UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2017

OR

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

For the transition period from to

Commission File Number 001-07882

ADVANCED MICRO DEVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-1692300**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One AMD Place Sunnyvale, California	**94085**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Indicate the number of shares outstanding of the registrant’s common stock, $0.01 par value, as of May 4, 2017: 945,016,174

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Advanced Micro Devices, Inc.

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions, except per share amounts)	
Net revenue	$ 984	$ 832
Cost of sales	653	563
Gross margin	331	269
Research and development	266	242
Marketing, general and administrative	121	105
Restructuring and other special charges, net	—	(3)
Licensing gain	(27)	(7)
Operating loss	(29)	(68)
Interest expense	(32)	(40)
Other expense, net	(5)	—
Loss before equity loss and income taxes	(66)	(108)
Provision for income taxes	5	1
Equity loss in investee	(2)	—
Net loss	$ (73)	$ (109)
Net loss per share		
Basic	$ (0.08)	$ (0.14)
Diluted	$ (0.08)	$ (0.14)
Shares used in per share calculation		
Basic	939	793
Diluted	939	793

See accompanying notes to condensed consolidated financial statements.

Advanced Micro Devices, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Net loss	$ (73)	$ (109)
Other comprehensive income, net of tax:		
Unrealized losses on available-for-sale securities:		
Unrealized losses arising during the period	—	(2)
Unrealized gains (losses) on cash flow hedges:		
Unrealized gains arising during the period	2	2
Reclassification adjustment for (gains) losses realized and included in net loss	(1)	2
Total change in unrealized gains (losses) on cash flow hedges	1	4
Total other comprehensive income	1	2
Total comprehensive loss	$ (72)	$ (107)

See accompanying notes to condensed consolidated financial statements.

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

	April 1, 2017	December 31, 2016
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 722	$ 1,264
Marketable securities	221	—
Accounts receivable, net	494	311
Inventories, net	839	751
Prepayment and other receivables - related parties	31	32
Prepaid expenses	73	63
Other current assets	118	109
Total current assets	$ 2,498	$ 2,530
Property, plant and equipment, net	180	164
Goodwill	289	289
Investment: equity method	58	59
Other assets	274	279
Total assets	$ 3,299	$ 3,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 529	$ 440
Payables to related parties	329	383
Accrued liabilities	385	391
Other current liabilities	67	69
Deferred income on shipments to distributors	62	63
Total current liabilities	1,372	1,346
Long-term debt, net	1,408	1,435
Other long-term liabilities	110	124
Commitments and contingencies (See Note 12)		
Stockholders' equity:		
Capital stock:		
Common stock, par value $0.01; 1,500 shares authorized on April 1, 2017 and December 31, 2016; shares issued: 953 on April 1, 2017 and 949 shares on December 31, 2016; shares outstanding: 942 on April 1, 2017 and 935 shares on December 31, 2016	9	9
Additional paid-in capital	8,379	8,334
Treasury stock, at cost (11 shares on April 1, 2017 and 14 shares on December 31, 2016)	(99)	(119)
Accumulated deficit	(7,876)	(7,803)
Accumulated other comprehensive loss	(4)	(5)
Total stockholders' equity	409	416
Total liabilities and stockholders' equity	$ 3,299	$ 3,321

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Cash flows from operating activities:		
Net loss	$ (73)	$ (109)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34	33
Stock-based compensation expense	23	16
Non-cash interest expense	9	4
Loss on debt redemption	4	—
Other	5	(5)
Changes in operating assets and liabilities:		
Accounts receivable	(183)	26
Inventories	(88)	3
Prepayment and other receivables - related parties	1	7
Prepaid expenses and other assets	(30)	22
Payables to related parties	(54)	(12)
Accounts payable, accrued liabilities and other	53	(27)
Net cash used in operating activities	(299)	(42)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(23)	(26)
Purchases of available-for-sale securities	(221)	—
Other	(2)	—
Net cash used in investing activities	(246)	(26)
Cash flows from financing activities:		
Proceeds from issuance of common stock under stock-based compensation equity plans	8	—
Other	(5)	(1)
Net cash provided by (used in) financing activities	3	(1)
Net decrease in cash and cash equivalents	(542)	(69)
Cash and cash equivalents at beginning of period	1,264	785
Cash and cash equivalents at end of period	$ 722	$ 716
Supplemental cash flow information:		
Non-cash investing and financing activities:		
Purchases of property, plant and equipment, accrued but not paid	$ 11	$ —
Issuance of common stock to partially settle long-term debt	$ 38	$ —

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements of Advanced Micro Devices, Inc. and its subsidiaries (the Company or AMD) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the quarter ended April 1, 2017 shown in this report are not necessarily indicative of results to be expected for the full year ending December 30, 2017. In the opinion of the Company's management, the information contained herein reflects all adjustments necessary for a fair presentation of the Company's results of operations, financial position and cash flows. All such adjustments are of a normal, recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The Company uses a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended April 1, 2017 and March 26, 2016 each consisted of 13 weeks.

