportunity for growth for us is much higher than what it is for the market.

<Q – John Lau>: Great. Thank you.

Operator: Our next question is from the line of Quinn Bolton with Fahnestock & Co. Please go ahead.

<Q – Quinn Bolton>: Hi. First question for Bob. I think in some of your earlier comments at investor conferences this quarter you talked about a double-digit operating margin target for the Flash operation by the end of '04, still think that that's a good target?

<A – Robert Rivet>: Yes. In the fourth quarter, still think that's within reach, and again that's based on – demand that's very strong. MirrorBit technology continues to ramp very aggressively in the marketplace and accepted by our customers, and the transition to 110-nanometers now and starting 90-nanometers at the end of the year.

<Q – Quinn Bolton>: Okay. And then the second question is, could you give us an update on the Newcastle product, and to how that's ramping here into the second quarter?

<A>: The product is on plan.

<Q – Quinn Bolton>: Okay. Thank you.

<A>: We are updating that. All of our product plans are on plan for the second quarter.

Operator: And our next question is from the line of Michael McConnell with Pacific Crest Securities. Please go ahead.

<Q – Michael McConnell>: Ah, yes. On the Hennessey Flash pricing, is it more a function that the rather benign pricing we're seeing out there. Although it is stabilizing your ability to really get better pricing. Is that more function of your competitors pricing tactics right now or one of your competitors pricing tactics or more a function of the longer-term contracts you have with your customers?

<A>: It's the latter. As you know, the vast majority of our Flash business today is with strategic OEMs around the world with whom we've engaged in multi-year relationships. Therefore, we have a stability in the pricing that's essentially driven by the performance of our product portfolio and our road maps. There is pricing pressure out there but those types of customers don't switch over simply because there's a lower price suddenly in the market.

<Q – Michael McConnell>: And then what is the – your target by the end of the year for – on the Flash side for 110-nanometer percentage of total Flash by the end of the year, your capacity?

<A – Robert Rivet>: More than 50%.

<Q – Michael McConnell>: And Bob, what was the add back to the convert in Q1?

<A – Robert Rivet>: 55 million shares. The first convertible, the $402.5 million convertible is in the fully diluted share computation.

<Q – Michael McConnell>: Okay. Great thanks.

Operator: And our next question is from the line of Chris Danley with J.P. Morgan. Please go ahead.

<Q – Chris Danely>: Hi, thanks guys. Nice quarter. Just a couple of clarifications on Flash. You said ASPs go up, did actual pricing go up in Q1 for Flash, i.e. pricing for individual chips?

<A>: No, as you know, again, because we're engaged in many long-term relationships, typically Q1 is a quarter where you negotiate pricing for the year – for the fiscal year.

<Q – Chris Danely>: Yeah.

<A>: So there was the natural adjustment in those relationships of the pricing. But yet we had an ASP increase which is a testimonial to the growth of our – the quality of our mix.

<Q – Chris Danely>: Exactly and…

<A>: There was a slight decrease in price and an increase in ASP due to a significant increase in product mix.

<Q – Chris Danely>: Got it. And do you expect a similar situation to occur in Q2 and Q3?

<A>: Well, as I stated, we negotiated most of the long-term relationships in the first quarter. So, as far as the large customers, we now have a stable situation. Clearly, for us, we are driven by a customer demand to move more and more of our solutions to MirrorBit and that, you know, provides us with opportunity to bring cost competitive solutions, but at the same time improve our own profit.

<Q – Chris Danely>: Sure, and then can you just comment on what the lead times are in Flash, right now?

<A>: Our lead times are in the 12 to 13 weeks range.

<Q – Chris Danely>: And – so, it sounds like you expect those to remain in the same range for Q2 and then hopefully be brought down in Q3 when the capacity comes online?

<A>: That's correct and, you know, again we are ramping 110-nanometer on floating-gates. Next quarter, we'll ramp 110-nanometer on MirrorBit and the conjunction of these two transition will bring us in a very favorable position to respond to customer demand in the second half of the year.

<Q – Chris Danely>: And last question, can you give us any sense of how much capacity you have coming on in Q2 and Q3?

<A>: No, I wouldn't give you specifics, but I can tell you that we're moving rapidly towards the, if you were to look at fourth quarter to fourth quarter for us, it is approximately doubling.

<Q – Chris Danely>: I'm sorry. Say that again?

<A>: If you're looking at fourth quarter to fourth quarter, we're probably doubling more or less, give or take a little bit.

<Q – Chris Danely>: Great. Thanks a lot guys. Great quarter.

Operator: Our next question is from the line of David Wong with A.G. Edwards. Please go ahead.

<Q – David Wong>: Thank you very much. For your Flash sales, can you give us some idea of the distribution amongst various major end markets?

<A>: Sure. We're – clearly our biggest position is in the wireless handset market, where we're engaged with most of the key players in the industry and that represents a little over 60% of our business. But, we also have a very strong position in the embedded segment and actually, it's important to note that in the first quarter, the growth in the embedded market was slightly higher than in the wireless market.

<Q – David Wong>: And in embedded, can you give us any idea of what the major uses of the embedded are?

<A>: Well, I'll give you a – you know, consumer electronics and automotive are traditionally very strong segments for AMD.

<Q – David Wong>: Okay. Thank you.

Operator: And our next question is from the line of Adam Parker with Sanford Bernstein. Please go ahead.

<Q – Adam Parker>: You might have said this, I apologize if I missed it, but when is your plan for a 50% crossover on production on 90-nanometer in the processor space?

<A>: I didn't say for 90-nanometer, but…

<Q – Adam Parker>: You said production is starting Q3. So, when do you think you'll crossover?

<A>: 90. I --, you know, it will be between the fourth and first quarter.

<Q – Adam Parker>: Okay. And then just following up on something Bob said, just trying to guide a little bit more to your comment that margins are only, sort of, upward a tad from here. You know it seems like at a high level the biggest factors are basically, you know, depreciation, technology improvements and then a combination of pricing and mix. And I just want to talk about the kind of depreciation part a little bit. Can you help with – do you think you really structurally reduced your capital intensity over time and, you know, what's the depreciation impact into Q2 versus Q1 and then, sort of, longer term sort of 2005 versus 2004 if you can add any color?

<A>: Well, we're – if you haven't picked up on earlier answers to questions, we are adding capacity raw machinery capacity…

<Q – Adam Parker>: Right.

<A>: In the memory business in JV3 in particular.

<Q – Adam Parker>: Right.

<A>: That building was only actually half-equipped. So, we will have more depreciation come online throughout the year. Most of that will happen in the second half of the year from that standpoint. And we're enjoying leadership position in that marketplace. We continue to try to distance ourselves from number two. So, we'll continue to add capacity at the appropriate time, which to me will yield a little more depreciation.

<Q – Adam Parker>: So, I guess my point is, you know, do you think longer term you've, kind of, changed your capital intensity at all, or is that not part of the plan?

<A>: We always continue, I guess, the answer is we always look at it. We figure out and find the sweet spot, but the memory business is still a very capital-intensive business.

<Q – Adam Parker>: All right. So, the second piece of that then would be, kind of, the pricing in or you've talked about the mix being good. But can you maybe talk a little bit about, what you envision for Flash pricing over the medium term here with, I guess Intel, Samsung, Renesas all wanting to gain more share in NOR Flash in the coming couple of years. How do you think that's going to plan out or do you just think your technology is now just a cut above and getting better and better?

<A>: Well, I think, I won't be so bold as giving you a two year outlook on price in Flash. If I did, maybe I would have your job but…

<Q – Adam Parker>: That's the last thing you want.

<A>: But clearly again, because of the strategic nature of our business and particularly in the wireless space, you know, that area is really driven by constant innovation and progression in density and complexity of the package. So, you know, time-to-market, a competitive road map and high-level quality technology is really what matters. At the low end, in the lower densities, as you pointed out, there are some people that have lost significant market share over the last year. They are going to try to regain some of that share, and I expect that a lot of the competition may come in that space initially.

<Q – Adam Parker>: So I guess…

<A>: I would say, you know, competitive, tough business at the high end, but again, it's more than price. As you go down in density the, you know, the effects of being cheap and available is probably more of a factor of decision for the customers.

<A>: And I'd like to add to that just one thing; you alluded to it in your question is that the MirrorBit technology is really unique. It's incredibly strong, very powerful in terms of cost performance and quality, and I think that will be one significant competitive differentiator.

<Q – Adam Parker>: Okay. Thanks for the color.

Operator: And our next question is from the line of Clark Westmont with Smith Barney. Please go ahead.

<Q – Clark Westmont>: Hi, most of my questions have been answered. I'm just wondering on the – in terms of any road map or milestones you put out there for Athlon 64, can you tell us how you tracking to those or give us any milestones for the year in terms of unit volumes or anything like that?

<A>: Well, Mark, as Hector pointed out, we've always said that we were expecting the crossover point to be in the fourth quarter of 2004 and we're maintaining that guidance.

<Q – Clark Westmont>: Okay. And in mid-year, I think, you had said at one point over a million units cumulative or over a million and half? I'm trying to nail down which one of those numbers was the bogey. Or, was there such a bogey?

<A>: Well the market is determining that, but our capability to ramp is on plan. We're happy with where we are and we expect again on the longer term view to cross over by the end of the year.

<Q – Clark Westmont>: And I think there was an earlier question about whether the margins on the 64-bit are more than the 32-bit, can you comment on that?

<A>: The reason being right now is that we are so heavily influenced by the fact that the early introduction of AMD64 was in April of last year, a year ago, and it was done on the server workstation high performance computer where margins are, you know, higher than the 32-bit performance we had, which was mostly in the consumer client space. For that reason that continues right now. However, a part of the client that I think is important for you to know that's doing extremely well is in the Athlon 64 FX, which is really the highest performing client product that you can get, period, in both 32-bit and 64-bit. And those margins are pretty good too.

<Q – Clark Westmont>: Thanks.

<A>: Operator we are going to take two more questions please.

Operator: Yes sir. Our next question is from the line of Allan Mishan with CIBC. Please go ahead.

<Q – Allan Mishan>: Hi, with your expectation that revenue will be flat next quarter and the slight shift towards memory, we would tend to expect that gross margin would decline slightly going forward. Is there anything going on on the ASP side or maybe on the manufacturing side that would cause that not to happen?

<A>: You've decoded it pretty correctly. We're trying our darndest of course to offset that kind of mix shift issue that takes place. But nothing of significance that can happen in a 90-day window of time to overcome the two-for-one issue between the microprocessor margin and the Flash margin.

<Q – Allan Mishan>: Okay. And I know we've beaten Flash margins to death, but just kind of in simple terms, do we get additional margin boost on the Flash side from, you know, just a higher volume? Or are we dependent on pricing improving at this point or, you know, a shift towards MirrorBit or higher density etcetera?

<A>: Higher volume always helps amortize the cost. This is a very fixed cost business. So that's one. Any increase in MirrorBit is a positive. So – and obviously ASP is a positive. So, you know, we have a lot of levers that are moving in the right direction. It's just a matter of how quickly they gain traction and move through the system.

<Q – Allan Mishan>: Great. Thank you.

Operator: Our next question is from the line of Michael Cohen with Pacific American Securities. Please go ahead.

<Q – Michael Cohen>: Yeah. Congratulations on the quarter. Hector, with the recently announced partnership between Sun Microsystems and Microsoft, I was wondering if you'd be willing to share in your words how you think that this partnership is going to affect AMD?

<A – Hector de Ruiz>: Well I'll give you a personal view that's not a reflection of anything from our key partners and customers. I think it's great for the industry that these two companies are working together now. And with the strong partnership with Sun which we are enjoying and we're very thankful and excited about, it can only be positive for us.

<Q – Michael Cohen>: Okay. Another question I have for you is with Intel recently announcing that they're going to also have 64-bit extension on Xeon. I was wondering what differentiators like an integrated front side bus and other things, do you believe it's a compelling reason why customers should still be choosing, let's say, Opteron over Xeon?

<A>: Well, you know, that's a tough question with the fact that, you know, I personally or don't know of anybody that has seen any of the products yet that is going to compete with Opteron. So – but given the fact that Opteron is an 8th generation processor, not a 7th generation processor with an added instruction set, but an 8th generation processor with an integrated memory controller with HyperTransport technology and also the inherent capability because of that to be able to move into the multi-core space, I believe, we have a very strong position which customers will see the value of pretty quickly.

<A>: I'd just like to add that, you know, to date, we are winning in many, many segments on 32-bit performance only. So, that's clearly, you know, a testament to the fact that the architecture of the product is superior. 64-bit extension is relevant and becomes more and more important by the day but architecturally, this product is the superior product today because it's a new generation. And there's a lot of catching up that need to be done before you can match the performance of Opteron.

<Q – Michael Cohen>: Okay. And congratulations on being the first to introduce it as well.

<A>: Right. Thanks, Mike.

Company Representative

And thank you everyone for participating. We're going to conclude the call now.

Operator: Ladies and gentlemen, that does conclude our conference call for this evening. We thank you for your participation, and for using AT&T Executive Teleconference. You may now disconnect.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q4 2003 Earnings Call for 20-January-2004 5:30 PM ET
Tuesday, January 20, 2004 10:30:00 PM (GMT)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the AMD Fourth Quarter Earnings Announcement. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question and answer session. At that time, if you have a question, please press the "one" followed by the "four" on your telephone. As a reminder, this conference call is being recorded Tuesday, January 20th, 2004. I would now like to turn the conference call over to Mr. Michael Haase, Director of Investor Relations. Please proceed, sir.

Michael Haase, Director of Investor Relations

Thank you very much. Good afternoon, everyone. The format of the call today will include prepared comments followed by Q&A. The participants are Hector Ruiz, our President and CEO; Bob Rivet, our CFO; and Henri Richard, our SVP of Worldwide Sales & Marketing.

This call is a live broadcast and will be replayed at amd.com and streetevents.com. Telephone replay number is 800-633-8284. Outside of the United States the number is 402-977-9140. The access code for both is 21180211. The telephone replay will be available for the next 10 days starting at 6 p.m. Pacific Time tonight.

Before we begin the call, I'd like to caution everyone that we will be making forward-looking statements about management's goals, plans and expectations. As you know, the semiconductor industry is generally volatile. Our product and process technology development projects and our manufacturing processes are complex. Current worldwide economic and industry conditions make it especially difficult to forecast product demand at this time. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we discuss in detail our risk factors and our business. You'll find detailed discussions in our most recent SEC filings, including the annual report on Form 10-K and our third quarter Form 10-Q. With that, I'd like to now introduce Hector Ruiz, AMD's President and CEO.

Hector Ruiz, President & Chief Executive Officer

Thank you, Mike. And thank you everyone for joining us today. One year ago at this time, we were focused on some very fundamental changes in our operating model. Changes we suggested would position us for sustainable prosperity. I'm very pleased to report that this past quarter has proved that we can deliver on the promise of prosperity. And it is my full intent, along with all the members of the AMD management team and every one of 14,000 plus employees, to deliver on the sustainable part of the promise as we go forward from here. I hope that you're beginning to see a pattern of delivering on our promises to our customers, to ourselves, and to our shareholders. We take that very seriously here and believe this past quarter is yet another in a series of quarters where we did everything we said we would do.

Last quarter, I introduced three characteristics that define what I called then "the new AMD". The winning strategy of customer-centric innovation, or becoming a strategic enabler to our customers by focusing on what is most important to their success, continued world-class design and manufacturing performance, and a strong discipline of operational flexibility. The recent quarter is a continuation of our progress and success in each of these three areas. Our customer-centric innovation strategy continues to bear fruit, resulting in ever strengthening customer relationships, and as a result, solid topline growth in each of our core businesses.

In our microprocessor business, we generated strong profits on solid execution, and across our brands and geographies. We are very pleased with the continued strength of our AMD Athlon XP brand. It is truly the workhorse brand in our processor business, and it continued to enjoy a strong success in each of our customers' product segments. Meanwhile, our AMD Athlon 64 product family continues to gain momentum, especially with our top tier 1 customers. In the past quarter alone, desktop systems based on the AMD Athlon 64 processor became available from a variety of customers, including HP, Fujitsu Siemens, Fujitsu, Packard Bell, and eMachines.

Our AMD Athlon 64 FX product continued to gain share with a sophisticated gaming audience for which it was targeted. We were honored that the Athlon 64 FX processor earned the Reader's Choice Award from Tom's Hardware Guide for "Best Innovation in CPUs" for 2003.

And finally, our AMD Opteron family continued to make strong inroads with both top tier customers and their most important commercial accounts. For example, Fujitsu Siemens Computers announced its Celsius V810 workstation, the first dual-processor workstation based on AMD Opteron processor 200 series.

In addition, in November we were thrilled to announce a comprehensive strategic alliance with Sun Microsystems. Sun is already shipping blade products based on our AMD Athlon XP Mobile 1800+ processor, and they are on track to ship two and four-way servers based on AMD Opteron in the first half of this year. Beyond this, Sun Solaris franchises and portfolio of enterprise software relationships bring additional momentum to the AMD Opteron success story. Our strong progress penetrating the commercial sector continued, with important customer wins such as DaimlerChrysler, Qualcomm, Pirelli and Bristol-Myers Squibb and others. We saw healthy sales growth in every geography, including record sales in Latin America and China.

And in summary, our ASP trajectory continued upward, a reflection of a strong brand discipline and solid execution. In its second quarter of existence, our Spansion Flash memory brand has extended its market share leadership in NOR Flash memory. Overall, AMD Flash sales continued to grow faster than the NOR market in both the embedded and wireless segments. And customer demand for more feature-rich products continued to drive average densities up, resulting in a richer product mix and higher ASPs. We continue to gain share in the consumer electronics sector, especially in emerging markets, a function of the strength of the team that joined us from Fujitsu. And we expanded our existing leadership position in the wireless segment. Once again, the fourth quarter produced record demand for our MirrorBit Technology, which continues to be the fastest growing part of our Flash portfolio. All told, the fourth quarter was a record quarter for us in the Flash business. As a reminder, only two quarters into the integration efforts the progress we have made is rather phenomenal, and the fact that we came very close to making money in the quarter is proof of our great progress.

Rounding out our portfolio, the Personal Connectivity and Solutions Group experienced strong sales growth in the quarter. In fact, in its first full quarter at AMD, our AMD Geode brand achieved near record sales, a testimonial to the strength of the AMD brand. Our customer centric innovation approach is working, as we continue to offer a superior alternative to the competition, in those markets we choose to serve.

In manufacturing, AMD continues to demonstrate world-class operating performance in each of our core businesses. In Flash, we've successfully qualified 110-nanometer floating gate technology for production as we continue our aggressive transition to 110-nanometer in both our fab 25 in Austin, Texas, and JV3 in Japan. This, coupled with the growing adoption of our MirrorBit technology, will enable continued capacity growth to meet expanded customer demand.

In processors, our manufacturing ramp on AMD 64 is progressing to plan. Yields are solid. And we are capable of meeting customer demand, as it continues to scale across our entire AMD 64 family. We continued our steep ramp to 90-nanometer technology and remain on track for production wafer starts in the first half of this year.

Finally, as promised, AMD broke ground on a new 300-millimeter manufacturing facility, AMD Fab 36, located in Dresden, Germany, and adjacent to our award winning AMD Fab 30. AMD Fab 36 is expected to be in volume production in 2006. And while the fourth quarter was clear evidence of both strong topline performance and solid manufacturing execution, we continue to drive the principles of operational flexibility across and throughout our organization. We're now the clear market share leader in NOR Flash worldwide, we're driving the industry to pervasive 64-bit computing, and our immediate success with the AMD Geode family is a confirmation of the strength of the AMD brand.

To summarize, we're seeing increased confidence among our growing portfolio of customers about AMD, and our growing leadership profile, and as Bob will report, the result to date has being very promising. At this point, I would like to ask Bob to review our fourth quarter and year-end financial results in addition to the outlook.

Robert Rivet, Chief Financial Officer

Thanks Hector. As detailed in our press release earlier this afternoon, our fourth quarter sales were $1.206 billion, up 76% compared to last year's fourth quarter, and up 26% compared to the third quarter of 2003. Topline growth was a reflection of increased demand in each of our major businesses, across all geographic regions, highlighted by record sales in China and Latin America. The combination of our topline growth and our operational flexibility measures resulted in a profitable fourth quarter.

In the fourth quarter, our net income was $43 million or 12 cents per share. Included in our fourth quarter results is the positive impact of $14 million or 3 cents per share due to an adjustment to the previously recorded restructuring charges and purchase accounting related to the FASL LLC transaction. Operating income was 46 million in the quarter, an improvement of $76 million from the third quarter. Gross margin was 35% for the quarter, up 1 percentage point compared to the third quarter. Fourth quarter gross margin dollars increased by almost $100 million, which represents a 40% fall-through on the gross margin line.

Research and development spending was $227 million for the quarter, up 6% from the prior quarter. A large portion of the sequential growth was driven by initial Fab 36 costs and integrating the new Geode engineering team. Marketing, general and administrative spending was $162 million for the quarter, up 8% compared to the third quarter, inline with seasonal merchandising activities. We generated $389 million of positive cash flow from operations this quarter; the second quarter in a row we generated positive free cash flow. We grew EBITDA in the quarter to $358 million, a 29% improvement over our third quarter performance.

Now, I'll switch to the business overview for the quarter. First, I'll start with Computation Products Group or CPG. Fourth quarter sales on CPG were $581 million, a 38% increase over the same period a year ago, and a 15% increase over the third quarter. Increased sales were due to solid penetration with our largest OEM customers in the commercial market, and an improved product mix. We shipped more units and improved our ASP significantly compared to the third quarter. As a result, the CPG business unit improved its profitability in the quarter and made $63 million of operating income. Profit fall-through on incremental sales was excellent, at 56%.

Now moving on to our Memory Group. In the fourth quarter, memory sales grew to $566 million, up 161% compared to the fourth quarter of 2002, and 34% over the third quarter. In an overall strong market, this performance is primarily driven by a denser mix, stronger MCP sales, and accelerating MirrorBit sales. MirrorBit sales continue to be a larger percent of our Flash memory business. Total unit shipments increased by approximately 16%, and average density increased by approximately 19% compared to the third quarter. The Memory Group recorded a small operating loss of $3 million in the quarter, a reflection of solid progress in rapidly integrating Fujitsu's and AMD's original Flash businesses. This represents a $46 million bottomline improvement over the third quarter on 142 million of incremental sales or a 32% fall-through.

We have seen some progress on cost reductions in the quarter, but offsetting these gains are ramping factory costs to increase output, a higher percentage of MCP sales, and the end-cost increases due to a weakening dollar. We anticipate improved margin expansion as we capture the cost synergies we outlined previously, and move to the next technology node in each of our Flash factories.

Turning to the balance sheet, a few highlights. Cash balances ended the fourth quarter at $1.313 billion, up $237 million from last quarter. Capital expenditures were $164 million in the fourth quarter, compared to $138 million in the third quarter.