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

Recently Adopted Accounting Standards

Inventory. In July 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11), which requires entities to measure inventory at the lower of cost or net realizable value. This ASU simplifies the subsequent measurement of inventory by replacing the lower of cost or market test with a lower of cost or net realizable value test. The Company adopted this guidance in the first quarter of 2017 and it did not have an impact on its consolidated financial statements.

Investments. In March 2016, the FASB issued ASU No. 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting* (ASU 2016-07), which requires the equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for equity method accounting. The Company adopted this guidance in the first quarter of 2017 and it did not have an impact on its consolidated financial statements.

Stock Compensation. In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which is intended to simplify several aspects of the accounting for share-based payment award transactions. The Company adopted this guidance in the first quarter of 2017 and elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. In the first quarter of 2017, the Company recorded a $96 million cumulative-effect adjustment in accumulated deficit and an offsetting increase in deferred tax assets for previously unrecognized excess tax benefits that existed as of December 31, 2016. Since substantially all of the Company's U.S. and foreign deferred tax assets, net of deferred tax liabilities, are subject to a valuation allowance and the realization of these assets is not more likely than not to be achieved, the Company recorded a $96 million valuation allowance against these deferred tax assets with an offsetting adjustment in accumulated deficit. The Company elected to report cash flows related to excess tax benefits as an operating activity on a prospective basis. The presentation requirement for cash flows related to employee taxes paid for withheld shares did not impact the statements of cash flows because such cash flows have historically been presented as a financing activity.

Recently Issued Accounting Standards

Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), which creates a single source of revenue guidance under U.S. GAAP for all companies in all industries and replaces most existing revenue recognition guidance in U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

The new standard is effective for annual reporting periods beginning after December 15, 2017. The new standard permits companies to early adopt the new standard, but not before annual reporting periods beginning after December 15, 2016. The

Company will not early adopt the new standard and therefore the new standard will be effective for the Company in the first quarter of its fiscal 2018.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or prospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application and providing additional disclosures comparing results to the previous rules in the year of adoption of the new standard (the modified retrospective method or the cumulative catchup method). The Company currently anticipates adopting the standard using the full retrospective method to restate each prior reporting period presented. The Company's ability to adopt utilizing the full retrospective method is dependent upon system readiness and the completion of its analysis of information necessary to restate prior period financial statements. In 2016, the Company established a cross-functional team consisting of representatives across both business segments. While the Company is continuing to assess all potential impacts of the standard, it currently believes the most significant impact relates to accelerated revenue recognition for sales to its distributors, whereby revenue is expected to be recognized upon the initial sale to the Company's distributors, instead of the current recognition upon resale by the distributors to the end customers. The Company currently expects other revenue streams to remain substantially unchanged.

As part of the Company's assessment and implementation plan, the Company is evaluating and implementing changes to its policies, procedures and controls.

Financial Instruments. In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The ASU also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. Entities will have to assess the realizability of such deferred tax assets in combination with the entities' other deferred tax assets. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017 and for interim periods within that reporting period. The Company is currently evaluating the impact of its pending adoption of ASU 2016-01 on its consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early application permitted. Upon adoption, lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements.

Financial Instruments. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the timing of adoption and impact of ASU 2016-13 on its consolidated financial statements.

Statement of Cash Flows. In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, provided that all of the amendments are adopted in the same period. The Company is currently evaluating the impact of its pending adoption of ASU 2016-15 on its consolidated financial statements.

Income Taxes. In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This amends current GAAP which prohibits recognition of current and deferred income taxes for all types of intra-entity asset transfers until the asset has been sold to an outside party. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods therein with early application permitted. Upon adoption, the Company must apply a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this new standard on its consolidated financial statements, as well as its planned adoption date.

Goodwill Impairment: In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other*: *Topic 350: Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual and any interim impairment tests performed for periods beginning after December 15, 2019 on a prospective basis, and earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of its pending adoption of ASU 2017-04 on its consolidated financial statements.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these accounting pronouncements has had or will have a material impact on its consolidated financial position or operating results.

NOTE 2. GLOBALFOUNDRIES

Wafer Supply Agreement. The Wafer Supply Agreement (WSA) governs the terms by which the Company purchases products manufactured by GLOBALFOUNDRIES Inc. (GF).

Sixth Amendment to Wafer Supply Agreement. On August 30, 2016, the Company entered into a sixth amendment (the Sixth Amendment) to the WSA. The Sixth Amendment modified certain terms of the WSA applicable to wafers for the Company's microprocessor, graphics processor and semi-custom products for a five-year period from January 1, 2016 to December 31, 2020. The Company and GF also agreed to establish a comprehensive framework for technology collaboration for the 7nm technology node.