Now, I'd like to summarize a few comments about the year 2003. For the fiscal year 2003, AMD sales were $3.5 billion, up 30% from 2002. Annual sales for CPG were $1.96 billion, up 12% from 2002. Flash memory sales concluded 2003 at $1.42 billion, up 92% from 2002. AMD's operating loss for the year was narrowed to $233 million, roughly a $1 billion improvement from last year, and we made money in the second half of 2003. In CPG, we narrowed our operating loss to $23 million for the year, and in Flash memory we lost $190 million for the year. This was great progress in both businesses, particularly in the second half of 2003. Cash flow from operation was positive for the year at $296 million. For the year, EBITDA was $814 million positive, a $1.3 billion improvement from the prior year. Capital expenditures for 2003 were $586 million, under our guidance, and 17% less than 2002 capital expenditures of $705 million.

Now, I'd like to discuss the outlook. AMD's current outlook for the first quarter of 2004 is based on the following projections. In our Flash memory business, notwithstanding typical seasonal patterns, AMD expects sales to be approximately flat for the quarter due to the company's strong position in the market. For the processor business, AMD expects to be in the range of industry seasonal patterns. In aggregate, AMD believes the seasonal patterns are expected to prevail and aggregate sales to be down slightly.

For your modeling, please consider the following. In the fourth quarter, approximately 55 million shares were included in our diluted share calculation to reflect the shares from our $403 million convertible debt offering, assuming conversion. At a tax rate of 0, quarterly earnings of 9 cents per share would trigger the inclusion of these shares. Similarly, at a tax rate of 0, the 21 million shares from our $500 million convertible debt would be included when our quarterly earnings reach or exceed 29 cents per share.

Our quarterly tax rate is anticipated to be within the 0% to 10% range throughout 2004. In 2004, capital expenditures are expected to be around $1.5 billion, including Fab 36 building construction and some equipment purchases, equipment purchases for the completion of our Flash JV3 factory in Japan, and the equipment to complete Fab 30's transition to 90-nanometer. 2004 depreciation and amortization is expected to be approximately $1.2 billion for the year. In 2003, we delivered on our promises. We continued to tightly manage our costs, launched two major products, fully integrated FASL into our operations, grew revenue and improved our cash position.

Moving forward, we believe we are well positioned for 2004 across all business lines with strong product offerings and a sound financial platform from which to continue to execute. And in 2004, we anticipate being profitable for the year. With that, I'll turn it back over to Hector.

Hector Ruiz, President, Chief Executive Officer & Director

Thank you, Robert. As I mentioned earlier, the fourth quarter is a solid demonstration of our capability as a new company. Our processor business generated strong profits based on solid ASP growth, the result of great products, manufacturing excellence, and an improved brand discipline. Our AMD Athlon 64 and AMD Opteron products continue to attract an expanding list of impressive OEMs, starting with IBM, HP, Fujitsu, Fujitsu Siemens, and now Sun Microsystems. From high performance computers, to enterprise, to consumer we are leading the industry to a future of pervasive 64-bit computing.

And our path to that 64-bit future remains clear, in an environment that is only becoming increasingly muddy. Our performance with the Spansion brand is just as impressive, achieving a leadership position in less than 90 days, while driving integration efficiencies across our worldwide organization. We are gaining share in both the wireless sector, the key driver of high-density demand, and the embedded sector, where our MirrorBit technology is particularly well positioned for success. MirrorBit technology continues to earn acceptance as the next-generation industry standard. Our rapid success with the AMD Geode brand both confirms the strength and stability of AMD as a strategic silicone supplier and validates our strategy to drive the x86 architecture into new market segments as we move toward empowering a new generation of tech-capable consumers in emerging markets.

Looking forward, we are increasingly confident in our capacity to succeed. Our customer base continues to expand and improve in all our businesses, and a growing number of our customers see us as a strategic contributor to their success. We entered this New Year with the strongest product portfolio in our history and the world-class manufacturing prowess to produce them in volume. We have our cost structures moving in the direction we want them and the capacity to leverage even more synergies from our Flash business. When we continue to add very high quality talent to our ranks around the globe, we know that our vision and leadership will be confirmed, in some cases copied, by our competitors, but even if they copy us, our customer-centric innovation approach will produce the strong customer bonds and the insight to lead new waves of opportunity. We join the SIA, the WSTS, and the growing number of industry leaders in expressing our optimism for the coming year. And for us the opportunities are clear. We must establish MirrorBit as the new technology standard in flash memory. We must establish a strong footprint in the enterprise with AMD 64, and we must empower new technology users in emerging markets. As I have said before, we are a new AMD, and we're very proud of the progress we have made and of the leadership opportunities that we have created with and for our customers.

Before I close, I would like to once again thank the thousands of AMD employees for all the hard work to get us back to profitability in this past quarter. We entered the New Year poised and ready to deliver on the promise of sustainable prosperity for our customers, our shareholders and ourselves. Thank you for your attention, and now I would like to turn it back to Mike for the Q&A.

Michael Haase, Director of Investor Relations

Operator, let's get started with the Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, if you'd like to register for a question, please press the "one" followed by the "four" on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the "one" followed by the "three". If you are using a speakerphone please lift your handset before entering your request. One moment please for our first question. Our first question comes from the line of Michael Masdea, CSFB. Please proceed.

<Q – Michael Masdea>: Thanks a lot. Great job on the execution again guys. Congratulations. The first question really is on the wireless side. It sounds like, if I read your comments correctly, that you're acknowledging a seasonal wireless quarter but you are guiding for flat. If that's a correct interpretation, can you give us more color if that's more share gain or ASP's or what?

<A – Hector Ruiz>: I'm going to ask Henri to comment on this a little bit from the customer perspective, but the market in general has been very consumer, heavily oriented, and the fourth quarter being a very strong seasonal consumer market, and wireless handsets being an incredibly strong consumer product, it is the expectation of the industry as a whole that the first quarter will experience a downward movement in that particular activity, nothing out of the ordinary, just the traditional fourth-first quarter change. As for any specific market segments or comment, Henri, would you?

<A – Henri Richard>: Thank you. Yes, Michael, I believe that we will continue in the trend that we set in Q3 and Q4. It's not particularly new customers, just an increased share in existing customer, increase of the ASP and mix.

<Q – Michael Masdea>: Great. And then Bob, maybe a follow-up. Certainly a little bit less profitability in that segment, should we expect profits to come down a little bit as you grow your wireless next quarter and PC's are down, or are you doing more on the cost structure side there?

<A – Robert Rivet>: No, we should continue to have in Flash, again to remind you it's only been 180 days since we actually integrated these businesses, we've focused on delighting the customer and sales capture. We are working on cost reductions as we speak and cost synergies. So, you'll see margin expansion as we move forward on the same sales level.

<Q – Michael Masdea>: Great. Last question for me, really on the capacity side. Do you guys, are trying to pull in some capacity? Do you feel like you need to because of some bottlenecks, and if so, given the lead times seem to be stretching out, are you having any problems to grow capacity?

<A – Hector Ruiz>: We started executing on capacity on leading edge technology for Flash back in last summer, and the customers alerted us that this was a need coming up, and I think we executed that well. As a matter of fact, today we're meeting customer demands on MirrorBit, on high-density high-performance Flash products. However, if I take us back to the third quarter of last year, frankly you know, on the lower density, older factories, older technologies we actually shut down our factories for a couple of weeks in the third quarter last year due to an unanticipated slowdown in those particular segments. Not long after we came back from the shutdown, we started experiencing an upside by customers in their expectations, and since then, being in the approximately the August timeframe until now, that demand has increased dramatically. So, the places where we are experiencing very tight demand, it's actually in the lower products, lower density, and we are rapidly trying to move as much of the more newer product to the newer factories, so we can make space in the older factories to increase that capacity. We think that that tightness in the low-end of the spectrum will probably last us through the second quarter.

<Q – Michael Masdea>: Thanks a lot, guys.

<A>: Thank you.

Operator: Our next question comes from the line of Andrew Root from Goldman Sachs. Please proceed with your question.

<Q – Andrew Root>: Yes. Thanks a lot. Quick question on the 90-nanometer ramp, if you could talk a little bit about how that will dictate whether you can stay on the very strong operating leverage that you've shown in microprocessors, and I know that you're scheduled for Q2 production wafer starts, and that would assume early Q3 shipments, but is there a critical time during the quarter, are there signs that give you confidence that this ramp is going normally? Others, not just the microprocessors but in other logic segments, have had significant delays in 90-nanometer. I'm just curious if you think you're free of most of issues that they faced?

<A – Hector Ruiz>: You know, this is an incredibly difficult technology, and challenging, and we're very fortunate to be partnering with a company that I believe is the premier leader in technology, meaning IBM. Working collaboratively with them, we increased our confidence in 90-nanometers even though the alliance with IBM really only effectively starts at the 65-nanometer node, but because of that relationship, we both have really been able to tackle a lot of tough issues, and I am very happy, very pleased, and thrilled with the progress that our teams have made in our 90-nanometer implementation. The results in our engineering work are very promising, encouraging, and we're very, very bullish and optimistic about what that will do for our business.

<Q – Andrew Root>: Is there a time you'd have to decide to go to production wafers or to go to another tape-out, another rev of the product? I know some of your competitors have had to go to three or four tape-outs in their 90-nanometer product.

<A – Hector Ruiz>: You know, again I cannot, the future is tough to predict. But I can tell you that our plan right now is based on always having to do some tweaking on product and taking that into account, and that is also factored into the expectations, that shipments of product will occur in the third quarter.

<Q – Andrew Root>: And then Bob, just a second part of that, if 90-nanometer ramps on time, 50 to 60% incremental operating leverage is what we should look for in MPUs, or does that change at all?

<A – Robert Rivet>: No. That actually would enhance the situation from today's level.

<Q – Andrew Root>: Okay.

<A – Robert Rivet>: But obviously, as we ramp AMD 64, that currently is a bigger dye than the existing Athlon XP.

<Q – Andrew Root>: Okay.

<A – Robert Rivet>: So, we need to do that to maintain that 50 to 70% incremental fall-through.

<Q – Andrew Root>: Okay. Thanks a lot.

Operator: Our next question comes from the line of Tom Thornhill from UBS. Please proceed with your question.

<Q – Thomas Thornhill>: On the processor side, can you comment at all on unit growth or ASP trends in the quarter?

<A – Henri Richard>: Tom, this is Henri. We experienced both unit growth and ASP growth on the trajectory we had set in Q3.

<Q – Thomas Thornhill>: Okay. And would ASPs have been up even without shipments of the Athlon 64?

<A – Henri Richard>: Absolutely. On the strength of our Athlon XP brand in the fourth quarter, we increased ASP on all product segments.

<Q – Thomas Thornhill>: Excellent. Another question is probably more accounting than anything else, if I look at the minority interest number, 19.4 million, that's 40% of the loss, about 48 million or so from the Flash side, how do I reconcile that with the 3 million operating loss number? How do I get from one to the other?

<A – Robert Rivet>: Well, it's a little hard. The business model is a fairly complex one. Again, you have got to remember the FASL business operates as the manufacturer selling to the two parents of the distributor, that equates a margin back to the parents. Obviously, we're one of the parents. So that's the piece of the equation you're missing, plus other technology associated cost transfers between the two organizations, so it is a little more complex, I think offline, we can try to help with your modeling, because you can't just divide and come up with the answer.

<Q – Thomas Thornhill>: Yes, I found that out. Question on incremental margin. Incremental margin on the processor side fall-through 56% at the operating line, excellent, a little less than I would have anticipated given the revenue growth on the flash side. What is the prospect of improving that incremental fall-through and what is the appropriate range that we should be targeting over the next couple of quarters for incremental margin in that business?

<A – Hector Ruiz>: A couple of things, and let me do product technology, then Bob will make a comment on the impact of that, and that is when we went live as a new organization with a combination of Fujitsu and AMD on July 1st of last year our emphasis, as Bob very correctly pointed out, was to make sure we met customer demand, that no customers were affected in the transition, and all our energy was that the merging of these organizations, serving customers was uppermost in our minds. Shortly after that we've been looking at the synergies, which we just have begun to identify. The synergies come in two places. One is the cost efficiency of two organizations that allows you to eliminate some levels of redundancy. That's beginning to occur and we think we're going to experience that even more fully in the next quarter. The other part, which I believe is the most significant, is that both organizations are now aggressively driving the technology changes, moving to 110-nanometers in our factory and beyond, 90-nanometers soon there after. Those things are, when you project them out, bringing about a tremendous opportunity for leverage in – as revenue growth. Bob Rivet, would you like to answer?

<A – Robert Rivet>: Yeah, to your ultimate question on how much should we model for incremental fall-through, Hector has really laid out the groundwork here. As we move through time it will take us a little bit of time to reach these cost synergies, to get to the next technology node, while we also ramp capacity as you probably – if you heard, we're actually ramping JV3, filling out the rest of that factory. There are some cost increases taking place, but bottom line is there's no reason this business shouldn't be delivering 50 cents plus on the dollar of incremental profits as we work through the synergies and the right technology nodes.

<Q – Thomas Thornhill>: So maybe by the second half?

<A – Robert Rivet>: I'd say that might be a little too far out, but I'd say not first quarter, second quarter you'll see some, third quarter. I think you'll see continued progress each quarter.

<Q – Thomas Thornhill>: Thank you.

Operator: Our next question comes from the line of Michael McConnell from Pacific Crest Securities. Please proceed with your question.

<Q – Michael McConnell>: Thank you. Regarding the launch or the ramp of Athlon 64, looks like we're coming up on – you guys reducing the cash size by roughly in half to reduce the die size. Do you plan on any other die size reductions, as we get closer to the 90-nanometer version?

<A – Hector Ruiz>: At this point in time we don't have any product plans to announce right now

<Q – Michael McConnell>: Okay. On the flash side, I was wondering just the competitive dynamics right now in terms of pricing, if you could give us an update on the high-end as well as the low-end regarding flash. Thank you.

<A – Hector Ruiz>: On the high-end, both for Floating Gate as well as MirrorBit, we have experienced, beginning in the last quarter, stabilization of pricing, and when it comes to new opportunities and new customers, we are following the demand-supply equation and appropriately getting compensated for that. On the older technology, it's frankly still very competitive. There are a lot of players around that are scrambling for survival, I would say, and frankly that continues to be a very competitive space. All in all, though, I expect flash products to continue to experience tremendous competition. We are planning and preparing to have what you would expect on a memory type of product, degradation of pricing and as a result, accompanying the appropriate cost reductions to ensure that we're more than just competitive. Henri, is there anything you need to add on the pricing side?

<A – Henri Richard>: Our business is very strategic in nature due to our customer base. As you pointed out, Hector, it's a very competitive environment, but there's some stability. I think what we're seeing in the channel for the opportunistic buyers is clearly a firming up of the pricing, because of the long lead time. That's all I would add.

<Q – Michael McConnell>: Thank you very much.

Operator: Our next question comes from the line of Joseph Osha of Merrill Lynch. Please proceed with your question.

<Q – Joseph Osha>: Hi, guys. Congratulations on progress, progress to profitability here. Wondering if I can get some qualitative sense in terms of the, you know, percentage of mix either in unit or revenue terms that was comprised by the K8 architecture. Are we talking say just a couple hundred thousand units here?

<A – Hector Ruiz>: We gave some indication of our plans before. We are pleased with where we are in our plans. We're happy with our progress. We don't feel that we have varied at all significantly from that and expect that to continue. As far as the mix, you know, we don't give that out, but let me throw out some ideas and help you how we're thinking about it. That is on the server side, if you segment the market by that way, we go from 0 to practically 100% because we haven't really been much of a participant on the server side. If you are going to the high-performance segment of the client we're definitely very strong there and currently with Athlon 64 FX, being a very, very strong player on that side. When it comes to the rest of the client space, you're looking now at a transition time. You're going from 32-bit to 64-bit as well as from one architecture to another, so it's a little more complex than just the transition and the product. We are very happy with the progress and we expect that as software becomes more readily available in the second half of the year on the client side that that will momentum will dramatically increase. Right now our plan is to have a very aggressive ramp throughout the year for the K8 architecture.

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<Q – Joseph Osha>: Okay. Thank you. Second question, Bob, let me just save you some time here, rather than going offline with everyone, we'd all like to know how this line item that amounts to about half of reported income works. I know it's a little complex, but can you perhaps throw some guidelines out that help us to understand how to forecast that item?

<A – Robert Rivet>: You're talking on the memory?

<Q – Joseph Osha>: The $19 million add-back, yes.

<A – Robert Rivet>: Well, obviously that's their share of just the FASL part of the business. Like I said, the piece of the P&L you don't see that we put into the consolidated AMD results of course is the distributor P&L, I'll call it, of AMD. That P&L would obviously have the full value to whatever we sell to end market. It would have the margin that we've negotiated with FASL to come to each of the parents, and that's reciprocal between Fujitsu and AMD, besides the royalty, et cetera. I'm not sure I can do justice for this on the phone call, to be honest, because there are shared service agreements between the parent and the subsidiary, so there's a lot of different factors that come into play in the non-FASL piece of the equation that you see in the operating income line.

<Q – Joseph Osha>: Okay. But this is a big line item, Bob. Can you give us some sense as to what, as analysts, we should do here?

<A – Robert Rivet>: Yeah. The real simple one, Joe, is we anticipate through cost synergies and aggressive movement in technology nodes that we will be sharing in profits with Fujitsu, not losses, and so that number will be getting less, and turn to be a charge for AMD versus a credit, as time goes on.

<Q – Joseph Osha>: Okay. Very well. I believe that's it. Thank you very much.

<A – Robert Rivet>: Thank you.

Operator: Our next question comes from the line of Quinn Bolton from Oppenheimer & Company. Please proceed with your question.

<Q – Quinn Bolton>: Couple questions on the flash business. One, you talked about growing shipments of the MCP, or the multi-chip module. Can you just try and quantify that in terms of percent of shipments? I'm assuming you get lower margins on that business than you do on just the actual flash die. Then if you could also talk a little bit about just the end market split. You talked about strength in wireless, strength in consumer. Can you give us a sense as to what percentage of sales each of those end markets contributed to the flash business? Thanks.

<A – Robert Rivet>: First, let me kind of make sure we put this in brackets. Obviously, the flash business quarter on quarter grew significantly. You know, in the 33%, 34% quarter-on-quarter. The fastest growing piece of that business was our MirrorBit. That grew at a significantly higher than the average of the whole business. Next in line is the MCP part of the business. I don't want to give the details on that piece of the business, of what is the piece, but it did grow more than the average, actually considerably more than the average. And, yes you're right, while it carries high sales value, the gross margin is a little bit less on an MCP than I'll call it a standard floating gate NOR technology or MirrorBit technology.

<Q – Quinn Bolton>: Are there things you can do, specifically insourcing some of the other types of devices, either the NAND flash or the SRAM that go into the multi-chip packages to improve the profitability of the MCPs?

<A – Hector Ruiz>: We have plans that, you know, the details of which, of course, we wouldn't disclose, but we have very, very aggressive and quite exciting road maps to do, I would say, somewhat of a unique job of creating a P&L around the MCP business, which is quite different. We will be able to benefit more than just passing through the cost of additional components.

<Q – Quinn Bolton>: Okay. Then just the end market split in the flash?

<A – Hector Ruiz>: The only indication I can give you is that the wireless business was strong really around the world, where obviously a lot of the growth in the embedded business came from Asia Pacific, and particularly on the strength of the Fujitsu sales team.

<Q – Quinn Bolton>: Okay. Thank you.

Operator: Our next question comes from the line of Chris Danely from J.P. Morgan. Please proceed with your question.

<Q – Chris Danely>: Just a couple of quick clarifications. You said you'll be able to get some cost savings. Does that mean you think gross margins can be flat in Q1 even if sales are down a little?

<A – Robert Rivet>: That's always a challenge in this business to have gross margins stay the same on lower sales. It's a possibility. It kind of depends on the mix of the businesses, but, you know, you can't lose too much altitude in this business being still fairly fixed cost oriented and maintain that without ASP lift or significant cost reductions. It will take awhile to get to the technology nodes that Hector talked about, in particular in the flash business, and as we talked about in the microprocessor business also, if 90-nanometer comes on in the second half of the year. So, I guess long answer to your question, a little bit can hold, if it's a lot, it's tough.

<Q – Chris Danely>: That's fine – definitely fair. And then on the flash business if you take a look at say your prices in aggregate for Q1, do you think they will be flat, up, or down for flash overall?

<A – Hector Ruiz>: You know, at this point in time, we expect the mix to continue to improve. We've had a trend of significant and fairly aggressive density uplift on the product and performance and new technologies. As a result of that, the unit pricing might go up, but the number of units may be less.

<Q – Chris Danely>: Is that a yes or a no?

<A – Hector Ruiz>: Well, as we said, we expected that in our flash revenue, given all the things we're doing, is that we have an opportunity to have flat sales quarter-on-quarter.

<Q – Chris Danely>: Okay. Thanks.

Operator: Our next question comes from the line of Eric Rothdeutsch from Friedman, Billings, Ramsey. Please proceed with your question.

<Q – Eric Rothdeutsch>: Hi, thank you. Question for Henri. Henri, in terms of units for flash memory, what is the highest volume density that you're currently shipping in terms of units, and what is the smallest density you're currently shipping?

<A – Henri Richard>: I'm not going to give you the highest density volume, I'm just going to tell you our range goes from 1 megabit to 256 megabits, and I will remind you that we've got 512 megabit currently under qualification.

<Q – Eric Rothdeutsch>: You mentioned that lead times are also very long. What are lead times currently?

<A – Henri Richard>: It really varies by product. But, you know, lead times can be as much as 13 weeks.

<Q – Eric Rothdeutsch>: Thank you.

Operator: Our next question comes from the line of Dan Scovel from Needham & Company. Please proceed with your question.

<Q – Dan Scovel>: Thank you. Your microprocessor revenue was up 15% quarter-to-quarter and you said ASPs were, I guess, up significantly. We can assume, basically, most of that gain was on the ASP side and the lesser of that was on the unit side?

<A – Hector Ruiz>: That's correct.

<Q – Dan Scovel>: Also, you were speaking a little bit vaguely, but I guess you consider yourself - you did reach your goal of shipping hundreds of thousands on the AMD 64 last quarter?

<A – Hector Ruiz>: We're pleased with where we are on AMD 64.

<Q – Dan Scovel>: And also, Bob, on the accounting side here, what's the adjustment on the convert to calculate the diluted EPS?

<A – Robert Rivet>: We currently included in the current EPS calculation, was 55 million additional shares. You'll see it on the page. We had about an 18% of dilution between basic and diluted.

<Q – Dan Scovel>: And there's a net income adjustment for the interest income there?

<A – Robert Rivet>: Yeah, the model I'd use is about 5.2 million a quarter. Add-back.

<Q – Dan Scovel>: That's what I was looking for. Thank you.

Operator: Our next question comes from the line of Adam Parker from Sanford Bernstein. Please proceed with your question.