The Sixth Amendment also provides the Company a limited waiver with rights to contract with another wafer foundry with respect to certain products in the 14nm and 7nm technology nodes and gives the Company greater flexibility in sourcing foundry services across its product portfolio. In consideration for these rights, the Company agreed to pay GF $100 million in installments starting in the fourth fiscal quarter of 2016 through the third fiscal quarter of 2017. During the first fiscal quarter of 2017, the Company paid GF $25 million and, as of April 1, 2017, the Company paid GF $50 million in the aggregate. Starting in 2017 and continuing through 2020, the Company also agreed to make quarterly payments to GF based on the volume of certain wafers purchased from another wafer foundry.

Further, for each calendar year during the term of the Sixth Amendment, the Company and GF agreed to annual wafer purchase targets that increase from 2016 through 2020. If the Company does not meet the annual wafer purchase target for any calendar year, the Company will be required to pay to GF a portion of the difference between the Company's actual wafer purchases and the wafer purchase target for that year. The annual targets were established based on the Company's business and market expectations and took into account the limited waiver it received for certain products. As of April 1, 2017, the Company expected to meet its 2017 wafer purchase target.

The Company and GF also agreed on fixed pricing for wafers purchased during 2016 and established a framework to agree on annual wafer pricing for the years 2017 to 2020.

The Company's total purchases from GF related to wafer manufacturing, research and development activities and other for the quarters ended April 1, 2017 and March 26, 2016 were $176 million and $208 million, respectively. As of April 1, 2017 and December 31, 2016, the amount of prepayment and other receivables related to GF was $10 million and $32 million, respectively, included in Prepayment and other receivables - related parties on its condensed consolidated balance sheets. As of April 1, 2017 and December 31, 2016, the amount payable to GF was $204 million and $255 million, respectively, included in Payables to related parties on its condensed consolidated balance sheets.

Warrant Agreement. Also on August 30, 2016, in consideration for the limited waiver and rights under the Sixth Amendment, the Company entered into a warrant agreement (the Warrant Agreement) with West Coast Hitech L.P. (WCH), a wholly-owned subsidiary of Mubadala Development Company PJSC (Mubadala). Under the Warrant Agreement, WCH and its permitted assigns are entitled to purchase 75 million shares of the Company's common stock (the Warrant Shares) at a purchase price of $5.98 per share. The warrant is exercisable in whole or in part until February 29, 2020, provided that the maximum number of Warrant Shares that may be exercised prior to the one-year anniversary of the Warrant Agreement cannot exceed 50 million. Notwithstanding the foregoing, the Warrant Agreement will only be exercisable to the extent that Mubadala does not beneficially own, either directly through any other entities directly and indirectly owned by Mubadala or its subsidiaries, an aggregate of more than 19.99% of the Company's outstanding capital stock after any such exercise.

GF continues to be a related party of the Company because Mubadala and Mubadala Technology Investments LLC (Mubadala Tech) are affiliated with WCH, the Company's largest stockholder. GF, WCH and Mubadala Tech are wholly-owned subsidiaries of Mubadala.

NOTE 3. Supplemental Balance Sheet Information

Inventories

	April 1, 2017	December 31, 2016
	(In millions)	
Raw materials	$ 19	$ 11
Work in process	598	564
Finished goods	222	176
Total inventories, net	$ 839	$ 751

Property, Plant and Equipment

	April 1, 2017	December 31, 2016
	(In millions)	
Leasehold improvements	$ 147	$ 148
Equipment	726	714
Construction in progress	32	19
Property, plant and equipment, gross	905	881
Accumulated depreciation and amortization	(725)	(717)
Total property, plant and equipment, net	$ 180	$ 164

The Company incurs costs for the fabrication of masks used by its foundry partners to manufacture its products. Beginning the first fiscal quarter of 2017, the Company capitalizes mask costs that are expected to be utilized in production manufacturing as the Company's product development process has become more predictable and thus supports capitalization of the mask. The capitalized mask costs begin depreciating to Cost of Sales once the products go into production. Depreciation is straight lined over a two year period which is the expected useful life of the mask. Previously mask sets were expensed to research and development.