<Q – Adam Parker>: Same issue with the diluted versus basic EPS. Is the right number $43 million in net income divided by the $4.16 a share because that seems to give 12 cents, not 10?

<A – Robert Rivet>: I don't know where you got 10.

<Q – Adam Parker>: Well, or are you adding back 5 million to the 43 to do the actual calculation? Seems like the basic and diluted EPS are the same at 12 cents, but the diluted share count is 19.8% bigger so I'm just trying to see what I'm not understanding here.

<A – Robert Rivet>: The math is you take $43 million and change divided by the basic to get the basic EPS.

<Q – Adam Parker>: Right.

<A – Robert Rivet>: You take the $43 million of net income, add back the interest charge associated with the convertible, and then do the math.

<Q – Adam Parker>: So you're adding that 5.2 back?

<A – Robert Rivet>: Right.

<Q – Adam Parker>: Okay. On the share count, just another issue, what was the impact from options here, you know, kind of sequentially, and you know, in terms of the 19.8% increase in the share? I know you said the bulk of it came from one of the converts, but can you help at all with what the share count balance was from any options exercised?

<A – Robert Rivet>: If you have my press release in front of you, you can see the transition in basic, $347 million to $357 million. That's really option activity.

<Q – Adam Parker>: Okay. So just the 10 million, and the rest is.... Okay. And then can you add some color to the deferred income on shipments to distributors? What does that imply about revenue in the next couple of quarters? Can you just remind me how that works?

<A – Robert Rivet>: The way it works is obviously what we do is we ship product in the appropriate mix that we agree with, with our distributors. Obviously that will range from our server-based products, AMD 64 Opterons to our lowest based product, whatever it is. Then we count it at the end of – at the end of each quarter we count what's still left. Whatever is still left we do not record as sales; obviously it's mix-dependent what's still on the shelf. We clearly see the transition that's taken place, that we have more valuable product on the shelf of the distributors as we continue to produce and make progress on the whole portfolio of products.

<Q – Adam Parker>: Okay. Sorry, one last question. Can you talk about your plan for opex going forward? I think R&D and SG&A were up, about 6 and 8% sequentially. How should we think about opex for 2004?

<A – Robert Rivet>: As Hector said, you know, we're optimistic on 2004, and we will toggle those appropriately. At this point in time, I'd play in they're going to grow a little bit. As we take advantage of market opportunities to capture more customers to deliver the right technologies, et cetera. So it will grow. Not as much obviously in the first quarter, but, you know, we'll have to see how it unfolds as time goes on.

<Q – Adam Parker>: Okay. Thank you.

Operator: Our next question comes from the line of Hans Mosesmann from Schwab SoundView. Please proceed with your question.

<Q – Hans Mosesmann>: Most of my questions have been answered. I do have a question regarding flash bit growth for '03. Do you guys have an expectation of what that was, and what the forecast is for flash growth for you guys in 2004.

<A – Hector Ruiz>: We continue to see obviously exponential growth in bits shipped, there's nothing in the demand of high-end devices that's going to change that for '04.

<Q – Hans Mosesmann>: So do you have a number for '03? Was it 50%? 100%? Will that bit growth in '04 match that that you saw in '03?

<A – Hector Ruiz>: I don't have the data for the whole year, but for the last quarter it was 30% plus.

<Q – Hans Mosesmann>: That's sequentially or year-over-year?

<A – Hector Ruiz>: Sequentially.

<Q – Hans Mosesmann>: Then one last question. Do you have market share goals for flash and/or processors in 2004? Thanks.

<A – Hector Ruiz>: We have, of course, our internal plans, what we think we can accomplish on both flash and processors. We don't publish that, as you can imagine.

<Q – Hans Mosesmann>: Okay. Great. Thank you.

Operator: Our next question comes from the line of Mark Edelstone from Morgan Stanley. Please proceed with your question.

<Q – Mark Edelstone>: Good afternoon, guys. First question is on the Athlon 64 and Opteron product line combined. Obviously you have had good momentum here so far. Do you have the ability, do you think, to be able to produce and ship as much as a million units here in the first quarter, and then I have a follow-up question for you as well.

<A – Hector Ruiz>: Let me just talk about our capability in general terms, Mark. We currently are running our factory as a mix of 130-nanometer, both Athlon XP and next-generation Hammer product. We, at the risk of sounding somewhat simplistic here, it's kind of like a knob that we're dialing, and as to how much of that we want to be Athlon XP and how much we want to be Hammer ramping. We're basing the market with our customer very carefully as to what they want and need, and planning this result from the beginning because we anticipate the beginning of the 90-nanometer conversion to really give us a big boost in our capability for particularly the K8 Hammer architecture, but even at the 130-nanometer, I want to make sure it's clear, that today, we have the capability of doing if we wanted to, more than a million a quarter, well more than a million a quarter, significantly more than a million a quarter. So we're throttling that based on our plans, which are, you know, how to penetrate particular customer segments and accounts, and the expectation in the second half of the year other things will occur relative to software, where we will then be at 90-nanometers and be able to execute a little more leisurely how many units we can produce.

<Q – Mark Edelstone>: When you tweak the knob, so to speak, should we expect that the peak in the 32-bit Athlon versions would peak once your 90-nanometer technology really ramps?

<A – Hector Ruiz>: By peaking, I'm trying to understand what you mean by the question. You mean if the Athlon XP will peak?

<Q – Mark Edelstone>: Yeah, if we just take the 32-bit Athlons, obviously as the Athlon 64 ramps up, at some point that's going to cannibalize the unit opportunity you have overall. If we make the assumption that your total units continue to grow with the market, at some point we're going to expect the 32 Athlon units to basically peak, and I'm wondering if that happens once the 90-nanometer capacity ramps up or if you see that happening before that.

<A – Hector Ruiz>: I think it would be fair to say that as the 90-nanometer ramps up, there is a significant shift toward the K8 architecture, more and more. I do want to take the opportunity though to point out that Athlon XP is not a product in our view, it's a brand, and it's intended to address the best value that you can have in today's applications. That will continue for some time. We see that as a very powerful brand, has done well for us. Athlon 64 will become the next generation, the transition to 64-bit, followed by Athlon 64 FX, which is the best you can get. There's nothing closer to that in performance, then Opteron, of course, is the server and high performance computer end space. We see this as a four tiering of our brand. We'll continue to manage that as customers work with us, and therefore we're beginning to talk less about the product transition and more about the segment.

<Q – Mark Edelstone>: Fair enough. I appreciate that answer, Hector. One final question, if I could, for Bob, going back again to the minority interest line, I know there's lots of give and take here as you go forward, but as we go into the second half of 2004 should we see that line toggle to basically profit for the combined flash operations, or would you expect to still be paying out minority interest in the way of losses?

<A – Robert Rivet>: No, to me, if we execute to our plans, which we have every indication we will do, and the market continues to behave the way we think it will, that line will actually become a charge for AMD, because the FASL organization will make money, and we will share that 40% of that profit with Fujitsu. So it'll, you know, my forecast, if I was doing it for you guys, would be that that number will become smaller approaching zero and will turn positive as the year unfolds.

<Q – Mark Edelstone>: Great. Thank you very much, guys.

Operator: Our next question comes from the line of Clark Westmont of Smith Barney. Please proceed with your question.

<Q – Clark Westmont>: Hi guys, Hector, congratulations on delivering your commitment of three months ago of turning into the black this quarter on the bottom line. Are you going to do the same in the March quarter? Are you going to be profitable in March?

<A – Hector Ruiz>: You know, we are in the situation where revenue drives everything right now. We've done everything we can, that I believe is appropriate on cost, we've got our factories efficient. We've done everything we've put in place. I believe that if the market is strong we certainly are going to do well, and at the current plan, we do not plan to lose money in the first quarter.

<Q – Clark Westmont>: So that's it. Thanks.

Operator: Our next question comes from the line of David Wong from A.G. Edwards. Please proceed with your question.

<Q – David Wong>: Thank you very much. With your current 90-nanometer plans of starting production wafers somewhere in the middle of the year, when do you expect to be able to announce your first 90-nanometer products?

<A – Hector Ruiz>: Our current plan is to ship product to customers for revenue in the third quarter of this year.

<Q – David Wong>: So the announcements will come in the second quarter, or we'll get details of the product in the third quarter?

<A – Hector Ruiz>: Frankly, I don't remember the exact dates. I'd rather not give you one, but can get you our plans when we intend to make announcements.

<Q – David Wong>: Great. Thank you.

Operator: Our next question comes from the line of Tai Nguyen from Susquehanna Financial Group. Please proceed with your question.

<Q – Tai Nguyen>: I was wondering what kind of inventory levels you see in the channel for both of your flash products as well as your CPU's?

<A – Hector Ruiz>: On the CPU side, we have a policy to keep our channel below four weeks. We stick to that. On the flash side, I will tell you that the channel inventory is depressed right now. I don't have a data point to give you. I would say it's down to probably less than two weeks in some of the high run-rate parts.

<Q – Tai Nguyen>: Then on your PC business, on Q4, do you ship any Duron processors?

<A – Hector Ruiz>: We shipped very small quantity of Duron, which were really the end-of-life shipments of this product.

<Q – Tai Nguyen>: Okay. So going in Q1 do you expect to have any more Durons?

<A – Hector Ruiz>: Irrelevant. Irrelevant quantities.

<Q – Tai Nguyen>: Then when do you expect to have your first product coming out on 300-millimeter?

<A – Hector Ruiz>: Well, we've quoted that we expect to be in production in Fab 36 in the year 2006, and that about right now, given the challenge in making and forecasting this sort of technology, that's as close as I tell you a date right now.

<Q – Tai Nguyen>: Final question is on your Geode. Right now do you have any plan to expand that product line by integrating AMD processor core into that product?

<A – Hector Ruiz>: Geode is going to become part of our road map of x86 products. We are extending it rapidly, and we'll communicate that as we get things lined up. This is not just a point solution, this will actually be a road map of low cost, low power and in some cases a synthesizable core. I don't want to go into what cores are going to go into what products, but it's going to be a broad range of applications for the embedded and consumer space.

<Q – Tai Nguyen>: Great. Thank you.

<A – Michael Haase>: Operator we're going to take one more question. Thank you.

Operator: Our next question comes from the line of John Barton from Wachovia Securities. Please proceed with your question.

<Q – John Barton>: Just trying to piece together some of the data on the flash front from comments you've made. I think I heard you say that the lower densities were tight. I know at one point you mentioned that the longest lead times were in the 13-week range, but then you made another statement that the older technologies are very competitive on a pricing perspective. I guess I'm putting words in your mouth by making the correlation between older technologies and lower density but if indeed that's the case, it seems to run against the tightness in the market. If you can just provide us some input there, I'd appreciate it. Thanks.

<A – Henri Richard>: The big difference between the high end and the low end of the flash market is who's playing. At the high end of the market the technology has now limited the players to really two to three competitors. At the lower end, as Hector pointed out, there are still a lot of people in the survival mode and that sometimes drives, you know, pricing behaviors that are not in line with your logical conclusion of tightness equals better pricing.

<Q – John Barton>: Great. Okay. Great. Thank you very much.

Michael Haase, Director of Investor Relations

We're going to wrap up the call we want to thank you all for your participation this quarter. Thank you.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for participating and ask that you please disconnect your lines.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2003 Earnings Call for 16-October-2003 5:30 PM ET
Thursday, October 16, 2003 09:30:00 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q3 2003 Earnings Call for 16-October-2003 5:30 PM ET.

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MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AMD Q3 Earnings Announcement Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. At that time, if you have a question, please press the "1" followed by the "4" on your telephone. As a reminder, this conference is being recorded Thursday, October the 16th, 2003. I would now like to turn the conference over to Michael Haase, the Director of Investor Relations. Please go ahead, sir.

Michael Haase, Director of Investor Relations

Thank you, and good afternoon, everyone. The format of the call today will include prepared comments followed by Q&A. The participants are Hector Ruiz, our President and CEO; Bob Rivet, our Chief Financial Officer; and Henri Richard, our Senior Vice President of Worldwide Sales & Marketing.

This call is a live broadcast and will be replayed at www.amd.com and www.streetevents.com. Telephone replay number is 800-633-8284. Outside of the United States, the number is 402-977-9140. The access code for both is 21161730. The telephone replay will be available for the next 10 days starting at approximately 6 p.m. Pacific Time tonight.

For your planning purposes, I'd also like to take this opportunity to remind you that we will be hosting the 2003 Analyst Day the morning of Thursday, November 6th in our Sunnyvale headquarters. If you've not yet RSVP'd, please contact either Ruth or myself. Our contact information is on today's press release. Before we begin the call, I'd like to caution everyone that we'll be making forward-looking statements about management's goals, plans and expectations. As you know, the semiconductor industry is generally volatile.

Our product and process technology development projects and our manufacturing processes are complex. Current worldwide economic and industry conditions make it especially difficult to forecast product demand at this time. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC where we've discussed in detail our risk factors and our business. You'll find detailed discussions in our most recent SEC filings, including the annual report on Form 10K, and our second quarter Form 10Q. With that, I'd like to now introduce Hector Ruiz, AMD's President and Chief Executive Officer.

Hector Ruiz, President & Chief Executive Officer

Thank you, Mike. I'll start by reporting on our strong progress to profitability, and then I'm going to ask Bob to discuss the financials from the past quarter and our prospects for the fourth quarter. And once again, I will close with comments on our longer-term prospects going forward before taking your questions. Our progress this past quarter was an excellent example of what I hope you'll recognize as the new AMD; an AMD that will have consistently demonstrated winning strategy of customer centric innovation, innovating with our customers needs in mind; continued world class design and manufacturing performance and a strong discipline of operational flexibility.

I'd like to take the moment to comment on each of these as a way to put our third quarter in its proper context for you. Starting with operational flexibility, you can see that we're putting in place a strong cost-management discipline, holding operating costs in the quarter to $984 million. Please note that this includes the costs previously associated with Fujitsu flash memory operations, and now consolidated in our global flash business. In short, we managed to hold our baseline business to Q2 cost levels, while both absorbing our new operations from the consolidation of assets of the Flash side, and growing the top line significantly in both of our core businesses.

Going forward, we expect to capture even more efficiencies, as we integrate the major elements of our flash business. We finished the quarter with over $1 billion in cash and now we begin the strongest quarter of the year with our most competitive product portfolio in recent history. And we believe, after our aggressive value chain inventory management in our processor business, that we have arrived at steady state levels. We have improved this stability into our value chain, which will allow for tighter efficiencies and more real time responsiveness to market dynamics.

In design and manufacturing, AMD continues to demonstrate world class operating performance in both our flash and processor business. In September, we sampled the highest density NOR flash memory product to-date, a 512 megabit expansion flash memory device. Once again, we shipped a record number of units out of our flash facilities in the last quarter. And we're poised for continued demand growth in the coming quarter.

In processors, we continue to demonstrate world class manufacturing performance in our Dresden facility, and are particularly pleased with our SOI yields. As a result, AMD 64 processor wafer starts will exceed 50% of the total starts in FAB 30 in the first quarter of 2004. We continue our steep ramp to 90 nanometer technology, remaining on track for production wafer starts in the first half of 2004. Our major strategy of customer-centric innovation, and this approach continues to produce a strong growing portfolio of customer relationships and improved top line performance across our businesses. Customer acceptance of our new Spansion brand of flash memory solutions has been outstanding. In fact, in our third quarter of operations the Spansion brand is now the leading NOR flash memory brand in the world. And we're well positioned to achieve our strategic goal of being the number one provider of flash memory solutions worldwide.

Asian markets were healthy this past quarter, leading to strong wireless segment growth and solid customer demand for our high density Spansion products and solutions. We believe Spansion devices are now in roughly 40% of all the cell phones shipped worldwide. More specifically, we continue to see record growth in unit shipments of devices based on our innovative MirrorBit™ technology as we expand its footprint beyond the original success in wireless applications.

In our processor business, I'm very pleased to report that we generated an operating profit in the third quarter based on increased demand in each of our major businesses and all geographic regions, as well as an improved product mix. Success in our processor business is, in large part, a reflection of the strength of our AMD Athlon XP franchise. As an example of our continued success with enterprise customers, H&R Block (NYSE: HRB), a Fortune 500 corporation, announced plans to standardize their 15,000 plus units desktop platform on Athlon XP-based systems from Hewlett-Packard. Demand for AMD Opteron processors continues to exceed expectations among OEMs and partners. For instance, IBM (NYSE: IBM) continued its support by collecting our AMD Opteron 246 processor for its eServer 325-product line, and announced an availability of their DB2 database for the AMD 64 platform. Microsoft (NASDAQ: MSFT) released a better version of Windows XP 64 edition, designed specifically to support the AMD 64 platform. Los Alamos National Laboratory and the University of Utah selected AMD Opteron processor as the basis for their next-generation supercomputing systems. In China, the Dawning Information Industry Corporation announced plans to launch a comprehensive series of AMD Opteron processor-based 1 and 2-way servers. Oracle (NASDAQ: ORCL) announced plans for a 64-bit version of Oracle9i database on the AMD 64 platform. And we're pleased that Sun Microsystems (NASDAQ: SUNW) recently announced plans for Java support for the AMD 64 platform, and disclosed plans for developing a version of their Solaris operating system for AMD 64, as well.

In the first two quarters of availability, AMD Opteron processors continued to out ship our main competitors' 64-bit processor by a wide margin. In September, as promised, we introduced the world's first and only Windows-compatible 64 bit PC processor family, our AMD Athlon 64 processor. The launch was supported by over 100 third party hardware and software partners. Fujitsu, Fujitsu Siemens, Hewlett-Packard (NYSE: HPQ) and NEC Packard Bell all presented systems based on the new processors and all of them will be shipping in the fourth quarter. Perhaps as exciting was our introduction of the AMD Athlon 64 FX brand, designed to introduce a new wave of innovation around what we call the "cinematic computing experience." The AMD Athlon 64 FX processor has stirred great interest among gamers, enthusiasts and digital content creators, and this represents a continued commitment to the discipline of creating and sustaining the strong premium product brands at AMD, first with AMD Opteron processors, then with expansion Flash memory, and now with the AMD Athlon 64 and Athlon 64 FX processors.

The AMD Athlon 64 processor family is a totally differentiated product, and represents a great value to our customers and their customers. We are attaining increased confidence among our growing portfolio of customers about AMD and our leadership role in driving the pervasive adoption of 64-bit computing around the AMD 64 platform. In fact, we shipped tens of thousands of AMD 64 processors in the third quarter, and we are confident that this will go out to hundreds of thousands of processors in this quarter. We are taking our rightful place as the leading NOR Flash brand in the world. We are taking our rightful place as the only supplier of tomorrow's industry standard 64-bit processors. At this point, I would like to now ask Bob to review our current quarterly financial results. Bob.

Robert Rivet, Chief Financial Officer

Thanks, Hector. A year ago, we outlined our operational flexibility plan for the investment community, an ambitious and aggressive plan to get AMD back to financial stability. Since then, we have made significant progress, both reengineering our operating model, and investing only in areas that build sustainable competitive advantage for ourselves and our customers. Our third quarter results are a clear demonstration of our progress in these areas. I'd like to remind you that AMD began consolidating FASL LLC's financial results as of the beginning of the third quarter. The minority interest reflected in our financial statements shows Fujitsu's 40% share of the new subsidiary's financials, and our second quarter 2003 numbers did not include FASL LLC.

Starting with the top line, our third quarter sales were 954 million dollars, up 88% compared to last year, and up 48% compared to the second quarter of this year. Top line growth was a reflection of increased demand in each of our major businesses and all geographic regions. The combination of top line growth and our operational flexibility measures resulted in a $30 million operating loss in the quarter, down 76% from the second quarter. Gross margin was 34% for the quarter, flat compared to the second quarter. Consistent with our prior guidance, our total operating cost structure was $984 million in the third quarter. Our net loss for the third quarter dropped sharply, to $31 million or 9 cents per share and 88% reduction from a year ago, and a 78% reduction from the second quarter. We generated positive cash flow from operations this quarter, and grew third quarter EBITDA to $277 million, a greater than 100% improvement over our second quarter performance. Now, switching to the business overview for the quarter.

I'd like to start with Computational Product Group or CPG, which consists of our microprocessor and chipset businesses. Third quarter sales in CPG were $503 million, a 91% increase over the same period a year ago, and a 24% increase over the second quarter. Increased sales were due to solid growth across all processor product lines, an improved product mix, and increased sales to our largest OEM customers. We shipped more units and improved our ASP significantly compared to the second quarter. As a result, the CPG business unit was profitable in the third quarter, with operating income of $19 million. In the third quarter, Flash memory sales grew to $424 million, up 125% from the third quarter of 2002, and up 101% over the second quarter. This performance is a result of the consolidation of FASL LLC operation and strong organic growth. The memory group's operating loss was $49 million in the third quarter. As Hector mentioned earlier, devices based on our MirrorBit technology are becoming a bigger piece of AMD's flash memory portfolio, achieving record growth in the third quarter.

Turning to the balance sheet. Cash balances ended in the third quarter at over $1 billion, up 370 million from last quarter. This includes the securing of $238 million of new capital leasing financing in the quarter. Capital expenditures were $138 million in the third quarter, compared to $103 million in the second quarter. Accounts receivable days' sales outstanding were at 54 days, up slightly from second quarter levels of 52 days. AMD's headcount at the end of the third quarter was approximately 14,400, up 2,700 people from the second quarter due to the consolidation of FASL LLC operation.

Now, I'd like to discuss the outlook. AMD believes that sales in the fourth quarter will increase based upon the following: Microprocessor sales are expected to increase, based on normal industry seasonality and growing demand for the company's enhanced portfolio of AMD 64 microprocessors. Flash memory sales are expected to increase based on normal seasonality and increasing customer acceptance of MirrorBit technology. AMD anticipates its fourth quarter operating costs will remain approximately $1 billion, depending on volume and mix.

In summary, we are very pleased with our progress in the third quarter, as we increase sales and continue to tightly manage our cost structure. With improving fundamentals going forward, we are pushing to return to sustainable profitability as quickly as possible. Now, I'll turn it back over to Hector.

Hector De Ruiz, Chief Executive Officer

Thank you, Bob. Over the past few quarters, we have been beating a steady drum on the significant and very difficult disciplines that are the basis for what we call the "new AMD." First, establishing an operationally flexible business model. Our cost management performance is a demonstration of that discipline. Second, advancing our world-class design and manufacturing capabilities. Our AMD 64 platform and leading edge flash memory technology are demonstrations of that discipline. And third, our continued world class manufacturing performance in our Fab 25 and 30, as well as our assembly and test sites in Singapore, Penang, Bangkok and Suzhou. Third, delivering customer-centric innovation. Our AMD optimum processor, Spansion Flash memory and AMD Opteron 64 and 64-FX brands are a demonstration of that discipline.