Other Assets

	April 1, 2017	December 31, 2016
	(In millions)	
Software technology and licenses, net	$ 222	$ 232
Other	52	47
Total other assets	$ 274	$ 279

Accrued Liabilities

	April 1, 2017	December 31, 2016
	(In millions)	
Accrued compensation and benefits	$ 114	$ 116
Marketing programs and advertising expenses	93	102
Software technology and licenses payable	45	24
Other	133	149
Total accrued liabilities	$ 385	$ 391

NOTE 4. Equity Interest Purchase Agreement - ATMP Joint Venture

On April 29, 2016, the Company and certain of its subsidiaries completed the sale of a majority of the equity interests in Suzhou TF-AMD Semiconductor Co., Ltd. (formerly, AMD Technologies (China) Co., Ltd.), and TF AMD Microelectronics (Penang) Sdn. Bhd. (formerly, Advanced Micro Devices Export Sdn. Bhd.), to affiliates of Tongfu Microelectronics Co., Ltd. (formerly, Nantong Fujitsu Microelectronics Co., Ltd.) (TFME), a Chinese joint stock company, to form two joint ventures (collectively, the ATMP JV). As a result of the sale, TFME's affiliates own 85% of the equity interests in the ATMP JV while certain of the Company's subsidiaries own the remaining 15%. The Company has no obligations to fund the ATMP JV.

The Company accounts for its equity interests in the ATMP JV under the equity method of accounting due to its significant influence over the ATMP JV. As of April 1, 2017 and December 31, 2016, the carrying value of the Company's investment in the ATMP JV was approximately $58 million and $59 million, respectively. Following the deconsolidation, the ATMP JV is a related party of the Company. The ATMP JV provides assembly, test, mark and packaging (ATMP) services to the Company. The Company currently pays the ATMP JV for ATMP services on a cost-plus basis. The Company's total purchases from the ATMP JV during the quarter ended April 1, 2017 amounted to approximately $96 million. As of April 1, 2017 and December 31, 2016, the amount payable to the ATMP JV was $125 million and $128 million, respectively, included in Payables to related parties on its condensed consolidated balance sheets.

During the quarter ended April 1, 2017, the Company recorded $2 million in Equity loss in investee on its condensed consolidated statements of operations, which includes certain expenses incurred by the Company on behalf of the ATMP JV.

NOTE 5. Equity Joint Venture - Intellectual Property Licensing Agreement

In February 2016, the Company and Tianjin Haiguang Advanced Technology Investment Co., Ltd. (THATIC), a third-party Chinese entity (JV Partner), formed a joint venture comprised of two separate legal entities, China JV1 and China JV2 (collectively, the THATIC JV). The Company's equity share in China JV1 and China JV2 is a majority and minority interest, respectively, funded by the Company's contribution of certain of its patents. The JV Partner is responsible for the initial and on-going financing of the THATIC JV's operations. The Company has no obligations to fund the THATIC JV.

The Company concluded the China JV1 and China JV2 are not operating joint ventures and are variable interest entities due to their reliance on on-going financing by JV Partner. The Company determined that it is not the primary beneficiary of either China JV1 or China JV2, as the Company does not have unilateral power to direct selling and marketing, manufacturing and product development activities related to the THATIC JV's products. Accordingly, the Company will not consolidate either of these entities and therefore accounts for its investments in the THATIC JV under the equity method of accounting. THATIC JV is a related party of the Company's.

In February 2016, the Company licensed certain of its intellectual property (Licensed IP) to the THATIC JV for a total of approximately $293 million in license fee payable over several years contingent upon achievement of certain milestones. The Company also expects to receive a royalty based on the sales of the THATIC JV's products to be developed on the basis of such Licensed IP. The Company will also provide certain engineering and technical support to the THATIC JV in connection with the product development. In March 2017, the Company entered into a development and intellectual property agreement with THATIC JV, and also expects to receive a royalty based on the sales of the THATIC JV's products to be developed on the basis of such agreement. The Company will also provide certain engineering and technical support to the THATIC JV in connection with the product development.

The Company recognizes income related to the Licensed IP over the period commencing upon delivery of the first Licensed IP milestone through the date of the milestone that requires the Company's continuing involvement in the product development process. Royalty payments will be recognized in income once earned. The Company will classify Licensed IP income and royalty income as other operating income. During the quarter ended April 1, 2017, the Company recognized $27 million licensing gain associated with the Licensed IP and an immaterial amount of development fee as a credit to research and development expenses. During the quarter ended March 26, 2016, the Company recognized $7 million licensing gain and no development fee credit, associated with these agreements. No royalty income was recognized during the quarters ended April 1, 2017 and March 26, 2016.

The Company's total exposure to losses through its investment in the THATIC JV is limited to the Company's investments in the THATIC JV, which was zero as of April 1, 2017. The Company's share in the net losses of the THATIC JV for the quarter ended April 1, 2017 was not material and is not recorded in the Company's condensed consolidated statement of operations since the Company is not obligated to fund the THATIC JV's losses in excess of the Company's investment in the THATIC JV. The Company's receivable from THATIC JV was $20 million and zero as of April 1, 2017 and December 31, 2016, respectively, included in Prepayment and other receivables - related parties on its condensed consolidated balance sheets. As of April 1, 2017, the total assets and liabilities of the THATIC JV were not material.