But perhaps a more important demonstration is the growing portfolio of top-tier companies, who we are honored to say are choosing to partner with us as we move to a leadership roll in the markets we choose to serve, which with acquisition of the Geode processor family of integrated solutions, helps us extend our x86 footprint into new growth segments, including thin clients, smart displays and set-top boxes, among others. At AMD, we see our role in the industry in very simple terms. We're here to work with our customers to help them deliver on their dreams, to help them create differentiating value for their customers, and to create sustaining successful businesses. We know that our customers' success is our success, and that this discipline has been missing in our industry. With our commitment to the discipline of customer-centric innovation, we believe we are bringing it back. We're new AMD, and we are very proud of the progress we have made, and of the leadership opportunities we have created with and for our customers.

I want to recognize and thank the thousands of AMD employees who continue to do millions of amazing things everyday to transform our company into the earnings machine that we're working so hard to become, the new AMD. Their rewards and yours are soon to come. We hope you can join us on November 6th, either in person in Sunnyvale, or on the web for our annual financial analyst briefing, where we will look forward to sharing more of our vision of the future of the semiconductor industry. We thank you for your attention and I would now like to turn it back to Mike Haase for the Q&A.

Michael Haase, Director of Investor Relations

Thanks Hector. Let's go ahead and start the Q and A, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, if you would like to register a question, please press the "1" followed by the "4" on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the "1" followed by the "3". If you are using a speakerphone, please lift your handset before entering your request. One, moment, please for the first question. Our first question comes from the line of John Barton of Wachovia Securities. Please proceed with your question.

<**Q – John Barton**>: Yes, good afternoon. Thank you. Hector, it seemed like you went out of your way in your prepared statements to make the comment that Spansion is the number one supplier NOR Flash, and then well positioned to be the number one Flash supplier worldwide. How should I be interpreting that with respect to NAN verses NOR? Does the company get into NAN Flash, do you think NOR outgrows NAN, or am I trying to read too much into that statement?

<A – Hector Ruiz>: Probably yes, to all of the above. But let me be more specific in the following sense. We know that, in the NOR Flash side of the house, which is based on all the reports that have come out already, that we are the number one NOR Flash brand already, and expect to continue to stay that way. We are committed to the Flash memory business. We think the storage solutions that Flash provides are incredibly helpful and pervasive to so many products, not only wireless, but across a huge plethora of applications. And if that demands some changes in our technology and product strategy, we are alert and prepared to make those changes. But at this point in time, we do not plan to make any announcements relative to anything beyond NOR.

<Q – John Barton>: Okay. And just digging further into the numbers for Spansion, and probably for you Bob, looking through it, it looked like it was a $49 million operating loss and if you kind of reverse calculate your 25.4 million-minority interest, you know, take the 40% backwards calculation, that would imply a net loss of 63 million or a non-operating increase of 14 million there. Am I looking at those numbers right? And if so, where does the 14 million come from, interest expenses, et cetera?

<A – Bob Rivet>: Yes, you've got to decode. The minority interest is of the full P&L, which would include interest expense, taxes, et cetera. There also is cross-charges between the parents that will take place. Obviously, those get eliminated, but they are in the FASL P&L. So you will never get exactly nailed, we'll take the operating income times 40% and get the number. It will be always relatively close, but not perfect.

<Q – John Barton>: And the last question if you could, could you just comment on Flash, ASP please?

<A – Hector De Ruiz>: You know, I'm going to ask Henri, our World Sales & Marketing Executive to make a comment, but I'd like to say that the market has become strong, and as a result of that, prices have stabilized. Henri, would you like add on?

<A – Henri Richard>: Our Flash and ASP continued to remain strong, actually grew quarter-to-quarter and this is across all regions.

<Q – John Barton>: And the growth driven by mix?

<A – Henri Richard>: Absolutely, particularly driven by high-end devices and MirrorBit technology.

<Q – John Barton>: And If you were to look at constant density quarter-on-quarter, and a basic slight erosion there?

<A – Bob Rivet>: There was a slight erosion in density but that's due to the addition of the Fujitsu business to the overall operation.

<Q – John Barton>: Right. Thank you very much.

<A – Henri Richard>: Fujitsu had a very strong presence in the embedded market space.

<Q – John Barton>: Thank you.

Operator: The next question is from John Lau of Banc of America Securities.

<Q – John Lau>: Thank you. In terms of the Athlon 64, I was wondering if you could give us more color on how the Athlon 64 designs are going on a geographical basis, and also if you, how it is positioned for the higher-end corporate market? So in other words, where is the adoption rate growing the fastest for the new high-end Athlon 64? Thank you.

<A – Hector De Ruiz>: I would like to maybe just make some general comments and ask Henri again to comment further. First of all, we have made some assumptions on the introduction of Athlon 64, which of course is at the very highest end of the performance of the client side. And it's anticipated that demand, given the assumptions we made relative to all the customers, and we under-anticipated demand. The reception and acceptance of the client has been very strong. And as a matter of fact, we are ramping as fast as we can to try to improve on that for this quarter. Henri, could you elaborate a little more on that?

<A – Henri Richard>: Yeah, sure. John, we have a demand that's really across all regions, but particularly driven by regions where you have PC enthusiasts and gamers to start with. Regions like Korea, Europe, the US, Japan. As far as the corporate market, the partner there've announced platforms, and essentially announced consumer platform for the time being. We expect to see enterprise platforms announced sometime in the beginning of 2004.

<Q – John Lau>: So, a lot of that has to do with the highest performance, using, utilizing the graphics for the gaming section of accounts?

<A>: One thing here you have to remember that this is the fastest 32-bit platform in the marketplace. And of course, today most of the applications are still 32-bit. However, we've had support from numerous software vendors, particularly in the gaming space that have already announced or pre-announced availability of 64-bit version of their leading games for the Christmas season. So, it's not only, you know, high-end graphics performance, its high-end CPU performance, its memory bandwidth, and all of the above that drives really the cinematic computing experience that if you've ever experienced it, it is second to none on that platform.

<Q – John Lau>: Great. Thank you.

Operator: The next question is from Michael Masdea of CS First Boston.

<Q –Michael Masdea>: Thanks a lot everybody. And we like the new AMD better than the old one, so keep it up. In terms of pricing first, you talk about AMD's strength in pricing. Is that on an apple to apples basis, or is it more of a mix shift?

<A _ Hector Ruiz>: Again, if Henri wants to add at the end of my comments, is that we have worked very hard with our customers to try to ensure that we understand exactly what they expect from us and that we can deliver the mix that they would like to see from us. And in the last quarter, in particularly, our customers have been pushing us – pushing us up toward the performance side. And we have been responding, and as a result of that, the mix in the quarter was richer than in previous quarters, and as a result of that, it improved ASP.

<A - Henri Richard>: Yeah Hector, and just to add that we've obviously introduced with the Athlon 64FX and Athlon 64 products, new price points in the marketplace where AMD traditionally didn't participate. And that, of course, helped the ASP.

<Q –Michael Masdea>: Thanks. And speaking of pricing for a second, there is always the concern in that when your large competitor loses share in flash, that prices could go Southeast. Are you seeing that, or is it not having traction, or have you not seen that yet?

<A – Hector Ruiz>: Well, the flash market continues to be very competitive. There are number of players besides just number one and number two. And we haven't seen the rather deep and broad price erosion that we saw a year ago, but they are stabilized. However, it is very competitive. If you look at pricing per bit, it continues to go down.

<Q –Michael Masdea>: Yeah. Fair enough. On the manufacturing side, any update on your thoughts on manufacturing partnerships 300-millimeter and what are your thoughts for '04 in terms of need for 300-millimeter?

<A – Hector Ruiz>: I'll do it backwards; in '04 we don't anticipate needing 300-millimeter. We think that the crossover point for us, at least in 300-millimeter, will be at the 65-nanometer node, which means that we need to have a factory in place, ready to ramp in 2005 for production in 2006. As far as the partnership and our plans, as I said before is, we will be able to be public as to how we're going to do that in the details surrounding that before the end of the year.

<Q – Michael Masdea>: Great. Thanks. And final question, just on the cost structure side, obviously impressed with what you guys have done so far. But we always want more. Just curious as to with the consolidation of FASL LLC, if any more room there, you know, now that you've had a little time under your belt to take a look at the overlap?

<A – Bob Rivet>: Yes, actually it's 90 days since the transaction took place. We have actually spent the first 90 days making sure we can get the team completely integrated and operating. We have found some synergies and some opportunities, which will be executed in the next six months to take out those redundancies. In a lot of cases it's just implementing best in class that we see in the two different partners as we put it together.

<Q – Michael Masdea>: Thanks a lot. Congratulations.

<A – Bob Rivet>: Thank you.

Operator: The next question is from Krishna Shankar of JMP Securities.

<Q – Krishna Shankar>: Yes. Nice quarter folks. Was the strength in ASPs and the better performance in processor driven both by desktops and servers? Can you give us some sense for whether notebooks and service contributed materially to the increased revenue and ASPs?

<A – Hector De Ruiz>: You know, I won't comment on the mix as to what each section contributed to the ASP mix. I do want to point out that in the quarter that just ended, we had the largest shipment of mobile units into the marketplace. So, there is definitely a healthy uptick on the mobile segment of the market.

<Q – Krishna Shankar>: In mobile are you seeing acceptance of the Athlon XP mobile both in the full-size notebook, as well as the thin and light? Can you talk about your efforts in the faster growing thin and light notebook market?

<A – Hector De Ruiz>: Sure. I am going to ask Henri to comment on the Athlon 64 mobile portion of it. Let me just make a general statement on mobile. I think we've been fortunate to have a strong offering that has resulted in record units in this quarter for mobile shipments. That's based on Athlon XP. It turns out to be that the product and technology that customers are looking forward on the Athlon 64 side has gotten pretty exciting. And I think we are anticipating a very strong reception for that.

<A - Henri Richard>: Absolutely, Hector. We have today more models of thin and light notebooks based on Athlon XP based machine shipping in the market then ever, over 10 different systems in this quarter. And we are seeing strong demand for these products, as they provide a very competitive alternative to our competition infrastructure. Moving into next year, we're seeing demand for the same products based on an Athlon 64 core that will be available in the second half of the year.

<Q – Krishna Shankar>: Okay. And my final question is, Hector, you said in Q1 of '04 you expect 40% of your wafer starts to be Athlon 64-based. When could we see, sort of, the crossover between Athlon 64 units and Athlon XP units for next year?

<A – Hector Ruiz>: Let me just correct a couple of numbers. We expect, in first quarter that half of our wafer starts will be on the AMD 64 architecture. That's a mixture of servers, workstations and clients. And we anticipate, you know, given the projections that we have, that the 50% crossover will occur by end of next year.

<Q – Krishna Shankar>: Thank you.

Operator: The next question comes from Ben Lynch of Deutsche Bank.

<Q – Ben Lynch>: Yeah, I'll second Michael's comments on the new AMD versus the old AMD. Could you maybe comment please, in the flash growth, give us a feel for the organic elements of that, the market share gain element of that. And also you said that AMD and MirrorBit products will be on top of the seasonal growth that you're expecting in Q4. Could you give us a rough feel for, you know, how much they may contribute to the growth you expect in Q4, please? And I do have a follow-up.

<A – Hector Ruiz>: Yeah. I may have missed part of the question. I was trying to answer what I thought you asked. And you thoughtfully talked again but I think that the organic growth, that mean's the regional memory Flash business experiences very healthy growth quarter-on-quarter and year-on-year. So, when you add of course, consolidated FASL numbers, it's even much stronger. I'm not so sure that I got the balance of the question I don't know if any of you...

<Q – Ben Lynch>: So, you don't have a number for the organic growth versus the consolidated growth?

<A – Robert Rivet>: We don't think that's necessary to give – hand out at this point. We're just one company.

<Q – Ben Lynch>: Okay. And how much do you think you picked up share wise in the third quarter?

<A – Hector Ruiz>: Don't know the numbers, yet.

<Q – Ben Lynch>: Okay.

<A – Hector Ruiz>: We know we did, only just based on the growth in the comparison to the competition that we feel confident, we believe, we picked share.

<Q – Ben Lynch>: And then on the other question, please, I'll try. What do you think might be incremental Q4 contribution from both AMD 64 and MirrorBit; you've highlighted them as being on top of seasonal growth you'd expect.

<A – Hector Ruiz>: In all, we're not going to give the granularity other than that I will make a broad statement that as we ended the quarter, our MirrorBit contribution was already in the double digits in terms of revenue, and growing fast. And as I also mentioned in my remarks, we're going from the third quarter shipping tens of thousands of AMD 64 products, to hundreds of thousands in the fourth quarter. So, that gives you some idea.

<Q – Ben Lynch>: Okay. Thank you.

<A>: Next question.

<A – Hector Ruiz>: Christy.

Operator: The next question is from Joseph Osha of Merrill Lynch.

<Q – Joseph Osha>: Hi, guys, congratulations and well done. On the microprocessor business, obviously ramping the 64-bit architecture is additive to ASP. But if we leave that out for a second, looks like very good things were happening with existing Athlon, as well. Leaving 64-bit out, were ASPs up for the 32-bit line of products as well? Also I'm curious did Duron tail off a lot this quarter and so did that also contribute to some of the strength in ASP?

<A – Robert Rivet>: First, to the first part of your question, yes the Athlon XP brand continues to derive more value for us and was actually seeing a shift in customer demand to the higher portion of the offering. So, we had increase in that portion of the product line, independent from the acceptance of the AMD Athlon 64 brand. For the second part of your question, can you tell us what you precise exactly what you're looking for?

<Q – Joseph Osha>: I guess, we'd understood that you were getting, you know, sort of end of life in Duron, is that true because if it were then that would obviously tend to have a positive impact on ASP as well?

<A – Hector Ruiz>: Yeah, we saw, you know, the Duron product line is really a target of the emerging markets. At this point in time it represents a very small portion of our product offering.

<Q – Joseph Osha>: Okay. Now, are you willing to make some kind of rough comment in terms of what unit volume for the microprocessor did quarter-on-quarter?

<A – Robert Rivet>: No, not at this point in time. We'll pass on that.
<Q – Joseph Osha>: Okay. Thank you.

Operator: The next question is from Quinn Bolton of Oppenheimer and Company.

<Q – Quinn Bolton>: Yeah, congratulations on a strong quarter. First question on just the MPU business, you had talked at the end of last quarter and, I think, in some of your public appearances during the quarter that the channel inventory distribution was about four weeks. I was wondering if you could give us an update on that? And can you also comment on how you feel about the mix in distribution channel heading into the stronger fourth quarter and then I've got one follow-up?

<A – Henri Richard>: First, our mix in the channel has gone up and continues to reflect the value of the brand. And our channel inventory at end of third quarter was less than four weeks.

<Q – Quinn Bolton>: Great. Okay. And then the second question just on the Flash business it sounds like things may be getting a little bit tight in that market. Can you comment on your lead times and just sot of overall capacity utilization or capacity issues?

<A – Hector De Ruiz>: You know, the demand for Flash is strong, and it is particularly strong on the high-density, high-performance part of the equation. And that happens to be an area where AMD is particularly well positioned for a couple of reasons. One is, we have a leadership product. As mentioned earlier, when we introduced the half a gigabit or 112-megabit product. And also, MirrorBit is being much more rapidly accepted in the wireless segment than we had anticipated. And so, that's also contributing to that. The other reason we are well positioned is the manufacturing side. In our joint venture with Fujitsu, it turns out to be that each company contributed a phenomenal asset. On the Fujitsu side was a factory called JV 3, which is a state-of-the-art factory that is not fully utilized. It's a small factory; significant capacity expansion capability existing in the factory. And then we have 525 in Austin, Texas, which is also a state-of-the-art facility that is rapidly converting to leading edge technology. And as a result of that, improving its ability to deliver high-volume, high-performance product. So I think, despite the fact that demand is tight and growing, we see that as an opportunity for us.

<Q – Quinn Bolton>: And any comments on just where lead times are? Where they are on an absolute basis and whether they are stable or stretching out?

<A – Hector De Ruiz>: For us, I know you speak only for AMD. We are seeing our lead times being stable and we're working very intimately with customers because the demand is, not only robust, it actually is very dynamic. It tends to move from one product line to another very fast. So there is a lot of intimacy required and we believe that we are doing a very good job of that.

<Q – Quinn Bolton>: Okay. Thanks.

Operator: The next question comes is from Andrew Root of Goldman Sachs.

<Q – Andrew Root>: Great. Thank you very much. I had a question regarding your $1 billion operating cost assumption. What type of unit growth can that support before you would have to scale that up? What's your baseline assumption there?

<A – Bob Rivet>: This is Bob. I'm going to probably not answer the question from a unit perspective, but obviously, I'll kind of give you a little bit of granularity. You know. operational flexibility was about trying to change the mix between variable and fixed. Clearly, the two businesses are different. The microprocessor is a little more variable than the memory business, so it kind of depends on the mix assumption of both. So, as each of those grow at different paces, they will have different follow through and different incremental cost required to both businesses.

<Q – Quinn Bolton>: Okay. Do you guys have – or one you are willing to share at least, an assumption for what you think the PC-unit end market grows in the fourth quarter, in terms of units?

<A – Bob Rivet>: All that I can say on that, is you know, normal seasonality is someplace between 10-15% expansion between third and fourth quarter. It appears that's the kind of quarter we are looking at from an industry perspective.

<Q – Andrew Root>: And I'm assuming you would expect to continue to pick up a little share in the fourth quarter?

<A – Bob Rivet>: We always try.

<A>: We always try.

<Q – Andrew Root>: That's fair. And then, for the microprocessor business last quarter, the 24% growth, which obviously was terrific. We're guessing that about a third of that came from ASP, is that close?

<A – Hector De Ruiz>: No. Not. There is some ASP involvement, but I would say, I am not going to comment on that, but that's not …..

<Q – Andrew Root>: Not close.

<A – Hector De Ruiz>: Not close.

<Q – Andrew Root>: Okay.

<A – Hector De Ruiz>: Can I just add something to the comment before we – I think it's important as we anticipate what our costs might be in the fourth quarter, that part of the mix issue that Bob referred to, and it also has to do with how we do Flash. The power of Flash business is what we call the multi-chip module products. And these are products where we actually put two or three or four, sometimes, die on one package. Therefore, the costs that's associated with how much of that you have to acquire to be able to make the product. But we're very sensitive on mix and as also Bob pointed out, the processor Flash mix has got quite a different cost model. And so, I just wanted to underline that the mix issues can make that cost very – significant amount plus or minus a significant number.

<Q – Andrew Root>: Okay. That makes sense. Do you know what percentage of the product goes out as in multi-chip package at this point?

<A – Hector De Ruiz>: Not off the top of my head.

<Q – Andrew Root>: Okay. And then the final question. When the Athlon 64 was launched at the launch event, there was suggestion that there might be some other key OEM and channel partners that would eventually become involved which just declined to participate in that particular event. Should we expect other announcements over the next quarter or so?

<A – Hector De Ruiz>: We're working hard with all the major computer makers to launch products. And I think what you are seeing and as we had reported in my remarks earlier, we got some fairly heavy weights already launching product this quarter, and others anticipating to launch in the first quarter. There is not a single computer maker that's not working with us and trying to see if this platform makes sense. All of them actually have serious plans and committed to develop some sort of a platform that they can launch in the early part of 2004, except for one.

<Q – Andrew Root>: Okay. Now, that's great. Thank you.

Operator: The next question is from Ramesh Misra of Smith Barney.

<Q – Ramesh Misra>: Hi. Good afternoon, gentlemen. Could you provide some milestones on the 90-nanometer plans for your microprocessor in terms of what proportion of wafer starts can we expect by next year? And I had a follow-up.

<A – Hector Ruiz>: You know, we're going to let the market drive that part. Because we – that's going to be the continuation of how we exploit the AMD 64 family of products. And as I mentioned earlier, we expect to begin – as a matter of fact we are running right now, we call it engineering runs. And we are very happy with where we are, and expect to begin production starts by the middle of next year on 90-nanometer.

<Q – Ramesh Misra>: Okay. And then for the sub 3-pound notebook category, when do you expect or anticipate having products for that? Or would that only come after the 90-nanometer transition?

<A – Hector Ruiz>: Yeah. For that segment, it really requires 25-watt and below. We'll have to be moving to 90-nanometer technology to provide a product based on the AMD 64 architecture.

<Q – Ramesh Misra>: So that would be a second half of '04 and later phenomenon?

<A – Hector Ruiz>: Correct.

<Q – Ramesh Misra>: Thank you.

Operator: The next question is from Adam Parker of Sanford Bernstein.

<Q – Adam Parker>: Yeah, hi. Can you tell me what the impact on the revenue from the National Semi IA acquisition was? Is that included in the incremental 100 million you got in your Computational Product Group growth?

<A – Robert Rivet>: No, revenue in the current quarter. That will not be classified. That is the Other category of the segment reporting.

<Q – Adam Parker>: Okay. I'm trying to ask an earlier question a different way. You originally guided to 180 million in Flash from the JV. Did the actual revenue from the JV exceed that, or was your original forecast accurate?

<A – Robert Rivet>: It was within the zone.

<Q – Adam Parker>: I'm sorry.

<A – Robert Rivet>: It was within the zone.

<Q – Adam Parker>: Within the zone?

<A – Robert Rivet>: Yeah, it's close to that number.

<Q – Adam Parker>: Within the zone, you said?

<A – Robert Rivet>: Yeah, close to that number.

<Q – Adam Parker>: I was bit surprised you're gross margins didn't improve more sequentially, kind of, given the processor growth and your comments about improved mix and pricing. So I'm trying to figure out just related to more COGS than you thought from the JV Flash business or from – can you just tell us what were the factors on the margin sequentially?

<A – Robert Rivet>: Well, the part – if you were listening before, both businesses, the cost characteristics are very different, the memory business and the microprocessor business. And obviously, by now we have effectively 50-50 between the business. Before we were two-thirds, one-third. So those are some of the dynamics that took place in the quarter, and will take place going forward as you model which business grows faster or slower.

<Q – Adam Parker>: Right. Well, Bob, you guys originally said 180 in revenue from FASL and if you assume the same, kind of, cost structure that you alluded to, it looked like about 135 million in COGS. And if you do that now it has a bit of drag, I think about 250 basis point drag on your margins. But if you look at the – your organic growth from the, you know, from the other businesses, it implies actually more margin expansion. So I'm just trying to, you know, kind of match up those two thoughts. Can you help at all there?

<A – Robert Rivet>: No. Not at this point.

<Q>: All right. Thanks guys.

Operator: The next question is from Hans Mosesmann of SoundView Technology.

<Q – Hans Mosesmann>: Thank you. Microsoft apparently yesterday pushed out the introduction for the Windows XP support for the AMD 64. What is the impact of that push-out, if you can confirm it?

<A – Hector Ruiz>: First of all, there is no – right now, we are working with Microsoft very closely to continue to stay on track with their release of the software needed. And I don't really know if there is anything substantial to add beyond that.

<A – Henri Richard>: No, except that, you know, today, consumers and enterprises that are looking at the AMD 64 platform and doing it because they want 32-bit performance today with a protection of their investment tomorrow, it is well understood in the marketplace that the operating system will be available later in 2004. And you know, frankly, a delay of one or two months doesn't change really the value proposition for the consumer and the enterprise.

<Q – Hans Mosesmann>: Okay. And one follow-up. Can you comment on inventories that you see out there in the PC space, in the channel?

<A – Hector Ruiz>: Right. Are you – did you mean inventories from a microprocessor point of view?

<Q – Hans Mosesmann>: Yes.

<A – Hector Ruiz>: As Henri pointed out a bit earlier, and so we have been pleased where we have managed that and we're happy with the current situation. We believe we call it stable. We have less than four weeks inventory in the channel. We're happy with that. We intend to manage it tightly and keep it that way.

<Q – Hans Mosesmann>: Thank you.

Operator: The next question is from Eric Rothdeutsch of FBR.

<Q – Eric Rothdeutsch>: Thanks. Most of my questions have been answered. Just one question. Last quarter, you had given guidance for the Flash memory revenues from FASL would be 180 million. Can you say how you do relative to the guidance for FASL Flash sales?

<A – Robert Rivet>: Yes. The question was actually asked before. But that was relatively close.

<Q – Eric Rothdeutsch>: Okay. Thank you.

Operator: The next question is from Michael McConnell of Pacific Crest Securities.

<Q – Michael McConnell>: Yes. Regarding the comments, which were very helpful on the PC side for the fourth quarter, looking at the industry unit growth of 10% to 15%, could you just characterize maybe from an industry outlook what you would expect on the Flash side; what is typical normal seasonality on the Flash side for the fourth quarter?

<A – Hector Ruiz>: The fourth quarter is traditionally a very good quarter for cell phones. And as you know, wireless drives a lot of demand in the NOR Flash market. So, we expect to see, you know, solid demand from that segment, probably double digit, very similar to what we were going to expect on the – on the PC side.

<Q – Michael McConnell>: Okay. And given your capacity you have currently, if we were to look at maybe double-digit growth in PCs, even Flash, do you think you have enough capacity right now? Do you feel looking through 2004 to meet the needs of the market, should it continue at this pace?

<A – Hector Ruiz>: I believe that looking out into 2004, we're well positioned to address the growth in the market, you know, could occur. And in the two angles for that: on the microprocessor side is because of the migration in technology from 130 nanometers to 90 nanometers gives a significant boost in our capabilities for next year, particularly in the second half. The same is true in Flash with a double barrel there, because one is, we are also aggressively moving to leading-edge technology in Flash. And at the same time, we have as I mentioned earlier, an underutilized leading-edge factory in Japan where we could expand capacity fairly rapidly.

<Q – Michael McConnell>: Okay, thank you very much.

Operator: The next question is from Tom Thornhill of UBS Warburg.

<Q – Tom Thornhill>: Thank you. The microprocessor performance was outstanding, up 24%. Can you give us a little idea on which was the larger driver there, units or ASPs? Or were units and ASPs both up about the same or one larger – up more than the other?

<A – Hector Ruiz>: I know you really want to know the granularity of that. I can tell you that both contributed to the revenue being up. We had a growth in units as well as a growth in ASP.

<Q – Tom Thornhill>: But you're unable to disclose which was the larger contributor?

<A – Hector Ruiz>: That is correct.

<Q – Tom Thornhill>: Thank you.

Operator: The next question is from Chris Stanley of J.P. Morgan.

<Q – Chris Stanley>: Thanks, guys. I think most of my questions have been answered. But just a couple – can you give us a sense on your mix of Mobile versus desktop processors?

<A – Hector Ruiz>: I'm sorry. Could you repeat the question?

<Q – Chris Stanley>: Sure. Could you give a sense of your mix on Mobile laptop versus desktop processors, the percentage?

<A – Hector Ruiz>: We normally don't do that. Other than we have a healthy segment of our shipments in the Mobile space, and as I mentioned earlier, we did accomplish record shipments last quarter.

<Q – Chris Stanley>: Sure. And then sounds like the Flash business is tightening up. Do you guys have plans to try and raise pricing there?

<A – Hector Ruiz>: You know, we believe strongly that we are making a lot of very strong commitments with our customers to product plans that go beyond just this quarter. And we do not, you know, anticipate a change in our philosophy.

<Q – Chris Stanley>: You don't have plans to raise prices?

<A – Hector Ruiz>: On this program, we are already working with customers.

<Q>: Okay. Thanks.

<A – Hector Ruiz>: We're going to take two more questions, please.

Operator: Certainly. The next question is from Mark Lipacis of Prudential Equity Group.

<Q – Mark Lipacis>: Mark Liposis. Two questions. The first one is, do you guys have some sort of long-term operating model you guys are targeting? And the second one is, you guys talked about inventory, distributors, what do you think inventories look like at OEMs? Thanks.

<A – Hector Ruiz>: I don't – I'm not so sure if that I know what the inventories look at OEMs right now, other than anecdotal evidence. But maybe Henri can add some more solid background. I just got back from Europe visiting a number of customers. And all I can tell you is that they are all seeing a healthy growth and as a result, managing their inventories very tightly. Henri.

<A - Henri Richard>: Well, just to clarify Hector, with most of the large OEMs, we are with on a JIT model, so we have very inventory, and from what can tell there, they were experiencing strong demand for their systems. So I would expect from an AMD perspective that our inventory at an OEM is minimal.

<A – Bob Rivet>: As far as your question on operating model, you know, our goal in life is to get a return on capital. You kind of work backwards from that, as I think we've stated before. So that kind of requires an 18% operating income level. So that's what we continue to drive to. There are slightly different cost structures, operating models between the two businesses. But in general, you know, we're racing to get back to where we were in 2000, which was 18% operating income level.

<Q – Mark Lipacis>: Thanks.

<A – Hector Ruiz>: And take the last question, please.

Operator: The final question is from Kevin Rodinghalf of Midwest Research.

<Q – Kevin Rodinghalf>: Thanks for getting me in here. You mentioned a couple corporate wins here. Are you seeing a general broad-based corporate pick-up at all, or were those just kind of added on comments?

<A – Hector Ruiz>: You know, I think from our perspective, the acceptance of AMD products in the corporate space has been growing and increasing. We see significant wins in Europe, Latin America and the United States. We expect that to continue. Now, that is a space where we have not been as strongly a participant in the past and therefore, our growth in that space may not necessarily be reflective of a significant growth in corporate spending.

<Q – Kevin Rodinghalf>: Okay. So, more market share gains than just a broad-based pick-up?

<A – Hector Ruiz>: Correct.

<Q – Kevin Rodinghalf>: Okay, another question. You mentioned a couple different geos there, any particular geo's where you are seeing strength?

<A – Hector Ruiz>: I'm sorry. I missed the question.

<Q – Kevin Rodinghalf>: Any particular geographies that appear to be stronger than others?

<A – Hector Ruiz>: You know, this past quarter, it was across the board. We saw pick-up across all geographies. I couldn't pin one strongly over another one.

<Q – Kevin Rodinghalf>: Thank you.

<A – Michael Haase>: Want to thank everyone for participating. Take care.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

END

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2003 Earnings Call for 16-July-2003 5:30 PM ET
Wednesday, July 16, 2003 09:30:00 PM (GMT)

Advanced Micro Devices, Inc.(AMD-US) Schedules Q2 2003 Earnings Call for 16-July-2003 5:30 PM ET.

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen thank you for standing by. Welcome to the AMD Q2 Earnings Conference Call. I would now like to turn the conference over to Michael Haase, Director of Investor Relations for AMD. Please go ahead, Sir.

Company Representative: Thank you and good afternoon everyone. The format of the earnings call today will include prepared comments followed by Q&A. The participants of today's call are Hector Ruiz, our President CEO; Robert Herb our EVP of Sales and Marketing, and Bob Rivet our Chief Financial Officer. This call is a live broadcast and will be replayed on the Internet at two sites, streetevents.com and amd.com. The telephone replay number for North America is 800-633-8284, outside of the United States the number is 402-977-9140. The access code for both is 211-54-161. The telephone replay will be available for the next 10 days starting 6:00 pm pacific time today. For your planning purposes I would also like to take this opportunity to inform you that we will be launching our AMD Athlon 64 processor for the desktop and mobile PC sectors on the 23rd of September here in San Francisco, again that's September 23rd here in San Francisco. We will be sending out invitations to this event over the coming weeks. So, keep an eye out for further details of the launch. I would also like to share with you the date of our 2003 Analysts' Day. It will be held the morning of Thursday November 6th, here in our Sunnyvale headquarters.

Safe Harbor Statement. At this point, I would like to introduce our CEO, Hector Ruiz.

Hector Ruiz: Thank you Mike. Once again, I would like to begin with a report on our continued progress to profitability. I will then ask Bob to go into some detail on the past quarter with some comments about our near term outlook. I will then close with comments on our longer-term prospects before taking your questions. Let me start by saying that while we are pleased with the progress we have made on a number of very important fronts, we are more disappointed than anyone with our topline performance and I will get to that later. I want to summarize some of the progress that we've made on our base line priorities. We continued to manage well our PC value chain inventories to very tight levels. They are now down to about 4 weeks, which is right where we would like them to be. We are actively managing our capital base, finishing the second quarter with $739 million in cash, despite a very challenging quarter. And we continue our company wide efforts to reduce our breakeven and make our cost structure more variable in nature.

In fact, I am very pleased to report that in the second quarter, we beat our $800 million cost target by a full $31 million. And this is over a $128 million per quarter, or 14 percent, below our breakeven only four quarters ago. We will continue to drive this discipline across and throughout our organization, as we intensify our attention on growing our topline. I mentioned our breakthrough technology agreement with IBM (NYSE: IBM) as an example of our operational flexibility strategy. We are thrilled and happy with the progress of our relationship with IBM, as we expand our flow of engineers to their East Fishkill facility. Our SOI, silicon and insulator yields and performance are at mature levels. Faster than any node in technology that we have ever done. And as we align ours and IBM's technology trajectories, our 90 nanometer process technology is looking very robust at this point in time and we are looking at one of the steepest ramps in AMD's history, with our product shipments beginning for 90 nanometer in the mid-year 2004.

Another example of our operational flexibility effort is our flash memory joint venture with Fujitsu. In consolidating our respective flash operations, we have expanded AMD's access to new assets, markets, and revenues. And we fully expect to be able to exploit the same operational efficiencies as our consolidated flash memory business continues to expand. The leadership team is in place and we are well in our way to integrate our operations. We believe we are in track to be the world's largest flash memory provider in the very near future. In a few moments, I will ask Bob to outline how these agreements will affect our financials in subsequent periods.

While channel softness and the SARS epidemic undermined our ability to reach our aggressive topline projections for the quarter, we still were able to make strong progress on key revenue initiatives, new ones, which include servers where our AMD Opteron processor family continues to show impressive gains. With our partners for our growing list of top tier include IBM, Microsoft (NASDAQ: MSFT), Sun (NASDAQ: SUNW), Oracle (NASDAQ: ORCL), Computer Associates (NYSE: CA), SuSe, RedHat (NASDAQ: RHAT) and many others. With awards, for recently Opteron was honored as best of show at the Clusters World Conference and Expo in San Francisco. And more importantly with customers, we are early to manage to exceed even our own partner's expectations. In this past quarter alone, Opteron was chosen as the basis of a high profile super computer project at the University of Michigan, Manchester University and Texas A&M University, continuing its early leadership in the high performance computing segment. We are looking forward to IBM and Fujitsu Siemens system shipments in the near future. As the matter of record, it appeared that in the first quarter of its existence, we have shipped more processors from the AMD Opteron family than our leading competitor's 64-bit processor family shipped in all of 2002. China is another key target for topline growth. And despite the adverse effect of SARS in our Flash and Processor channel business in the quarter, it is important to note that AMD revenues in China were up by 50 percent year-on-year. Building on our momentum AMD Opteron and Athlon 64 processor were named best IC innovation for 64-bit processors by the China Semiconductor I Industry Association. In addition, our new partners Amoisonic and Tsing-Hua Unisplendor will begin shipping notebooks powered by AMD Athlon XP mobile Processors this month.

And in the mobile segment, for in addition to our recent success in China, we announced our new Athlon XP mobile 2000 plus and 1900 plus processors for thin and light computers. We launched our Athlon XP mobile 2800 plus into the growing desktop replacement segment. And we continue to advance our solid position with consumers in the retail channel. Finally, in Flash, for in addition to closing our landmark deal with Fujitsu, we were honored by Samsung as Supplier of the Year in 2002. We saw a steep ramp in demand and record shipments of our breakthrough MirrorBit technology, with first shipments to a major cellular customer in the second quarter. We continue to strengthen our leadership position in the strategically important wireless arena. An important driver of high density demand. And we remain one of the two or three companies that are poised to truly deliver the high density flash memory, as evidenced by our 0.5 GB sampling this quarter. And we will deliver first shipments of 130 nanometer flash from our Fab 25 in Austin for the balance of the year.

Servers, China and the mobile segment are three important areas of focus that will fuel both new topline growth and the strength of our customer relationships. And our refined flash joint venture presents both immediate and the promise of future topline growth as well. To close, I would like to assert that we are making strong progress to reduce our restructure and our costs and to improve our operational flexibility, and to position ourselves for success in the key areas that we have target for revenue growth the balance of this year and into 2004. At this point, I would like to ask Bob Rivet to review the current quarter results.

Robert Herb: Thanks Hector. I will start with a review of our second quarter results and conclude with some forward-looking guidance that will include the effect of the integration of Fujitsu's flash memory businesses into AMD. Second quarter sales were $645 million, up 7 percent year-over-year. In what is typically that seen in a weak quarter, sales were down 10 percent compared to the first quarter. The effect of the SARS epidemic and weaker then anticipated channel sales in some of our international market segments impacted second quarter sales. AMD's operating loss in the second quarter was $123 million, down 59 percent from the same period a year ago and down from $125 million in the first quarter of this year. Our reduction in operating loss in the quarter was driven by continuous progress at our ongoing cost reduction program. Compared to the first quarter, operating margin fell to its endpoint as evidenced by our reduction in losses despite the $69 million sales decline. And as we had set out to accomplish in October of last year, we have reduced our operating loss by more than $200 million.

Gross margin improved for the fifth consecutive quarter in a row to 34 percent for the quarter, up from 31 percent in the first quarter. Operating expenses were virtually flat with research and development spending at $209 million for the quarter and marketing general and administrative expenses of $135 million for the quarter. Net loss in the second quarter improved to $140 million or $0.40 per share compared to $146 million or $0.42 per share in the first quarter. Year-over-year net loss improved 24 percent from $185 million or $0.54 loss per share. We are pleased to report that our operating break-even point for the second quarter was $769 million, exceeding our October guidance last year when we embarked on our operational flexibility program and set an aggressive goal of operating break-even point below $800 million by the second quarter of this year. We achieved this. There was no material currency effect on the second quarter, as most of our currency exposure was reasonably covered.

Now switching to the business summary for the quarter. Second quarter PC processor revenue was $402 million, a decrease of 14 percent as compared to the $468 million in the first quarter and an increase of 6 percent over the like-period of a year ago. Increased sales with our Tier 1 OEM customer base were not high enough to offset weaker than anticipated channel sales in our Asian and European market segments in the quarter. Accordingly, we reduced shipments into those channels and tightly managed inventories in the PC supply chain. As a result, we believe AMD's base inventories in the supply chain are now at 4 weeks. In the second quarter, flash memory revenue was $211 million, down slightly compared to the first quarter. Year-over-year, memory sales were up 20 percent compared to the $175 million in the second quarter of 2002. While the SARS epidemic caused a decline in demand for cellular handset and resulted in significantly lower flash memory sales for AMD in Asia, this decline was almost entirely offset by an increase of memory sales in North America and Europe. With our continued share gains in the high end cellular handset market along with our leadership position in high density flash memory, the shipments grew for the second consecutive quarter, once again to record levels and our average flash density nearly doubled compared to second quarter of 2002, seventh consecutive quarter, excuse me. With the continued focus on our cost structure, EBITDA in the second quarter continued to improve to $97 million from $87 million in the first quarter. Again, this was consistent with our prior guidance of positive and growing EBITDA in the second quarter.

Now, let's turn to the balance sheet. Cash balances ended the second quarter at $739 million, down only $61 million from last quarter's closing balance. We've successfully renegotiated and extended our $200 million revolving line of credit currently untapped during the quarter, which now expires in July 2007. Capital expenditures were $103 million in the second quarter compared to the $181 million in the first. And once again, quarterly depreciation was larger than capital expenditures. Accounts receivable day sales outstanding were relatively flat at 52 days for the first quarter of levels of 50 days. AMD's headcount at the end of the second quarter was 11,700, down from 12,100 in the first quarter and 13,700 in the second quarter of last year. Now, I would like to discuss the outlook and point out some of the changes the new combination of AMD's and Fujitsu's flash memory operations into FASL LLC, a consolidated subsidiary of AMD, will have on our future. AMD will consolidate FASL LLC's financial results into its income statement and balance sheet. There will a provision in AMD's financials below the operating profit and loss lines, to reflect the Fujitsu's 40-percent share of new company's profit, and the appropriate minority interest on the balance sheet.

At the start of the third quarter, AMD's consolidated balance sheet will take on incremental assets and liabilities from FASL LLC of approximately $1 billion, which includes a $180 million in cash and $190 million of debt. Headcount will increase in the third quarter by approximately 2,700 people, due to consolidation of FASL LLC memory operations. We believe that third quarter comp sales will be up based on normal seasonal, normal industry seasonality along with our enhanced product position and increased shipments of AMD Opteron processors, and initial shipments of AMD Athlon 64 processors. AMD expects its flash memory business to improve based on continued market share gains, in the high end cellular handset and the recovery of the Asian markets.

On top of our expected growth from the existing AMD flash memory business, we believe that the combination of AMDs and Fujitsu's flash memory operations into FASL LLC will add an incremental $180 million of consolidated sales. With the consolidation of FASL LLC flash operation, the company anticipates its third quarter operating cost structure to be approximately $1 billion. In first half of 2003, capital expenditures were $282 million. Our capital expenditures plan for the second half of 2003 will now include FASL LLC and we expect full-year capital expenditures to be approximately $725 million. Depreciation and amortization for the first half of 2003 was $422 million. Depreciation and amortization considering FASL LLC is now expected to be approximately $975 million for the full year.

Consistent with prior our guidance, our quarterly tax rate will be zero until we return to profitability. Once profitable, we currently anticipate the tax rate to be within the 10 to 20 percent range. And finally, with the third quarter opening cash balance of $990 million, made up of $739 million from AMD second quarter ending cash balance, plus a $180 million cash contribution by Fujitsu plus continuing growing EBITDA, we expect cash burn to be minimal for the third quarter. In summary, we believe our costs are under control and we are seeing improving fundamentals going forward. We are doing everything possible to return to profitability as quickly as possible. Now, I will turn it back over to Hector.

Hector Ruiz: Thank you, Bob. In summary, I want to share with you our reasons for being increasingly optimistic as we enter the second half of the year. First, we are well positioned to succeed in our flash business. With the consolidation of AMD and Fujitsu's flash operations, we entered the second half with the leading position in the strongest growth segment of the business, cellular handsets. We believe the SARS phenomenon is largely behind us. We believe AMD is uniquely poised to capture an increasing share of the rapidly growing high-density portion of the market. We expect our new expansion brand to be the #1 flash memory brand in the world. And we expect to see a continuation of our strong second quarter MirrorBit growth trajectory. Second, we are looking for a solid ramp on Opteron processors. We have demonstrated industry leading benchmark performance in both 2P and 4P nodes. And we have secured Microsoft's commitment to develop native versions of the 64 Windows XP and Windows Server 2003 operating systems. We have commitments from top tier enterprise ISVs including in Oracle, IBM DB2 and Computer Associates as well as Linux vendors, RedHat and SuSe. We have IBM and Fujitsu Siemens shipping systems in the very near future. And our validated server program makes it easy for anyone to minimize their product-development cycle.

Third, we have our upcoming launch of our AMD Opteron-64 processor family. It will build on the momentum of our Opteron launch, and we will signal the beginning of the new era of pervasive 64-bit computing. We hope that you join us on September 23rd, either in person in San Francisco or on the web for the upcoming launch of our Opteron-64 desktop and mobile processor family. Before I close, I want to do my best to acknowledge the incredible efforts of each and every AMD employee to bring this company back to profitability. Their capacity to drive operating costs down by over a $120 million per quarter in the past year, while delivering year-on-year revenue growth of $45 million, is a testimonial to the drive, desire, and commitment to our great company. We have great people. We have great products, and we have world-class process and manufacturing expertise. And we have an opportunity for greatness in this business.

We set our minds on cutting costs and we did it, resulting in our highest gross margins in microprocessors in recent history, despite a lower revenue base. We set our minds in becoming #1 in the flash business and we did it, closing our landmark agreement with Fujitsu in record time, and we believe we will be #1 in the very near term, if not there already. We set our minds in reinventing the server business and we did it, launching AMD Opteron, arguably the most exciting and high-performing processor platform to hit the enterprise to server arena in years. We set our minds in moving to whole industry forward to a new standard of computing and we did it with our Athlon-64 processor family, which will deliver dazzling new desktop computer capability, the world's highest performance desktop systems and a new cycle of innovation in the industry. With one-tenth the resources of our competitor, we are driving the industry to new standards in manufacturing, performance, and user experience. We have done everything that we said we would do, with one key exception. And going forward, we need to do a better job on getting compensated for the performance we deliver in our products and the value that we bring to the industry. But as we have responded to these prior challenges in the past, we will do it again. And we will do it by improving our customer profile, becoming more relevant to our customers, and by participating in the enterprise segments to the introduction of Opteron, and the soon to be announced Athlon-64 processor. Like Opteron, we will manage our Athlon-64 assets to get what we deserve for the innovation and value that we are providing our customers. We are strategically important to this industry, the nuclear point to a better alternative to a monopoly. We are poised to change the industry. The combination of our people, our technologies, and the support of our customers and partners, with the combination of great potential involving the immediate and long-term future. Thank you for your attention, and I would like to turn it over to Mike Haase for the Q&A.

Mike Haase: Operator, we are ready to go into the Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. Our first question comes from the line of Joe Osha with Merrill Lynch. Please proceed with your question.

<Q>: Hi, I made it right upfront. Just a few issues, for starters – Bob, talking about this $180 million sequential delta in Flash revenues, how much is that flows from organic growth, if you will, and how much simply from the mathematics of consolidating the business?

<A>: You got it wrong, Joe. Here is what you should do. AMD and what growth you want on AMD plus of a $180 million to get your answer.

<A>: I am sorry, say that again.

<Q>: So, it's AMD's existing business plus whatever growth you want to assume plus a $180 million.

<Q>: Okay, so that $180 is truly driven by the consolidation?

<A>: You got it.