NOTE 6. Debt and Secured Revolving Line of Credit

Debt

2.125% Convertible Senior Notes Due 2026

On September 14, 2016, the Company issued $700 million in aggregate principal amount of 2.125% Convertible Senior Notes due 2026 (2.125% Notes). The Company also granted an option to the underwriters to purchase an additional $105 million aggregate principal amount of the 2.125% Notes. On September 28, 2016, this option was exercised in full and the Company issued an additional $105 million aggregate principal amount of the 2.125% Notes.

The 2.125% Notes are general unsecured senior obligations of the Company and will mature on September 1, 2026, unless earlier repurchased or converted. Interest is payable in arrears on March 1 and September 1 of each year beginning on March 1, 2017. The 2.125% Notes are governed by the terms of a base indenture and a supplemental indenture (together the 2.125% Indentures) dated September 14, 2016 between the Company and Wells Fargo Bank, N.A., as trustee.

Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding June 1, 2026 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2016 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. The first event above was met in the first quarter of 2017 and as a result, the 2.125% Notes are convertible at the option of the holder in the second quarter of 2017. On or after June 1, 2026 until the close of business on the business day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election.

The Company may not redeem the notes prior to the maturity date, and no sinking fund is provided for the notes.

The conversion rate will initially be 125.0031 shares of common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $8.00 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event in certain circumstances.

If the Company undergoes a fundamental change prior to the maturity date of the notes, holders may require the Company to repurchase for cash all or any portion of their notes at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

In accounting for the issuance of the 2.125% Notes, the Company separated the 2.125% Notes into liability and equity components. The carrying amounts of the liability component was calculated by measuring the fair value of a similar liability that does not have associated conversion features. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2.125% Notes as a whole. The excess of the principal amount of the liability component over its book value (debt discount) is accreted to interest expense over the term of the 2.125% Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the issuance costs related to the 2.125% Notes, the Company allocated the total amount of issuance costs incurred to the liability and equity components based on their relative fair values. Issuance costs attributable to the liability component are being amortized to interest expense over the term of the 2.125% Notes, and the issuance costs attributable to the equity component were netted against the equity component in additional paid-in capital. During 2016, the Company recorded issuance costs of $15 million and $9 million, respectively, for the liability and equity portions.

The 2.125% Notes consisted of the following:

	April 1, 2017	December 31, 2016
	(In millions)	
Principal amounts:		
Principal	$ 805	$ 805
Unamortized debt discount[1]	(302)	(308)
Unamortized debt issuance costs	(13)	(14)
Net carrying amount	$ 490	$ 483
Carrying amount of the equity component, net[2]	$ 305	$ 305

(1) Included in the consolidated balance sheets within Long-term debt, net and amortized over the remaining life of the notes using the effective interest rate method.

(2) Included in the consolidated balance sheets within additional paid-in capital, net of $9 million of equity issuance costs.

As of April 1, 2017, the remaining life of the 2.125% Notes was approximately 114 months.

Based on the closing price of the Company's common stock of $14.55 on March 31, 2017, the last business day of the first quarter of 2017, the if-converted value of the 2.125% Notes exceeded its principal amount by approximately $659 million.

The effective interest rate of the liability component of the 2.125% Notes is 8%. This interest rate was based on the interest rates of similar liabilities at the time of issuance that did not have associated conversion features. The following table sets forth total interest expense recognized related to the 2.125% Notes:

	Three Months Ended April 1, 2017
	(In millions)
Contractual interest expense	$ 4
Interest cost related to amortization of debt issuance costs	$ 1
Interest cost related to amortization of the debt discount	$ 6

6.75% Senior Notes Due 2019

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

During the first quarter of 2017, the Company settled $5 million in aggregate principal amount of its 6.75% Notes with treasury stock. As of April 1, 2017, the outstanding aggregate principal amount of the 6.75% Notes was $191 million.

7.50% Senior Notes Due 2022

On August 15, 2012, the Company issued $500 million of its 7.50% Senior Notes due 2022 (7.50% Notes). The 7.50% Notes are general unsecured senior obligations of the Company. Interest is payable on February 15 and August 15 of each year beginning February 15, 2013 until the maturity date of August 15, 2022. The 7.50% Notes are governed by the terms of an indenture (the 7.50% Indenture) dated August 15, 2012 between the Company and Wells Fargo Bank, N.A., as trustee.

During the first quarter of 2017, the Company settled $3 million in aggregate principal amount of its 7.50% Notes with treasury stock. As of April 1, 2017, the outstanding aggregate principal amount of the 7.50% Notes was $347 million.

7.00% Senior Notes Due 2024

On June 16, 2014, the Company issued $500 million of its 7.00% Senior Notes due 2024 (7.00% Notes). The 7.00% Notes are general unsecured senior obligations of the Company. Interest is payable on January 1 and July 1 of each year beginning January 1, 2015 until the maturity date of July 1, 2024. The 7.00% Notes are governed by the terms of an indenture (the 7.00% Indenture) dated June 16, 2014 between the Company and Wells Fargo Bank, N.A., as trustee.

During the first quarter of 2017, the Company settled $26 million in aggregate principal amount of its 7.00% Notes with treasury stock. As of April 1, 2017, the outstanding aggregate principal amount of the 7.00% Notes was $390 million.

Potential Repurchase of Outstanding Notes

The Company may elect to purchase or otherwise retire the 6.75% Notes, 7.50% Notes, 7.00% Notes and 2.125% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer when the Company believes the market conditions are favorable.

Secured Revolving Line of Credit

Amended and Restated Loan and Security Agreement

On April 14, 2015, the Company and its subsidiaries, AMD International Sales & Service, Ltd. (AMDISS) and ATI Technologies ULC (collectively, the Loan Parties), entered into an amended and restated loan and security agreement (the Amended and Restated Loan Agreement) by and among the Loan Parties, the financial institutions party thereto from time to time as lenders (the Lenders) and Bank of America, N.A., acting as agent for the Lenders (the Agent).

Fifth Amendment to the Amended and Restated Loan and Security Agreement

On March 21, 2017, the Loan Parties entered into a fifth amendment to the Amended and Restated Loan Agreement (the Fifth Amendment) by and among the Loan Parties, the financial institutions party thereto from time to time as lenders and the Agent, which modifies the Amended and Restated Loan Agreement. The Fifth Amendment amends the Amended and Restated Loan Agreement by, among other things, extending the maturity date of the Secured Revolving Line of Credit from April 14, 2020 to March 21, 2022, reducing the Applicable Margin (as defined in the Amended and Restated Loan Agreement), reducing the commitment fee, lowering the minimum threshold of Availability (as defined in the Amended and Restated Loan Agreement) required to be maintained by the Company and AMDISS in order to avoid cash dominion, amending the borrowing base reporting requirement, amending maximum dollar limits related to supply chain finance arrangements, and reducing the amount of the Secured Revolving Line of Credit available for the issuance for letters of credit from $75 million to $45 million.

The Amended and Restated Loan Agreement provides for a Secured Revolving Line of Credit for a principal amount up to $500 million with up to $45 million available for issuance of letters of credit. Borrowings under the Secured Revolving Line of Credit are limited to up to 85% of eligible accounts receivable (90% for certain qualified eligible accounts receivable), minus specified reserves. The size of the commitments under the Secured Revolving Line of Credit may be increased by up to an aggregate amount of $200 million.

The Secured Revolving Line of Credit is secured by a first priority security interest in the Loan Parties' accounts receivable, inventory, deposit accounts maintained with the Agent and other specified assets, including books and records.

As of April 1, 2017 and December 31, 2016, the Company did not have any borrowings outstanding under the Secured Revolving Line of Credit. At April 1, 2017, the Company had $19 million letter of credit outstanding and up to $209 million available for future borrowings under the Secured Revolving Line of Credit. The Company reports its intra-period changes in its revolving credit balance on a net basis in its condensed consolidated statement of cash flows as the Company intends the period of the borrowings to be brief, repaying borrowed amounts within 90 days. As of April 1, 2017, the Company was in compliance with all required covenants in the Amended and Restated Loan Agreement.

NOTE 7. Net Loss Per Share

Basic net loss per share is computed based on the weighted average number of shares outstanding.

Diluted net loss per share is computed based on the weighted average number of shares outstanding plus any potentially dilutive shares outstanding. Potentially dilutive shares include stock options and restricted stock units and potentially dilutive shares issuable upon conversion of the 2.125% Notes and the exercise of the warrant under the Warrant Agreement.

The following table sets forth the components of basic and diluted net loss per share:

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions, except per share amounts)	
Numerator – Net loss:		
Numerator for basic and diluted net loss per share	$ (73)	$ (109)
Denominator - Weighted average shares		
Denominator for basic and diluted net loss per share	939	793
Net loss per share:		
Basic	$ (0.08)	$ (0.14)
Diluted	$ (0.08)	$ (0.14)

Potential shares from stock options, restricted stock units, the 2.125% Notes and the warrants under the Warrant Agreement totaling 195 million for the first quarter of 2017 and potential shares from stock options and restricted stock units totaling 50 million for the first quarter of 2016 were not included in the net loss per share calculations because their inclusion would have been anti-dilutive.