<Q>: Okay, thank you. Second, question, as you talk about the billion dollar operating cost structure. Can you, you know, hypothetically – can you talk a little about how that would be a apportioned between COGS and R&D and SG&A or perhaps at least talk about how R&D and SG&A might look?

<A>: You know, we are still working. I don't want to give you that granularity because we are still working through that. Obviously, one of the thing we are now entitled to do as we put this operation together, is go work through some of the cost synergies and redundancy issues, but it's, you know, most of the cost is manufacturing.

<Q>: So, we should think billion dollar breakeven for the near term.

<A>: That's right.

<Q>: Okay. And then third and final, can you give us some very rough sense to what Opteron revenues look like? I know there was sort of a comment relative to Intel (NASDAQ: INTC), but maybe a little bit more work with there?

<A>: Joe, I don't think we are prepared to give you any granularity at the moment. The intent of the comment on our competitor was really just to show that we are getting an awful lot of traction on Opteron, faster than frankly many of us expected, perhaps. And we should see the impact of that mostly next year, much more than this year.

<Q>: It's fair to say that revenues are still relatively diminimus though for Opteron, right?

<A>: On the Opteron side, that's correct.

<Q>: Thank you very much.

Operator: Our next question comes from the line of Andrew Root with Goldman Sachs, please proceed with your question.

<Q>: Just a couple of questions on PC inventory side. You said processor inventories right now are around four weeks, is there any distinction between inventories at OEMs versus rest of the channel, are they lower at the OEM level?

<A>: Rob, would you like to comment on that?

<A>: Yeah sure. It turns out four weeks is an aggregate statement and it is based on trailing sales information. Take a look at where we are at, we've decided that overall that's where we want to be. We do have different models for each of different businesses. I can tell you, from a processor standpoint as we went through Q2, our sales to our, you know, Tier 1 or largest OEM, was actually up quarter-on-quarter. That offset some of decline we saw in the channel, so we very aggressively manage our shipments into the channel, you know, to maintain the inventory position we want at the end of the quarter. The good news is that at the very end of the quarter, the last week or two the quarter, we actually saw a fairly substantial increase in the resale activity which carried through into this quarter. So, you know, we are heavily dependent upon that, you know, Tier 2 and white box retail market to drive our business. While we suffered through a fairly difficult quarter particularly in Asia, maybe some due to SARS, and also in Europe, it looks like that appears to be on the rebound here, at least early in the quarter based on what we saw very late last quarter.

<Q>: Interesting. On an order of magnitude basis, I mean on a percent basis, sequential growth on a week, you know, week-over-week, was it single digits, was it double digits, was it – just order of magnitude sense?

<A>: Yeah, without going further into the details, let's make it double digits and that's why it was a fairly strong close of the last quarter and what we are seeing in the first couple weeks of this quarter.

<Q>: Okay. What's proportion of the revenue would be tier-1 OEM versus the other?

<A>: I don't think we want to get into providing that level of detail on that.

<Q>: Okay that is fair. And maybe a more macro cost question for Bob. In terms of your overall breakeven, this $769 for the quarter, I know its tough to tell but, I think the breakeven target originally was if you had $800 of million revenues that would be breakeven, does that imply that for incremental revenue from here to $800 million you would have incremental gross margin of around 80 percent so that if you were at $800 million in revenue you would have broken even this quarter?

<A>: Hi, that's not for too far off. That has been the model. We have been trying to move the variable cost component from about 20 percent to 30 percent, we are about half way through that so it is someplace between 80 and 75.

<Q>: So that's, as we model and we have the figure out FASL, but as we model in the AMD piece, that is basically where we should be for incremental gross margin. Okay, thank you.

Operator: Our next question comes from the line of Bob Reitzes with Bear Stearns, please proceed with your question.

<Q>: Yeah just one quick question. Do you guys range your revenue numbers like Intel does for the Q3 or are you going to let us guess that?

<A>: No we don't -- we do what we think makes sense. At the end of quarter right now, the best we can tell you with the tremendous challenge of the assimilation of the flash operations, we feel very confident that due to seasonality and the signals we will get from our customers, that as Bob pointed out in his comments, processor revenue will be up in the third quarter, flash memory will be up also in the third quarter and at this point in time that's all we can tell you.

<Q>: Okay.

Operator: Our next question comes from the line of Quinn Bolton from Oppenheimer, please proceed with your question.

<Q>: I was wondering if you could give us any detail on sort of unit and ASP pricing trends on the processor business, I am sure you can't give us actuals, but maybe just a percentage change and then just wanted to come back to the international channel weakness, it sounds like it's China or Asia and Europe, I think SARS explains Asia, but if you could give a little bit more detail of why you think Europe slowed down in the second quarter, that would be helpful, thank you?

<A>: Yeah, Robert, trying to remember the order of the questions, the first question was the ASP and unit differences from quarter-to-quarter. I can tell you that the unit shipments in were actually down, you know, and ASP was down slightly although to a lesser extent, quarter-on-quarter. As far as what we are going to actually see relative to PC consumption, I think that our actual consumption was down a little bit as well. And particularly, we were hit hard in Asia and Europe. As I mentioned Asia, you can relate some of that to SARS in that we had I think that somewhere in the neighborhood of 50 percent share of what they call the "VIY market (31:09)", which is basically the small stores market in China. That certainly had a big impact on our business there. Although in total numbers, the actual revenue hit was bigger in Europe, but we had a much larger share, much larger numbers in Europe to start with. Europe was hit hard by a couple of things. I think part of it is, you know, one of the largest markets from PC standpoint in Europe is Germany, and the German economy is still going through some difficult times. So we saw substantial shortfall to our expectations there. And in general, you expect Europe to slowdown as you enter into the summer quarters. I actually think it came at us a little sooner than we expected. I am hoping that we will see the rebound coming out of those quarters a little faster as well. Yet to be seen, so I don't want to hang our hat on that, but it looks like some opportunity there.

<Q>: Okay, then just one quick follow-up question on the inventory. It looked like the inventory of processors in the channel is at very healthy levels, but your inventory on your books, it looks like it ticked up slightly. Are you comfortable with the inventory currently sitting on your balance sheet?

<A>: Yes, we are and one of the changes, the major changes - I would like to ask Bob to elaborate as I finish here, but we have been running the K8 processors for the so-called Opteron and Athlon 64. It's engineering runs for sometime. We made the decision now that we are shipping products to actually put some value in that inventory and a significant chunk of that was the result of evaluating that. Bob, do you think you can add something to that?

<A>: No. I think Hector had covered most of that. We are comfortable with our inventory level. In particular, as Hector said, we value – we take a pretty conservative valuation posture on new products and not until we are shipping some significant volume do we value that inventory. We valued the Hammer family of inventory in the third quarter. I feel pretty comfortable with our inventory levels and particularly comfortable with our inventory levels in the channel.

<Q>: Great, thank you.

Operator: Our next question comes from the line of Hans Mosesmann with SoundView Tech. Please proceed with your questions.

<Q>: Thanks. A couple of questions regarding IBM. When is the ramp going to occur for 90 nanometer and will it be exclusively 90 nanometer at the beginning, and not 0.13 micron? And then I will have follow up. Thanks.

<A>: Let me try to answer what I think the question is. Our joint development agreement with IBM is designed to correlate the company's technology roadmap at 65 nanometers. So, beginning with a 65-nanometer node, both companies will be exactly on the same technology roadmap. What we have learned in working with IBM, which has been a very positive experience, there is a lot that we could benefit, mutually – both companies. We actually started the interaction at 90 nanometers, not 65 only. So, we have actually exchanged some technology modules, both companies. IBM picked up some of the pieces were are doing in some parts of our 90-nanometer effort. And, we are picking some of theirs. And as a result of that, I believe, we are ending up with a more robust map. We are taking some of that risk out of the robustness in that technology. And, we are beginning to do engineering runs on 90 nanometers here before the end of the year. As we speak, we are beginning to run some products and we will start ramping that up towards the end of the year. We expect to make wafer production starts in the first half of next year.

<Q>: That would be on Fab 30?

<A>: That will be on Fab 30, 200 millimeters, 90 nanometers.

<Q>: And, then one follow up. The IBM 65 nanometer then would kick-in in 2005, is that correct?

<A>: That is correct.

<Q>: Thank you.

Operator: Our next question comes from the line of Michael Mesdea with CS First Boston. Please proceed with your question.

<Q>: Yeah. Thanks. Just to see if I have a grasp on everything here. It seems like you guys have got your cash burn down, your gross margin is going up, and if you hit your Athlon-64 on time, is your next major step to focus just on driving volume here?

<A>: Big time, big time. We are redirecting a lot of the energy we have put in the past, you know, with the downturn in the economy, and things being slow for the last couple of years, we have put an awful lot of effort in reducing costs, restructuring, and how we run the businesses, and as I have stated in my remarks, we are now at the highest level we have been in years in the margin of microprocessors, with a little wind in our sails and volume, we really have a very optimistic outlook for the future.

<Q>: Right. If you look at the mobile strategy, how important is getting tier 1 OEMs? I mean, if it's not important, how feasible is a white book market?

<A>: Well, I think it's very important to get tier 1 OEMs. We think one of the keystones to our strategy going forward is to be able to participate in a meaningful way in the enterprise commercial space, of which mobiles are a big part of it. And, therefore, a lot of our effort in looking ahead is designed at making inroads in that arena. Short term, of course, we are going to do that with our product based on Athlon XP-Mobile. Longer term eventually will have the introduction of mobile products in Athlon 64 and as our dream is to eventually bring 64 big computing to enterprise all the way to the client and we expect that also to have a significant impact.

<Q>: Right, thank you.

Operator: Our next question comes from the line of Chris Danley of J.P. Morgan. Please proceed with your question.

<Q>: Hi guys, nice job on the margins. Just trying to look at the gross margin levers for the second half of year. Can you just talk about what your expectations are for utilizations rates, how much do

you think the Opteron ramp is going to help and also flash pricing and how much all those contributes in the margin boost?

<A>: I will make some comments and maybe Rob can add to some of the market issues, but first of all, you know, let me define intuition is really the result of experiences that accumulated over many years. My intuition says that business is getting better, that we expect a recovery in the market place for the second half, either resulting higher volume, improving margins, if the volumes go up as our revenue goes up, and so we would expect that our operations will continue to improve over the next couple of quarters. The challenge in the next quarter near term is to obviously assimilate this Fujitsu flash memory business effectively, and be able to recognize, and you know, one of the reasons we find this pretty exciting is that there is an economic entitlement to this venture with Fujitsu that we believe is going to be greatly beneficial, i.e. resulting in improved operational efficiency as well as margins, going forward. We expect pricing to continue to be competitive despite any modest recovery in the economy, both in processors and flash memory. So, our plans going forward are based on a continuing price pressure that you normally expect in this environment. Rob.

<A>: Yeah from a market standpoint, you had some questions of what we are seeing in flash pricing, and although Bob commented on how that affects margins, from a flash pricing standpoint, we are still seeing the market to be relative stable, that doesn't mean prices are flat or going up, it just means we are seeing a normal pricing curve I guess. We have really benefited from the fact that we focused on high density flash market and a little over, I guess it's over a year ago now, we put tremendous amount of effort to growing our share of the wireless handset market. We have been very successful of doing that. You know, if you look back just a year, we have doubled our average flash density in the products we shipped. And as I think, as Bob mentioned in his comments, we actually had the 7th consecutive quarter of shipment growth. I mean that was another record for us and flash has been very, very strong and we see a continued opportunity there in particular with our MirrorBit technology, and MirrorBit is on a pretty steep ramp up at this point of time. We have seen our first design win from a major cellular manufacture. So, that really helps us drive the growth in that space as well. So we are feeling pretty good about the second half of year, relative to the market opportunity, and the combination of, or the consolidation of AMD in Fujitsu, should only help that.

<A>: A couple comments from my standpoint on factory utilization. Particularly in the flash business, we have two trends that will help on the gross margin side as volume continues to pick up as higher utilization rates. We are not fully utilizing as an example: Fab 25. Utilization rates will continue to pick there and also the transition in the technology nodes to 130 nanometer in Fab 25 and in JV 3. So, there is, we have got multiple angles that will continue to make gross margin improve on a continuous basis go forward.

<Q>: Give us a sense of margin contribution from the Opteron or some sense how much better you think margins are going to be there versus your normal processors?

<A>: You know, we expect to obtain the appropriate compensatory effort for our Opteron family, but in the near term as we said earlier, it doesn't have a significant impact in this year.

<Q>: Okay thanks guys.

Operator: Our next question comes from the line of Dan Scovel with Needham & Company. Please proceed with your question.

<Q>: Yeah, good job on this cost savings. Question in terms of flash memory, I was wondering if you can characterize sort of what's going in the competitive environment. You have given us a good flavor for, you know, sort of your approach and what you are doing in the market. And I was just wondering if you could help us make some sense, I mean clearly we have heard from your

major competitors that, they did well in Japan, but seem to do weak a lot of other places and there is you know, rumors of some new entrants going in there. I was wondering again, can you sort of qualify what the customers are looking for and maybe what some other regional shifts that are happening in flash?

<A>: I will make the comment on technology and then Rob can comment on some of the market issues. The flash you know, the requirements for flash has become pretty stringent from a technology point of view, being able to do what we do at MirrorBit for example, we are actually we have taken in transistor and double up, if you can say that, on one single transistor we are now able to store two bits of information. And the technology requirements where you know, we are migrating rapidly already to 130 nanometer and pretty soon we intend to make the migration to 90 nanometer and beyond. Those are becoming pretty challenging for people that are participating in the high end, high performance, high density kind of technologies. We see only a handful of companies really able to – first of all have the core competency to do that and the assets necessary to produce those, 3 or 4 companies in the world that are really are in that category. And then there are a lot of other small players addressing much smaller densities, very commoditized high volume markets. At some point in time, those numbers of players are too many and so I expect some consolidation eventually to take place. But the key point I wanted to make is that the demand in technology from the fundamental building blocks, as well as, the design capability, it's pretty awesome, it's not something that is easy for companies to come by. And then there is the market insight as to customers and applications that all these things will go into. Rob, would you comment on that?

<A>: Yeah, I will try to talk a little bit on the second part of the question, the geography, I really agree with what Hector said. I think if you ask me what the customers are looking for, they are looking for broad based supplier. They can supply products top to bottom, high density, high performance and AMD has probably the broadest product portfolio in the industry. Secondly, I think they are looking for a company that can provide them with the ongoing cost reductions they need to make their products competitive in market place. AMD has done a pretty good job of demonstrating a track record to do that and as Bob pointed out, the consolidation of AMD operations should allow that even to continue as we go forward. And third, they are looking for somebody to provide them a road map for high density and high performance flash. This is an area that AMD has really distinguished itself. I think AMD is truly the leader in high density, high performance, flash product. I think when you look at the opportunity that affords us, we are seeing pretty strong growth, Bob mentioned in his comments that we saw an offset of both the decline in sales in Asia, largely within the handset market with an increase in sales in both North America and Europe, so pretty broad based. And the only reason I won't comment on Japan is not because I don't think AMD could do well there, but if you remember under the current arrangement, AMD did not have the opportunity to sell flash in Japan. That was handled by our partner and manufacture arrangement with Fujitsu. On an ongoing basis, we now have an understanding and access to the information in Japan, as well as we will probably be able to give a little bit of guidance on what's going on there in the future.

<Q>: Also in terms of processors, can you comment on utilization of FAB 30?

<A>: The utilization of FAB 30 is, I would say for all practical purposes, fully utilized. But take into account that it is going to do technology transitions at an incredible rapid pace. As a matter of fact the 130 nanometer technology node is probably going to be the shortest lived technology node in the history of this world. But taking into account the fact that their technology nodes are changing and transitioning, the utilization of the factory in terms wafer capacity is fairly constant and pretty much fully utilized.

<Q>: Finally, one last question on your non-windows compatible processors, it's kind of noticeable by its absence of comments here today?

<A>: A shame on that. I should have made a comment on that because I really think it is a positive part of our story too, although much smaller in the following sense as, you know, that business actually started with a fairly aggressive plan for the year relative to revenue and opportunity. I will tell you that year to-date, we are actually ahead of plan and although on the smaller basis quite different in size from flash and processors. We continued to see our performance, cost, power, and power from the point of view of battery power, we still you know, are in a strong position as a leader and gaining designs at a pretty healthy pace. But as we mentioned before, usually the time to market from design win to product volume in this area, as you are talking about areas such as automotive for example and then GPS positioning system in a car, do you know people start planning their car models years in advance, so the time to volume with this thing is usually no less than 18 months, usually even longer. So we expect those volumes could begin to occur actually in the fourth quarter this year. We will start seeing for the first time some rather healthy significant volumes and much more next year.

<Q>: Thank you.

Operator: Our next question comes from the line of John Barton with Wachovia Securities. Please proceed with your question.

<Q>: Yes thank you. Good afternoon. In the terms of the integration of FASL LLC, you commented that your operating expenses are going to go up to about $1 billion sequentially, which would imply about a $231 million increase. Other than the organic growth driven COGS contribution to that and I think you commented probably somewhere around 20 to 25 percent on the incremental dollar. Is the complete balance of that $231 as a result of the integration of FASL and then how do I compare that with the $180 million revenue increase, which would imply a loss versus the benefit you have taken from the JV ventures in previous quarters? Thank you.

<Q>: Hi, this is Bob. Yeah you kind of got the decode right, $180 million additional sales, $200 million plus of additional cost. Obviously that's our challenge. Our entitlement is to go fix that on a go forward basis, that's what we are working currently in the third quarter to realize both top line opportunities and the cost synergies that is now available for us on a go forward basis. It will take us a while to work through those issues and the statement we made on the billion dollar cost is for the third quarter.

<Q>: So if I compare that with the previous quarter's the gain you took as a result of your 40 percent exposure to the JV, I guess that implies costs that weren't showing up in the JV, that now is a standalone unit is showing up in the income statement, is that an accurate statement?

<A>: No. One that, before I mean, history we had 50-50 joint venture with Fujitsu in manufacturing, only in dye manufacturing. Now we have a fully consolidated business unit from top to bottom that sells product to both parents, and both products and parents then turn around and distribute that product. And at 60-40 owned by AMD and only 40 percent by Fujitsu. So there is some additional new cost and people coming into the AMD umbrella and responsibility with a 60 percent ownership and obviously the 60 percent trips it to full consolidation.

<Q>: Ok. Excuse me for the incorrect percentages. So, if I look at the below the line item with respect to getting the 40 percent back to Fujitsu's going forward in the Q3 timeframe, it will be a loss that you are sharing with them, correct?

<A>: Correct, correct. It will be the loss of the FASL operation and we will take 60 percent of it and Fujitsu will take 40. And likewise when it turns profitable, which we think is accretive in 2004, they will get a piece of the profit, 40 percent of the profit.

Operator: Our next question comes from the line of Adam Parker with Sanford Bernstein. Please proceed with your question.

<Q>: Yeah, how much capital spending is required from here to pool the rest of the flash facilities in Japan? And how do you plan on paying for this, I think your 10-K says $2.1 billion was required, you spent $1.6, I am just looking for a bit more color there?

<A>: Well, one, we've capitalized on the get go which was effective in June 30, this – the month of June I guess we are in July. the two parents have capitalized the new company appropriately, which included the $180 million of additional cash contributed by Fujitsu to set up FASL LLC. So therefore, we think it has the capital, the assets and resources to afford the appropriate capital expenditures on go forward basis, to build out the capacity in JV3 in particular which is where there is some expansion capability on a going forward basis. So we think we have appropriately capitalized the business to handle that additional cash outlay. The capital expenditure numbers I gave you include the incremental second half FASL incremental expenditures.

<Q>: Can you help break that out a little bit?

<A>: With the $725 million, is now total AMD including the second half piece of FASL.

<Q>: Can you help me with how much of it is for FASL?

<A>: Well, it's I guess the real answer is no. We are not going to give you that, because it is really a combination, because some of that was already in our original $650. As we have been working through ours, we have continued to tighten our pencil on the $650. So it's really, some of it was already in our number and then there is an increment. I would rather talk about that after the quarter is over from that perspective.

<Q>: Okay, just switching gears, you guys commented a couple of times that distribution in Asia and Europe were a bit soft. But, you know, how do you characterize your sales and inventory in the US distribution channel during the second quarter and heading here into the third quarter?

<A>: Actually pretty well. If you take a look at the America's, Latin America was actually up, almost across the board where it is OEMs, resales, distribution etc .

<Q>: What about in the US?

<A>: US was actually down a little bit, but above what we had expected. So the US OEMs were a little stronger, channel sales were okay, our chip business was relatively flat, actually up a little bit, and our standard trade distribution business was down a little bit.

<Q>: Do you expect the US distribution to be up in Q3 along with your overall guidance?

<A>: Yes.

<Q>: Okay. And then kind of last, maybe a longer term question for Hector. It looks like kind of like, you know, round, big round numbers, by the end of the year your revenue composition will be sort of close to 50-50 flash and processors. And I was just trying to see, looking out over the next three to five years, do you think your flash or processor business is going to grow faster from here? And do you think you either or both are going to faster than the whole industry?

<A>: Well, first of all on a very, you know, just high level general picture you are right. We are moving the company here in the near term to be in roughly 50-50 flash, in terms of revenue, 50-50 flash and microprocessors. We have chosen to participate in those segments and those pieces where we believe has the largest opportunities for growth, and in the case of processors for the market generally, you have got OEM PC growth for example, may not look very attractive. We are aiming to be in segments where today we don't participate at all. So, our expectation is that we will

grow faster than the market for PC processors as a result of that. And the same thing on flash. Mainly there because we are going to be a leader. As we said before, as a market maker and the market leader, we expect to really benefit significantly from being on the high growth segment of the market.

<Q>: I guess, absent of share gains, say I grant you the share gains in both segments for the sake of conversation, do you think processors as a business can grow faster then the overall semiconductor history, and the same for flash?

<A>: I think flash is an opportunity in the near term to be faster than the industry, as it is much more cyclical. But, let's say we have been on a downturn now for flash for quite some time, so it is very possible that in the near future two years out, it might grow faster than the industry. By industry I mean the semiconductor industry. Processor frankly, I don't know— we are looking at modest growth in processor revenue if any over the next few years. And as I mentioned earlier, our opportunity there is just being able to participate in segments where we are not in today.

<Q> Thanks a lot for your insight.

Operator: Our next question comes from the line of Clark Westmont of Smith Barney. Please ask your question.

<Q> Hi guys. Most of my question have been answered, but, I just want to see, is there way to split that incremental cost, you know, the $200 million plus being added from the change in the flash share, can you split that incremental cost between cost of goods and operating expenses?

<A>: I will just give you a directional. I mean it's typical in the memory-type business, it's very manufacturing oriented. So the bulk of the number is manufacturing, more than 50 percent of it.

<Q> And in terms of trying to carve out cost, are there opportunities on both the COGS and the operating expense side with that—from that additional number, or is it more one or the other?

<A>: Well again, since most of the cost is manufacturing, I would see it has a higher opportunity, but the opportunity is actually across the board. I mean there are redundancies as you would anticipate in every category of the business and that's where we are working through as we speak.

<Q> Okay. And last question on flash, I think you've touched on this a little bit, but the flash improvement that you are expecting for the third quarter including the $180 million addition, that is partly market share, is it also handset unit driven, are you seeing a pick up in post SARS unit demand for handsets, or could you help me out with that?

<A>: Well, there are number of things happening. Maybe if Rob can add to that from what I am going to say to it. First of all, the quarter-to-quarter improvement, there is no question that we believe that SARS in China will have a positive impact in the sense that flash for all practical purposes goes almost totally into consumer electronics products, which are heavily affected by people walking into streets and into the stores in places like China. So, we see that change -- effect early in this quarter, we are seeing evidence by customers that are heavily exposed to consumer electronics in China as being somewhat more upbeat in the third quarter then they were in the second quarter. The other part is that we do have technology in products that are going to allow us to gain share in the handset market, because we offer solutions and a value that our competitors cannot offer, so we will see the share gain there to—I don't, we are not anticipating any significant increase in handset units. We are taking a rather conservative view on the handset unit side.

<Q>: And I am sorry, did I cut you off?

<A>: No, no just wanted to see Rob has anything to add. Go ahead.

<Q>: Just wondering, in terms of Intel, you know, they did make that pricing move earlier in the year that backfired. Is there any comment you have on that? Did that end up helping you or is it kind of old history now?

<A>: Well I was trying to be really nice and I wasn't going to bring that up. So, I guess my comment is clearly I think that was a tactical error. I think it was not looking at it from a customer centric perspective. I think, you know, it certainly created the opportunity for us and we just now are starting to see some of the benefit from the opportunity, and we talked about growth in Europe and in the US. I mean, clearly that was because of some new opportunities with both current customers and some opportunities with people who were not customers of ours back before that happened. So, we are benefiting somewhat from that. I think we also benefiting from the fact that our MirrorBit technology is really starting to drive some opportunity in share for us and that is where I expect to see the good portion of our growth going forward.

<Q>: Okay. Thanks very much.

<A>: We are going to take two more questions operator.

Operator: Our next question comes from the line of Mark Edelstone of Morgan Stanley. Please proceed with your question.

<Q>: Good afternoon guys. I would like again to go to flash, and I guess the first question there is the reason why Fujitsu's was not taking half of the output here in its last quarter. And then secondly I know you have been looking at this for a while now, but can you give us some general sense as to where you think you can take the breakeven revenues to for the flash business going forward?

<A>: You know, Mark, I have to apologize I don't think I got the first part of the question. Would you mind asking it again?

<Q>: Yes, I would guess by the numbers that your providing, that Fujitsu did not actually take half of the output, so you shipped $211 million it sounds like they are shipping something less than that. So, was there a reason for that?

<A>: I am going, you know, Rob is going to make a comment here. You should not read that into those numbers. Prior to this creation of this new company, the are 50-50 joint venture in manufacturing, basically allow those companies to have a lot of flexibility on using that capacity. And there are number of reasons why that perhaps went back and forth. But should not read into anything other than, you know, that's how the assets ended up and we decided to join the companies. Then it all was fair and made sense for this joint venture to be 60 / 40, not because we were taking 60 percent of the product and they were taking 40 percent of product. Rob.

<A>: Yeah, as a matter of fact Mark, I was going to comment, I don't have a lot of insight what the exact sales numbers of Fujitsu were. But is possible that we both took half of the output and got different revenue results. So I just don't want you to read too far into that and I don't think that has much to do with any of the numbers you are trying to infer to.

<Q>: Isn't it possible then that the $180 million forecast you have for their contribution for you in Q3 would be conservative?

<A>: I will let the Bob answer.

<A>: It's our best call. I mean it could be. We say it's approximate. It's not the real, the final number, obviously until the quarter is over. So it's our best call based on all the information we know, from them as a customer and their end markets they serve.

<Q>: The second question there was just on what you think the breakeven can be once you get a chance to get this under better management overall?

<A>: Mark, what we would like to do is that, you know, we did something that was actually not thought of the being possible. We signed an MOU 90 days ago and actually concluded the whole thing just a couple of weeks ago. And we need to really spend a lot of time executing what we think is possible. And then to begin to assess some range of possibilities to the synergies and economic vitality of these units that we believe we have and that's why we did this. And I think we can provide you much better data at the end of the third quarter.

<Q>: Fair enough. Just one other question if I could, for Bob. If you guys had kept your days of inventory flat Q2 over Q1, what would the impact on gross margin have been?

<A>: Let me just, you can do the math yourself, but we still managed our $800 million goal. So even though we did have some inventory build, we valued those Opterons, we still were south of our $800 million goal, so no matter how you cut it, we hit the $800 million target. Obviously a lot of our improvement as you can see on the P&L, core to core, was in gross margin, which is where we had additional cost reductions kick in both, I will call it cost synergies, renegotiating contracts etc, etc.

<Q>: Okay great. Thanks a lot for the details.

<A>: Take a last question please.

Operator: Our last questions come from the line of Tom Thornhill with UBS. Please proceed with your question.

<Q>: Asked and answered, thank you.

Company Representative: Well, thank you very much for participating in the call and I will talk to you next quarter.

Operator: Ladies and Gentleman, that concludes your conference call for today, we thank you for your participation and as said, you please disconnect you line.

Advanced Micro Devices, Inc.(AMD-US) Schedules Q1 2003 Earnings Call for 16-April-2003 5:30 PM ET
Wednesday, April 16, 2003 09:30:00 PM (GMT)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentleman. Thank you for standing by. Welcome to the AMD Q1 Earnings Conference Call. During the presentation all participants will be in listen-only mode. Afterwards we will conduct a question and answer session. At that time if you have a question please press the 1 follow by the 4 on your telephone. As a reminder this conference is being recorded Wednesday, April 16, 2003. I would now like to turn the conference over to Mr. Michael Haase, Director of Investor Relations. Please go ahead sir.

Mike Haase: Thank you and good afternoon everyone. The format of the earnings call today will include prepared comments followed by question and answer. Participants of today's call are Hector Ruiz, our President and Chief Executive Officer. Rob Herb, our Executive Vice President of sales and marketing and Bob Rivet, our Chief Financial Officer. This call is a live broadcast and will be replayed on the Internet at two sites. Streetevents.com and amd.com. The telephone replay number for North America is 800-633-8284. Outside of the United States the number is 402-977-9140. The access code for both is 211 389 69. I would like to take this opportunity to remind you that we will be launching our AMD Opteron processor in New York City on the 22nd of April. If you would like to attend and haven't already RSVP, please send me an e-mail or give me a call. My contact information is included on the press release today. Before we begin the call I would like to caution everyone that we will be making forward looking statements about management goals, plans and expectations. As you know the semiconductor industry is generally volatile. Our product and process technology development projects and our manufacturing processes are complex. Current worldwide economic and industry conditions make it unusually difficult to forecast product demand at this time. Because our actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the Securities and Exchange Commission, where we discuss in detail our risk factors in our business. You will find detail discussions in our, most recent SEC filings including the annual report on form 10-K. At this point I would like to introduce our CEO Hector Ruiz to formally begin the call.

Hector Ruiz: Thank you Mike. Once again I would like to report on our accelerating progress towards sustained economic prosperity. I will then ask Bob to go into some detail on the past quarter and then I will finish with some comments on our outlook going forward and then we will take your questions. Many of you will remember back in October we introduced AMD's 3 phase plan to more aggressively take control of our future and I am very pleased with our continued progress in executing against that plan and as we reported in the fourth quarter and here again in our first quarter we continue to do everything we set out to do and looking ahead we believe that 2003 is going to be a breakout year for AMD. In phase one of our plan we focus on three key things. Rebalancing PC supply chain inventories, bolstering our capital structure and reducing our break-even point. We continue to aggressively manage our PC supply chain inventories to desired levels. With $800 million in cash our capital structure remains solid. And we are driving our breakeven point lower. In fact we remain on track to achieve a break-even point below $800 million in the second quarter of this year. But in the just completed quarter, we launched phase two of our plan. A combination of our aggressive operational flexibility strategy and a portfolio of important new revenue opportunities. These efforts are producing results. Our 28 million quarter-to-quarter sales increase resulted in more the 90 million improvement in operating performance. We believe our new top line initiatives will continue to generate strong incremental growth and most notable in this quarter record revenues in unit shipments in China both in PC processors and memory. A reflection of our concentrated efforts to penetrate what will be the most important new technology market of the decade. In our enhanced position in the mobile PC category where we saw record unit shipments in the quarter and announced over a dozen new models. Many targeted at the thin and light segment. Then our introduction of the AMD Athlon X3 3000+. The world's highest performing desktop PC processor and the AMD Athlon MP 2600+ for servers and work stations This new revenue initiative continues to bear fruit as demonstrated by our top line increase in a seasonally down quarter. Perhaps the strongest sign of our emergent success is that fact we grew revenues in both our memory and processor product line and we believe we gained share in each of these lines as well. But perhaps our most important accomplishment and a testament to our connected business model was the signing of our memorandum of understanding with Fujitsu to further integrate the operations of our industry leading flash memory businesses. In this land mark agreement we are building from one of the most successful joint venture in US-Japan history. This event is also another great example of what we call customer centric innovation, the third phase of our three-phase program. It is a symbol of a new AMD, a company dedicated to create innovation in direct response to customer needs and delivering real customer benefits. A company structure to deliver more targeted solutions to our customers and our customers' customers. As I mentioned before we believe 2003 is going to be a break out year and at this point I would like to ask Bob Rivet to review the highlights of the first quarter.

Bob Rivet: Thanks Hector. I will review our first quarter results followed by an outline of our progress on our cost reduction programs and finally I will provide you with some forward-looking guidance. Because our fourth quarter results include significant restructuring and other charges our quarter-to-quarter comparisons will be first quarter GAAP to fourth quarter pro forma. As detailed in our press release issued this afternoon, first quarter sales were $715 million and what is typically a seasonally down quarter sales were up 4 percent compared to the fourth quarter consistent with projections of our last earnings call. The sales increase was driven largely by strength in our PC processor's business. AMD's operating results in the first quarter was $125 million compared with $217 million in the fourth quarter excluding the effects of restructuring and other special charges. Our operating losses reduced by over $90 million or 42 percent compared to the previous quarter driven by $28 million in top line growth and significant progress in our on going cost reduction program. Operating margin fall through was excellent. Since the third quarter, we have reduced our operating loss by nearly $200 million. Gross margin was 31 percent for the quarter, a significant improvement from the 26 percent in the fourth quarter. First quarter gross margin dollars increased by $38 million, which represent 130 percent fall through on the gross margin line. This is mainly driven by increased unit volume and focused manufacturing cost reductions. As per our prior guidance, research and development spending was $203 million for the quarter flat when compared to the prior quarter. Marketing general and administrative spending was $138 million for the quarter, down $56 million or 29 percent compared to the fourth quarter. This decrease is primarily due to the realization of significant cost reduction efforts we have previously outlined. Net loss for the first quarter was $146 million or 42 cents per share versus 68 cent per share loss in the fourth quarter again excluding the effect of restructuring and other special charges. Now I will switch to the business overview for the quarter. First quarter PC processor revenues were $468 million an increase of 11 percent as compared to $420 million in the fourth quarter. AMD showed a significant increase in both unit and dollar sales based on record mobile shipments and increased penetration in emerging markets lead by China. Overall our PC processor business did well globally including increased sales in the Americas, Europe and Asia. In the first quarter we drained inventory of the PC supply chain and we believe inventories well positioned based on our current market outlook. We also believe that we gained market share in the quarter. In a seasonally down first quarter, flash memory revenue was $218 million up nominally compared to the first quarter driven by increased units shipments. From what appears to be a down market this was our fourth consecutive quarter of sequential increase revenue and record bit shipments

We continue to penetrate the high end feature rich mobile phone market and believe we are gaining flash market share. Flash densities continue to grow and have nearly doubled from the first quarter of last year. Turning to the balance sheet, with our increase in sales in the corp. and the considerable improvement in our cost structure EBITDA in the first quarter improved significantly by more than a $100 million from a negative $18 million in the fourth quarter to a positive $84 million in the first quarter. Again, this was consistent with prior guidance of positive EBITDA by the first quarter of 2003. Cash balances ended the first quarter at $800 million. We will continue to reduce our cash burn and expect to cut it substantially in the second quarter as a result of reduced cash severance payments, lower capital expenditures, and reduced expenses. We are on track to be cash flow positive in the third quarter. Capital expenditures were $181 million in the first quarter compared to $138 million in the fourth and once again quarterly depreciation was larger than capital expenditures. We are still on track to our capital expenditure plan for 2003 of $650 million. Accounts receivable days sales outstanding showed continued improvement to 50 days from the fourth quarter level of 55 days AMD's headcount at the end of the first quarter was 12,100 down from 12,800 in the fourth quarter and 14,400 in the first quarter of the prior year. Headcount will continue to decline in the second and third quarters of this year as we complete our previously announced restructuring plans. So, now let's turn to the outlook.

We believe we will continue to gain share in the wireless segment and achieve our fifth consecutive quarterly increase in flash memory revenues. We believe our processor sales will be flat to up in the historically weakest quarter seasonally based on the improved product mix and the anticipated benefits of a better balanced PC supply chain inventory. We plan for cost reduction in the quarter sufficient to achieve our target of reducing our quarterly cost structure to below $800 million. To provide further granularity for your models, total second quarter operating expenses are expected to be down compared to the first quarter. EBITDA is anticipated to continue to be positive and growing in the second quarter. Our quarterly tax rate will be at zero until we return to profitability. Once profitable, we anticipate our tax rate to be in the range of 10 to 20 percent throughout 2003. In conclusion, we have demonstrated the capability to quickly make fundamental changes in our business model while maintaining positive product and technology momentum in our core markets with our strategic initiative in China, our joint ventures with Fujitsu, our mobile PC processors target at the thin and light segment and the launch of our upcoming AMD Opteron and AMD Athlon 64 families. We believe we are doing everything possible to position ourselves for a return to sustained profitability. Now, I will turn it back over to Hector.

Hector Ruiz: Thank you Bob. I would like to wrap up by saying that I have seen a renewed sense of accomplishment and renewed sense of confidence and a renewed sense of focus at AMD. We are setting some aggressive goals for ourselves and we are attaining them. We have made great strides to reconfigure our operating model. We will remain on track to lower our break even point to below $800 million in the current quarter. We are positioning ourselves for leadership in every category in which we have chosen to compete. In our memory business, where we have agreed to combine operations with those of Fujitsu. In our personal connectivity solutions, or PCS group where our system-on-chip technology offers performance leadership, lowest power consumption, at the lowest possible cost and in our computation products group where we continue to launch processors that set new performance standards in desktop server and now thin and light mobile form factors, but nothing compares with what we are about to announce next Tuesday in New York City. The announcement of our upcoming AMD Opteron processor family is perhaps the single most important event in the history of our company. It is the moment that we have been waiting for. It is the moment our customers have been waiting for, and it is the moment that our rapidly growing list of partners have been waiting for and I am sure it is the moment that many of you have been waiting for. It is the future of AMD. It is the future of the X86 architecture and we believe it is the future of the computing industry. We hope you can join us either in person or on the web for this unprecedented moment in the history of our company. We will share with you some things you expect and a few surprises and in the end we are confident that you will not be disappointed. Thank you for your attention and I would now like to turn it back to Mike Haase for the Q&A.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, if you would like to register a question. Please press the one followed by four on your telephone. You will hear a three tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the one followed by the three. If you are using a speaker phone, please lift up your handset before entering your request. One moment please for the first question.

Our first question comes from the line of Dan Niles with Lehman Brothers. Please go ahead with your question.

<Q>: I guess a couple of them. I guess Hector in the last couple of conference calls you talked about getting the break-even in Q2 and I guess you are implicitly sort of backing off of that and just saying that your cost structure will be below 800 million. So, I just wanted to check on that and when do you think actually you can get to breakeven is that Q3 or Q4. Do you have a new target for that?

<A>: Well, Dan. First we are not changing our position and we are not backing out from the belief that there is a shot at breaking even in the second quarter. What we have seen though the things that we control is our ability to meet the cost structure needed to break-even at a revenue approximately of $800 million, will be achieved. We feel we are on target to meet that and very confident of that. What we see today challenging though is an environment that is very difficult to call and a market that is uncertain, visibility that is poor and if you look at the history of our industry for the past nine years, if we look at the data, we have never had a situation where the market has grown from the first to the second quarter in those areas in which we participate. That would imply that it would be an easy task to reach our revenue goal. So, we are not changing our expectations, our goal and our internal targets are to really go for that but frankly I think the market is making it very tough to call. And the structure that we intend to meet of $800 in total costs. We believe we will break-even at that revenue level when we reach it.

<Q>: I guess with regards to your sell in of processors versus your sell through or how much inventory did you drain in the channel on the processors side and it does not sound like you need to do any more of that and then can you give us some sense on the ASPs and Processors. What would have had to gone up given your better mix of affordable and can you get some order of magnitude around that?

<A>: Sure Dan, we have been paying a lot attention to that and let me ask Rob who has been championing that effort to comment on that.

<A>: Yes Dan , it turns out that shipments-in actually grew considerably from Q4 to Q1 However, our consumption rates remain relatively stable so, while again we did drain some inventory in the PC supply change in Q1 our shipments are now more closely reflecting the actual consumption and no we are not on the program to go any further with that If anything, I am equally concerned that we are maybe a little lean in a couple of areas relative to inventories out there So at this point in time, I think that is pretty good. Relative to your ASP question: actually shipments were little stronger for us than expected into Asia, in particular in China, where I think we actually had record sales at least record sales from a unit standpoint in recent history and a lot of that was driven by some lower end products. Our ASPs were relatively flat quarter-to-quarter on increased unit sales.

<Q>: Well then I guess maybe tied into that. Can you give us some sense on I know processors in the portable sectors have been a big push for you guys and you had some pretty decent success on that. Can you kind of talk about how your percentage of your total processor shipments and portables maybe changed from quarter-to-quarter to get a better idea on that.

<A>: Well, without giving the specifics, I will just tell you that our shipments in Mobile were up quarter-to-quarter fairly significantly we have actually had record Mobile shipments in Q1. I would point out that though that the record Mobile shipments were offset some what again by the significant penetration we had into China in particular which is mostly low-end desktop based processors.

<Q>: Great. Thank you.

Operator: Our next question comes from the line of Andrew Root with Goldman Sachs. Please go ahead with your question.

<Q>: Or Andrew Root but that is close enough. I had a question on the flash business. It looks like you gained a fair amount of share versus Intel (NASDAQ: INTC) in the quarter they reported flash revenues down 25 or 30 percent, you were flat. Can you give an estimate of what you think the overall market grew on a revenue basis to give us a sense of what your market share gain would have been and then if you could break out volume changes versus ASP changes for the quarter as well.

<A>: I would also love to comment on your question …: we have seen ASP's to be reasonably stable in this environment, but you know, stability in the he memory market means they are on a normal learning curve. That means you are still going down, we are still you know, it is competitive environment but stable at least in that sense. The other part is that we believe that the flash market in total probably was down, I am going to ask Rob to comment on that, but as you pointed out, we believe that we have made significant in roads in the last two quarters in particularly and we expect to continue to that as you know that from Rob comments and his remarks we expect our flash revenue to grow in the second quarter versus the first quarter. Rob would you like to answer that.

Yes, relative to the overall market, it is clear to me that the flash market did decline probably by something in the neighborhood of 10 percent or slightly more than based on the numbers that we heard yesterday. I do believe that based on our flat revenues we did gain share, you asked about units in ASP actually our unit shipments were up. ASPs were down slightly again consistent of what we would expect in a fairly stable pricing environment that I could talk about.

<Q>: Quick thought on a slightly different topic Bob just a quick calculation, It seems like operating cash flow in the quarter was roughly $145 or so million negative, but it looks like the just based on some of the abbreviated financials we looked at, but it looks like cash was down 200 million in the quarter. Was there cash usage, inventories are up a little bit, but is there anything else that used cash in the quarter?

<A>: We had a couple big yes to your comment cash is actually down 240 million from fourth quarter to the end of the first. Probably the most significant is we had a lot of severance payments that took place in the quarter as we executed our restructuring plan. We did have some prepayments on a couple technology issues that we have been doing, so as I kind of alluded to we anticipate to be able to make significant reduction in our cash going in to the second quarter and feel very confident to have the cash flow positive by the third.

<Q>: Okay. Thank you.

Operator: Your next question comes from the line of Mark Edelstone with Morgan Stanley. Please go ahead with your question.

<Q>: Good afternoon guys. I have a couple of questions if I could. I get the first one is on flash and I was hoping somebody could give a sense to what kind of sequential increase you had in the flash market from wireless and then I had a couple of quick follow-ons?

<A>: From Q4 to Q1, I believe our wireless share would have increased modestly. We said that we exited 2002 at about 10 percent share of the wireless market. We increased that through 2003 to approximately 20 percent share of the wireless market. I believe our share in Q1 when all the file numbers come in will be flat up modestly.

<Q>: It suggests then that you had some growth in wireless but it sounds like it did not meaningfully outgrow the rest of your flash business.

<A>: That is generally correct. I will tell you it is also regionally based.

<Q>: Great. I appreciate that Rob and just a follow-up on the comments on the PC channel inventories. The deferred income on shipments to distributors is up 34 percent quarter to quarter. Maybe, Bob, can you give us a sense as to what is driving that. Is that from flash inventories in distribution or where there more PC processors in the distribution channel as well beyond the quarter?

<A>: It is PC processor inventories and continues to reflect a richer mix. So, we continue to position a richer mix of products in the distributors. Again, we launched the 3000+ in the first quarter so that took place toward the end of the first quarter.

<Q>: Okay. I guess is there a way maybe you can try to put the comments on leaner inventories in the channel in to some type of context either be days or weeks of unit inventory or something like that?

<A>: Yeah. It varied a little bit product by product, but overall if you look at what we think is out there in the PC supply chain of AMD based inventories, we now believe we are under four weeks in general.

<Q>: Okay. Thanks a lot guys. Best of luck.

<A>: Thank you.

Operator: Our next question comes from the line of Hans Mosesman with Soundview Technology. Please go ahead with your question.

<Q>: Yes. Thank you. A couple of questions. Intel is going to a transition in mobile with the Centrino Solution. What is AMD's response or how does your product lineup over the next year compared to that solution and any commentary regarding SARS as it plays out over the rest of the year? Thanks.