NOTE 8. Financial Instruments

Cash, Cash Equivalents and Marketable Securities

Cash and financial instruments measured and recorded at fair value on a recurring basis as of April 1, 2017 and December 31, 2016 are summarized below:

	Total Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities
		(In millions)	
April 1, 2017			
Cash	$ 93	$ 93	$ —
Level 1 (1) (2)			
Government money market funds	$ 55	$ 55	$ —
Total level 1	$ 55	$ 55	$ —
Level 2 (1) (3)			
Commercial paper	$ 795	$ 574	$ 221
Total level 2	$ 795	$ 574	$ 221
Total	$ 943	$ 722	$ 221

	Total Fair Value	Cash and Cash Equivalents
	(In millions)	
December 31, 2016		
Cash	$ 67	$ 67
Level 1[(1) (2)]		
Government money market funds	$ 50	$ 50
Total level 1	$ 50	$ 50
Level 2[(1) (3)]		
Commercial paper	$ 1,147	$ 1,147
Total level 2	$ 1,147	$ 1,147
Total	$ 1,264	$ 1,264

(1) The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the quarter ended April 1, 2017 or the year ended December 31, 2016.

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

(3) The Company's Level 2 assets are valued using broker reports that utilize quoted market prices for identical or comparable instruments. Brokers gather observable inputs for all of the Company's fixed income securities from a variety of industry data providers and other third-party sources.

Available-for-sale securities held by the Company as of April 1, 2017 consisted of commercial paper. The amortized cost of available-for-sale securities approximates the fair value for all periods presented.

In addition to those amounts presented above, as of April 1, 2017 and December 31, 2016, the Company had approximately $2 million of investments in government money market funds, used as collateral for letters of credit deposits, which were included in Other current assets on the Company's condensed consolidated balance sheets. These government money market funds are classified within Level 1 because they are valued using quoted prices for identical instruments in active markets. Their amortized cost approximates the fair value for all periods presented. The Company is restricted from accessing these deposits.

As of April 1, 2017 and December 31, 2016, the Company also had approximately $15 million of investments in mutual funds held in a Rabbi trust established for the Company's deferred compensation plan, which were included in Other assets on the Company's condensed consolidated balance sheets. These mutual funds are classified within Level 1 because they are valued using quoted prices for identical instruments in active markets. Their amortized cost approximates the fair value for all periods presented. The Company is restricted from accessing these investments.

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

	April 1, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In millions)			
Long-term debt, net[(1)]	$ 1,407	$ 2,595	$ 1,434	$ 2,313

(1) Carrying amounts of long-term debt are net of unamortized debt issuance costs of $24 million as of April 1, 2017 and $25 million as of December 31, 2016, based on the adoption of ASU 2015-03 and net of unamortized debt discount associated with the 2.125% Notes of $302 million as of April 1, 2017 and $308 million as of December 31, 2016.

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

Hedging Transactions and Derivative Financial Instruments

Cash Flow Hedges

The following table shows the amount of gain (loss) included in accumulated other comprehensive gain (loss) and the amount of gain (loss) reclassified from accumulated other comprehensive gain (loss) and included in earnings related to the foreign currency forward contracts designated as cash flow hedges:

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Foreign Currency Forward Contracts - gains (losses)		
Contracts designated as cash flow hedging instruments		
Other comprehensive income (loss)	$ 2	$ 6
Research and development	1	(2)

The Company's foreign currency derivative contracts are classified within Level 2 because the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates.

The following table shows the fair value amounts included in Other current assets should the foreign currency forward contracts be in a gain position or included in Other current liabilities should these contracts be in a loss position. These amounts were recorded in the Company's condensed consolidated balance sheets as follows:

	April 1, 2017	December 31, 2016
	(In millions)	
Foreign Currency Forward Contracts - gains (losses)		
Contracts designated as cash flow hedging instruments	$ —	$ (2)

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

As of April 1, 2017 and December 31, 2016, the notional values of the Company's outstanding foreign currency forward contracts were $201 million and $138 million, respectively. All the contracts mature within 12 months, and, upon maturity, the amounts recorded in Accumulated other comprehensive gain (loss) are expected to be reclassified into earnings. The Company hedges its exposure to the variability in future cash flows for forecasted transactions over a maximum of 12 months.

NOTE 9. Income Taxes

In the first quarter of 2017, the Company recorded an income tax provision of $5 million, consisting of $2 million of foreign taxes in profitable locations and $4 million for withholding taxes applicable to license fee revenue from foreign locations, partially offset by $1 million of tax benefits comprising the tax effects of items credited directly to other comprehensive income, Canadian tax credits, and the monetization of certain U.S. tax credits.

In the first quarter of 2016, the Company recorded an income tax provision of $1 million, consisting of $3 million of foreign taxes in profitable locations, partially offset by $2 million of tax benefits comprising the tax effects of items credited directly to other comprehensive income and Canadian tax credits.