<A>: First of all, we and our competitor have a rather different strategy relative to offering our customer solutions, whether they are in desktop mode or servers, etc., and I believe that our competitor is leveraged, their very strong monopolistic position in the market to be able to force the solution on customers that they believe is best. Our strategy has been and will continue to be to use our partners to be able to offer customers the ability to choose and be able to end up with a best solution that they need for their mobile computing needs. I believe that when you look at the partners that we have in terms of chips and mother boards and other parts of infrastructure that our customers are truly benefiting from being able to choose the best of the best relative to communication solutions, whether wire line or wireless, as well as the best CPU for their architecture. As far as SARS is concerned, you know we are obviously as worried as everybody else is about the situation with SARS. We have taken action to do everything that is prudent to safeguard health and safety of our employees and probably mirroring very much what the industry is doing in general. For example, when employees travel from an affected area to visit another facility, we ask them to work out at the home for a period of time until they are able to get past the incubation period in case there is an infection and then after that they return to work and they have

to go through our health department first to ensure that we take all the precautions necessary. So, we are doing everything that we can. At the same time, we are limiting travel except when it is absolutely necessary either to or from the regions that are mostly affected. So, we are being very prudent. Is there anything you would like to add Rob on the mobile price?

Other than probably what Hector said reiterated, you know, we have always been the champions of free and open competition and we believe that our mobile process solution which we introduced for the thin and light markets right near the end of last year and you have seen the first systems just here recently in March in the first quarter are all very well positioned to grow for us -- to move forward and the fact that we allow our customers to choose from best solutions with the market, we believe is an approach that does differentiate us from our competition. Relative to Centrino one thing that is positive even for AMD and maybe for the industry it certainly heightened the awareness of the benefits of wireless technology. The truth is there is a wireless standard out there and there are many people meet that standard and if we can offer up solutions based on providing the best package of choice and across different companies, that is what AMD is all about.

<Q>: Thanks a lot.

Operator: The next question comes from the line of Sumit Dhanda with Banc of America Securities, please go ahead with you question.

<Q>: Hi, a couple of quick questions, the depreciation line item was up in the quarter, did this relate to startup cost as related to your Fab 25 and also on the other IC products, could you refresh us on what that incorporates and why that was down almost 50 percent quarter to quarter and then I have a followup.

<A>: Let me answer the second part and then I will ask Bob to comment on your first question. The other IC product is a mixture of legacy products that we have exited for sometime, so we are offering a lot of end of life products that go back as far back as some of the line communication products that at one point in time we actually had a business around, we exited that and we still have some of those products left. Part of that includes and it is also the beginning of the new investment in Alchemy, which is rather small. However, as we go out of this last year of the legacy products, we certainly analyzed a significant amount and a lot of customers that were privy to an announcement by us that we needed to place those orders in time to be able to benefit from this cycle of announcement in front of it, we exited the year with a ship-in rate of those products, that is of course significantly reduced. Take that out of the equation and we are beginning to see the beginning of growth of our Alchemy solutions which is currently included in other IC products, Bob, would you like to comment on those.

<A>: Yeah, your question on depreciation, yes. The increase that was driven by in particularly the additional toolset we are putting in to Fab 25 as we continue to convert that from our microprocessor factory to a memory factory, so that has the bulk of the change in depreciation.

<Q>: Okay and then as far as the other IC line goes there – should I assume that you will just see some slight growth off of the $30 million or so of run rate that you had in the last quarter?

<A>: I think what we expect on the other IC lines is the legacy products continue to die off and the new ones begin to pick up, we see that is stable for at least another quarter or two and then begin to grow healthy after the Alchemy products take off.

<Q>: Great, thank you.

Operator: Our next question comes from the line of Thomas Thornhill with UBS Paine Webber, please go ahead with your question.

<Q>: A question for Rob having to do with market share, given the growth in China as well as the growth in mobile, is your market share higher or in mobile than it is in desktop or vice versa and what has been the trend in market share obviously growing in mobile, but in desktop as well.

<A>: Clearly from the last couple of quarters we have been on a very positive trend in market share no matter how you measure it whether it is units in, as measured by someone like Mercury Research or in PC consumption as measured by data quest, but your question relative to desktop versus mobile, we actually, to get the kind of overall share gains we are getting, we believe we gain share in both segments, however, clearly we are starting from a much smaller base in mobile, so our mobile share gains have probably been greater over the last couple of quarters.

<Q>: Is your mobile share significantly different than your desktop share at this point in time.

<A>: At this point, they are tracking a little more closely, so they are roughly the same. I think actually our desktop share is still a little better.

<Q>: And one follow on question on cost. In my view you have made some amazing success with the target year for June to be at the 800 level, what happens after June is that sort of a bottom if revenue grows or is there further potential for efficiency?

<A> We expect there are a number of things that are going to change our outlook in the second half, one first of all, apples to apples comparisons we expect our cost to continue to decline, but as you may remember with announcement of our consolidation of businesses, with Fujitsu on flash and we will start reporting that at the end of this third quarter as this thing gets finalized, we will of course make it a little more difficult to do those comparisons, Rob would you like to add that.

<A> Yeah, the only thing I would add, is again, as we can outline in our 3 phase strategy, operational flexibility indeed is a strategy to try to change the cost structure on the organization to be less fixed and more variable, so as we go forward, we might have or call it just more variability in our cost to respond both up and down in the market place than we have had historically, so not ready to lay out an exact number of how much further cost reduction we will have, but we are definitely trying to in this process actually change the composition of our kind of cost.

<Q>: Could you give any more precise guidance on R&D or SG&A other than that operating expenses will be down quarter to quarter.

<A>: No.

<Q>: Thank you.

Operator: The next question comes from the line of Krishna Shankar with JMP Securities, please go ahead with your question.

<Q>: Yes, were your desktop units also up from the December to the March quarter and also with the Opteron launch here next week, when can we expect first significant sort of production revenues in the server product line.

<A>: I think I caught the question, but correct me if I did not, Is the first part of the question were desktop shipments up from Q4 to Q1, the answer to that is yes, the second part of the question was with the Opteron announcement scheduled for next week do we expect to see revenue increases in the server portion of our product line and again I would tell you the answer to that should be yes.

<Q>: So we will receive meaningful revenues here in the June quarter or Opteron really is a second half sort of revenue vamp.

<A>: Yeah, from a server standpoint, the unit volume is relatively small will see some unit volume in Q2 with associated revenues, but it is really the second half before we see anything that I would classify as meaningful.

<Q>: Okay and then back on the desktop again, did both mobile and desktop ASPs go up in the first quarter relative to the fourth quarter.

<A>: No, the desktop ASP was actually down slightly as a result of the larger volume of shipments of lower end products into Asia where we grew a substantial share of shipment in China.

<Q>: Thank you.

Operator: Your next question comes from the line of Michael Masdea with CS First Boston. Please go ahead with your question.

<Q>: Great. Thanks. On the flash side, can you guys give us an idea of the density trends you saw on the quarter and maybe a rough feel of the 32 meg and above units versus 16 meg and below units?

<A>: Yes I will give you a comment on average density. Average density grew from Q4 to Q1 from 26 megabits per device to about 29 megabits per device. So it is a little over 10 percent quarter on quarter. That is actually almost a doubling from a year ago. Relative to units shipments by mix, I would rather not get into that.

<Q>: That is fair and booking trends suggest that is going to continue in that direction or you think it is stabilized in the near term.

<A>: No. I think we are going to see continued bit growth and density growth as you look forward.

<Q>: Great and just a last question. Can you get us update on your progress with IBM (NYSE: IBM), any milestones we should look for in the next couple of quarters?

<A>: Are you talking about the joint development agreement with IBM. Yes. The agreement was signed in the end of December. We are up and running. We have already assigned engineers to New York. As we speak, the number of engineers increases by week. We hope to reach a number of approximately around 50 before the end of the year or by the end of the year. We are working extremely well and we are very happy with the partnership and as you may remember or let me to remind you that the first node at which join development agreement results in substantive output of this relationship is 65 nanometers and which we expect that of course to be a year from now. The beginning of that.

<Q>: Great. Thanks guys.

Operator: Your next question comes from the line of Dan Scovel with Needham & Company. Please go ahead with your question.

<Q>: Thank you. Another approach on the guidance for breakeven, at above the 800 million revenue, can you give us a range or at least some idea of what gross margin would be at that level?

<A>: As in the past, you know, we are not going to give that kind of granularity from that standpoint. Those percentages can move so quickly because of the size of our numbers. So, no.

<Q>: Also, are you ready to provide I guess any more insight with regards to the new FASL accounting. Maybe just as basic as do you expect to benefit or not relative to current accounting?

<A>: Let me make some comments and then Bob can add more to that as you know the FASL LLC which is the new company around which we just signed in the MoU we expect it to go live and be official in early the third quarter. If everything goes as planned, then we expect to show our first consolidated financials at the end of the third quarter and as you can imagine the integration of these two companies and these two businesses is going to be very challenging and demanding and I expect for at least two or three quarters to spend significant energy just ensuring that our customers benefit from all of the efforts that these two great companies are going to bring to the marketplace. Having said that, we are very confident that the financial impact on our company in 2004 will be accretive and perhaps Bob can add to that.

Yeah, more I call it technicalities since we are the majority owner, it will be full consolidation of the financial statements, P&L, and balance sheet onto AMD's books and as Hector said we believe 2004 would be accretive from an earnings standpoint and also will help our balance sheet ratios.

<Q>: Thank you. Good luck.

Operator: Our next question comes from the line of Joseph Osha with Merrill Lynch. Please go ahead with your question.

<Q>: Yeah. Hi gentleman. A few things. First, you have mentioned that there was a lot of market share gain in China. Can you talk about revenue recognition there? Do you have sell through or is this mostly sell in or what is happening there?

<A>: It turns out in China it is pretty much a track of sell in and sell through. There is almost no differential in those two numbers.

<Q>: Are you finding it at all difficult to track your product once it is put in to the hands of distributors or systems integrators there?

<A>: It can be difficult, but from our standpoint, we actually capture the revenue at the point which we sell the product through. We can track sell through to a certain level in China. This is one of the more difficult places to track some of the smaller details, but in general, we think we are in real good shape there from what we see. We actually think we are on a ramp there.

<Q>: Okay. Super. Second question, just house keeping. Bob, you mentioned redundancy payments and that impacting the cash. Is that what is reflected in the rather significant decline in this accrued liabilities line item. It looks like it went down by about 150 million?

<A>: That is …, actually Joe, it is in accrued compensation.

<Q>: Yeah. Okay, alright, I see it, but you have an accrued liabilities line items that went down from about $592 to about $455 million. What is the story with that? It seems like that that might have had an impact.

<A>: Like I said, we did have some technology payments we did make that would be impacted in that line item there. Also with restructuring charges also in the other line item right below at 185. So, there is a lot of movement going on in those kind of categories, but you can see it definitely paid off a lot of bills in the first quarter.

<Q>: Sure, but for the purposes of modeling cash it would be fair to assume that there will be relatively fewer deltas in the balance sheet in the second quarter.

<A>: Yes.

<Q>: Okay. Third and final question. Did I hear you say that overall microprocessor units were flat? Sorry.

<A>: No. The overall microprocessor units were up relatively strongly.

<Q>: Single digit or double digit?

<A>: Low double digit.

Operator: Our next question comes from John Barton with Wachovia Securities. Please go ahead with your question.

<Q>: Good afternoon. On the topical Flash, Rob, looking at your estimate that the PAM declined 10 percent sequentially the fact that your numbers were relatively flat and the fact that Intel's numbers were down, I think the number is 29 percent sequentially and that in light of the fact that the wireless handset is a relatively new initiative for AMD. Could you give us an indication as to where you thought you were in the qualification process at the various accounts when they started to react to Intel's price increases obviously the implication being did you lose business to someone else i.e., Samsung, ST Micro, and then how that qualification process looks like going into Q2 so you can gain more of that share that Intel has lost?

<A>: Now, I will just make some general comments. I am certainly not going to get into specifics relative to a customer, but I will say that you know I do believe that there will be a tightening in high density Flash as we go throughout the year. I think our competitor probably did us a favor by taking the pricing action they took and clearly it has created some opportunities for us in our mind and I think you know we certainly are going to work to capture every one of those opportunities and we are well in the process of doing that and that should provide us some revenue upside opportunities in the wireless segment throughout the balance of the year.

<Q>: Could you give me any specific statements with respect to qualifications, you know things that are in the pipeline now that can benefit you in Q2 that you could not have take an advantage of in Q1, not specifically customers names, just overall trend?

<A>: No. The only comment I can make on that is that there is nothing unusual other than the fact that we are moving to 130 nanometer technology which is also going through qualification with customers and that also goes in line with the fact that you know we sampling in 256 megabit product now I expect to sample half a gigabit before the end of the third quarter. The pressure and the intensity on density and performance is there and as Rob pointed out we believe that there are only one or two companies capable of delivering the density and performance and expect to see an incredibly strong demand in those areas particularly in this high enriched feature phones in which we have been participating very strongly.

<A>: If anything I would say we expect we will see and have began to see an increased adoption of high density MirrorBit products from AMD included in the cellular phone segment. So, that probably is the one thing that I have seen in acceleration on if you want to point to a single factor.

<Q>: And just last question. You obviously have highlighted the product introduction next week that we are all looking forward to here in New York. Have you started putting any thought into booking a venue for the desktop version of the processor that we can all look forward to also?

<A>: Yeah, I was hoping that I would be able to talk about it here on this call but we are still surfacing through venues and the fact that we will try to find the right venue may have impacted the data slightly for which date in September. But we are still on track for a September launch

<Q>: Thank you.

Operator: Our next question comes from line of the Chris Stanley (ph) with J.P. Morgan. Please go ahead with your question.

<Q>: Thanks guys. Nice quarter. I don't know if you have listened to Intel call yesterday, but they said that they were willing to go to any length to try and regain the market share in Flash. You guys have done a great job there. Have you seen any change in their business tactics recently?

<A>: The answer is no. They are competitive, they are a ferocious competitor, and we do not expect them to do anything, but continue to be that. Instead of focusing on them, we are focused on the customer trying to make sure that we are really doing everything that our customer want us to do and frankly I would say that that has been the most significant factor that is impacting our gain in share than anything else in the last few quarters. But, anyway.

<Q>: And then it sounds like Intel is leading towards cutting prices. I am just curious as to what your reaction would be to some sort of price war, i.e., would sacrifice gross margins to maintain market share or would you try and preserve your gross margins and maybe lose a little bit of share?

<A>: That is too much speculation. I would tell you this that we in fact we have worked long and hard to develop important deep and meaningful customer relationships. We are going to what to takes to maintain those relations with our customers and make sure that we are well positioned going forward.

<Q>: Okay and thanks. Just a last question. You guys have done a great job and thanks for giving us the units in ASP numbers for Q1 for flash and MPUs. Can you give us a sense of where you think units and ASPs go for flash and microprocessors for Q2?

<A>: You guys are tough. All I can tell you is what we have said in the press release we actually believe our revenues are going to be up in flash. I believe based on the facts that we said revenues will be up and bit densities will be up, you probably expect that units are going to fall off. On the processor side of the house, we made the comment that we thought revenues were going to be flat up, again a little bit of that seems to depend on mix but I would expect that we will see an increase in the unit shipment as they again more closely match the consumption rates out there so I am feeling that in both cases we should see up unit shipment and that the company should just look at the data we should see up sales and again I think the big question is you know how well.

<A>: Okay. Great. Thanks a lot guys.

Operator: Your next question comes from the line of Ramesh Mishra (ph) with Smith Barney. Please go ahead with your question.

<Q>: Good afternoon gentleman. Can you update us on the status of MirrorBit in terms of its market acceptance and what kind of proportional to your overall flash is it right now and where do you expect to see it soon?

<A>: MirrorBit market acceptance has been great. As a matter of fact, MirrorBit is one of the most successful products/technology stories in our company but it is moving at a pace that I know is given by the customer's ability to qualify products and put it into a product that then goes in to the marketplace. So, in the last couple of quarters there has been lot of design win activity and a lot of commitments going forward. We expect this quarter to begin to see a significant increase in bit chip and growth on MirrorBit and we expect that to accelerate in the second half of the year. Over time, this is over a period of you know a couple of years or so as that becomes a work horse technology for our flash memory. It has a lot of attributes. Its ability to have a broad range of operating voltage and it is a very low cost technology. So we expect it to become very pervasive

going forward and customers are reacting very, very positively to it and as we announced in the last quarter we have had wins we cannot discuss the names but we have wins on MirrorBit in the cellular phone markets. Bob, do you have anything you want to add?

No. I would just make the comment that was only a year ago that we saw our first silicon chips introduced with five different density of the products with 10 different body options and over 200 different part numbers so it become fairly pervasive products for us, design wins are ramping fast. I think a substantial portion or a meaningful portion of the overall revenue for the group beginning just this quarter.

<A>: 256-megabit parts that you have talked about and the one gigabit by year-end, are these going to be on MirrorBit or are they going to be the traditional NOR Flash?

<Q>: The 256 megabits MirrorBit we talked about having 512 megabits by year-end on the MirrorBit technology.

Operator: Our next question comes from the line of Adam Parker with Sanford Bernstein. Please go ahead with your question.

<Q>: Yeah, hi, it is Nathan Dupree for Adam Parker, just going back to the inventories and ask the question, can you talk about how the processor ASPs might have been effected by that drain, and in particular did the level of processors you took back from the channel change in Q1, as I recall you took back some processors in Q4, and I am presuming with that has decreased, now how might that have affected the ASP.

<A>: We did not take any processors back in Q1 relative to inventory re-balancing. We did sell more of sell through in the channels than we had planned, so therefore we ended up with a net drain, as I mentioned going through this quarter, we are not planning on draining anymore inventory, as a matter of fact, I am becoming equally concerned now that we have the right inventories in the right mix in the right places and we are watching that pretty closely as we go, so there was no effect on ASP as a result of, you know, taking back inventories or any adjustment from that nature.

<Q>: The only other question, just going back to the Wi-Fi question, have you listed who your Wi-Fi partners are?

<A>: Actually we are working with most everyone in the Wi-Fi business with the exception of one guy and we do not anticipate the Centrino offering, nor do we necessarily line up with their wireless offering. But other than that, you know, Atheros, Marvell (NASDAQ: MRVL), Broadcom (NASDAQ: BRCM) all of those guys are key partners relative to going forward. Not to mention we have our own 802.11b wireless solution that is actually doing reasonably well for us in Asia.

<Q>: Okay, last little thing just on the Flash share, did the parts this year that you have been getting in the last quarter as a result of the Intel price increases, I am just trying to understand how sticky those gains might be, are these proprietary design-in or are there the kind of things that can swept out of manufacturing anytime.

<A>: You know in the Flash business which is one of the great benefits, a lot of these companies, all these customers particularly in the communication side have unique architectures and interfaces that require some level of customization on the product, so it is very difficult to just completely swap out totally and that is one piece, the other piece is that as Rob pointed out, the relationship that we have built with these customer and that we have been working with them for a long time, it is not being just in the last two quarters, are really deep and strong and I believe that the gains we have made have a high sticking coefficient you call that and personally I think have lot less to do with any pricing by competition and a lot more to do with our relationship with the customer.

<Q>: Okay, thanks.

<A>: Operator, we are going to take two more questions.

Operator: All right, our next question comes from the line of Eric Rothdeutsch with Friedman, Billing, Ramsey, please go ahead with your question.

<Q>: Can you give an idea of how the relationship is going with IBM in terms of accessing some of their designers to help resolve some of the current issues you may have with the SOI process, and then I was curious about what your mix to Athlon versus Duron were during the quarter and what you expect that to look like this quarter.

<A>: I am going to ask Rob to comment on the second part of your question, but let me comment on the first one, if you look at where we are relative to learning and cumulative learning of silicon area versus where we are on yield cost performances etc, I am not aware of any issues that we are needing any kind of special help, we are pleased with the relationship with IBM, we are delighted to have them on board as a partner to jointly develop technology at 65 manometer, we are benefiting a lot from them as well as they, they are benefiting a lot too, we are pleased with the ramp. As a matter today's yields in cost and quality and all the parameters of Opteron as a product, we are very happy with. We are looking forward to beginning the engineering and ramp of the Athlon 64 part here in the very near future and because being a derivative of the Opteron we expect similar in equivalent performance in terms of quality yields or reliability and cost. Rob, on the other issue would your like to comment on.

<A>: We generally have avoided sharing a lot of data relative to the mix of our product. I can tell you though that the Curon will be a decreasing in portion of our overall product shipments through the balance of the year.

<Q>: And Rob, if I could just follow up on that: the relationship you have with Avnet that they will be reselling the Duron product do you expect to phase Duron out over the next several quarters and how is the relationship work with Avnet, is that a profit sharing arrangement?

<A>: Well, I should not be getting into the specifics of our business arrangements with our partners. I will tell you however that Avnet is a very good partner of ours. Avnet has done a wonderful job for us helping drive some of our business in particular at the low end with many of the smaller customers in many different geographies around the world. So, Avnet is a very important partner and a key partner as we move forward. They are the primary distributor of the Duron product into the marketplace and we will continue to be that relative for the detailed arrangements which I am not going to give that.

<Q>: Good enough. Thank you.

Operator: Our next question comes from the line of Michael Cohen with Pacific American Securities. Please go ahead with your question.

<Q>: Hector, it seems like a lot of the ultimate success or failure of your move to 64 bit processing depends on your ability to get the software community to develop 64 bit apps. Could you talk a little about what you are doing in that regard or have done or planned to do in the future?

<A>: Sure and I am going to ask also Rob to complement on that. Let me start with the operating systems side. As you know that Microsoft NYSE: MSFT) has already announced a strong support for the AMD Athlon 64 architecture.

<Q>: I did see the press release just last week – or this week.

<A>: And similarly we have been working out for quite a long time with the Linux community, which is strongly on board with … They are supporting the 64 bits environment also. Let me tell you that any other significant OS player is also seriously considering using Opteron as the platform for 64 bit OS also – and hopefully as we can learn more, we can be more public on that. In terms of the applications I hope that you participate in our lunch next week and be able to learn, you know first hand a lot of the effort and support is going into that side of the equation and I do not know how much of Rob Rivet is probably more familiar with how much it is public knowledge that we can talk about in terms of applications but I will ask him to comment on that, but we are building a very strong momentum in that area and I believe it is by launched … when the launch days comes. We are going to be so significantly better prepared from that sort of support then we were when we launched the previous architecture. In building the infrastructure to support the AMD Athlon 64 technology we are very pleased and excited about the outlook. Rob is there some specificity on the application side?

<A>: I can say we have over a 100 different partners who have publicly signed up in support of the Opteron and Athlon 64 product offering. Many of those will be at our partner pavilion at our launch next week, but I hope you can just join us there will probably be some additional partners announced at or around the launch as well. Maybe another thing I could say relative to the momentum of the product in the marketplace: As you know microprocessor report announced that the AMD Athlon 64 was chosen the best PC processor for 2002. So here we are nine months before you know before we are announcing the product in the market place, while we won the best processor of 2002 and hopefully get a repeat in 2003

<Q>: Okay. Thanks a lot and we are all looking forward to next Tuesday.

<A>: Okay Thank you all for joining us and we look forward to seeing hopefully a large number of you in New York next week. Take care.

Operator: Ladies and gentleman that concludes our conference call for today. You may all disconnect and thank you for participating.