As of April 1, 2017, substantially all of the Company's U.S. and Canadian deferred tax assets, net of deferred tax liabilities, continue to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which, as of April 1, 2017, in management's estimate, is not more likely than not to be achieved.

The Company's total gross unrecognized tax benefits as of April 1, 2017 were $42 million. The Company does not believe it is reasonably possible that unrecognized tax benefits will materially change in the next 12 months. However, the settlement, resolution or closure of tax audits are highly uncertain.

NOTE 10. Segment Reporting

Management, including the Chief Operating Decision Maker, who is the Company's Chief Executive Officer, reviews and assesses operating performance using segment net revenue and operating income (loss) before interest, other income (expense),

net and income taxes. These performance measures include the allocation of expenses to the operating segments based on management's judgment. The Company has the following two reportable segments:

- the Computing and Graphics segment, which primarily includes desktop and notebook processors and chipsets, discrete graphics processing units (GPUs) and professional graphics; and
- the Enterprise, Embedded and Semi-Custom segment, which primarily includes server and embedded processors, semi-custom System-on-Chip (SoC) products, development services, technology for game consoles and licensing portions of its intellectual property portfolio.

In addition to these reportable segments, the Company has an All Other category, which is not a reportable segment. This category primarily includes certain expenses and credits that are not allocated to any of the reportable segments because management does not consider these expenses and credits in evaluating the performance of the reportable segments. Also included in this category are, employee stock-based compensation expense and restructuring and other special charges, net.

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

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Net revenue:		
Computing and Graphics	$ 593	$ 460
Enterprise, Embedded and Semi-Custom	391	372
Total net revenue	$ 984	$ 832
Operating income (loss):		
Computing and Graphics	$ (15)	$ (70)
Enterprise, Embedded and Semi-Custom	9	16
All Other	(23)	(14)
Total operating loss	$ (29)	$ (68)

The following table provides major items included in All Other category:

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Operating loss:		
Stock-based compensation expense	$ (23)	$ (16)
Restructuring and other special charges, net	—	3
Other	—	(1)
Total operating loss	$ (23)	$ (14)

NOTE 11. Stock-Based Incentive Compensation Plans

Restricted Stock Units

In the first quarters of 2017 and 2016, the Company granted 0.6 million and 0.8 million shares of restricted stock units, respectively, with weighted average grant date fair values per share of $12.46 and $2.14, respectively.

NOTE 12. Commitments and Contingencies

Warranties and Indemnities

The Company generally warrants that its products sold to its customers will conform to the Company's approved specifications and be free from defects in material and workmanship under normal use and service for one year. Subject to certain exceptions, the Company also offers a three-year limited warranty to end users for only those central processing unit (CPU) and AMD accelerated processing unit (APU) products that are commonly referred to as “processors in a box” and for certain server CPU products. The

Company also offers extended limited warranties to certain customers of "tray" microprocessor products and/or professional graphics products who have written agreements with the Company and target their computer systems at the commercial and/ or embedded markets.

Changes in the Company's estimated liability for product warranty were as follows:

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Beginning balance	$ 12	$ 15
New warranties issued	5	5
Settlements	(5)	(4)
Changes in liability for pre-existing warranties, including expirations	(2)	(3)
Ending balance	$ 10	$ 13

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

Contingencies

Securities Class Action

On January 15, 2014, a class action lawsuit captioned *Hatamian v. AMD, et al.*, C.A. No. 3:14-cv-00226 (the Hatamian Lawsuit) was filed against the Company in the United States District Court for the Northern District of California. The complaint purports to assert claims against the Company and certain individual officers for alleged violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 of the Exchange Act. The plaintiffs seek to represent a proposed class of all persons who purchased or otherwise acquired the Company's common stock during the period April 4, 2011 through October 18, 2012. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by the Company and the individual officers regarding the Company's 32nm technology and "Llano" product, which statements and omissions, the plaintiffs claim, allegedly operated to artificially inflate the price paid for the Company's common stock during the period. The complaint seeks unspecified compensatory damages, attorneys' fees and costs. On July 7, 2014, the Company filed a motion to dismiss plaintiffs' claims. On March 31, 2015, the Court denied the motion to dismiss. On May 14, 2015, the Company filed its answer to plaintiffs' corrected amended complaint. On September 4, 2015, plaintiffs filed their motion for class certification, and on March 16, 2016, the Court granted plaintiffs' motion. A court-ordered mediation held in January 2016 did not result in a settlement of the lawsuit. The discovery process has concluded.

Based upon information presently known to management, the Company believes that the potential liability, if any, will not have a material adverse effect on its financial condition, cash flows or results of operations.

Shareholder Derivative Lawsuits

On March 20, 2014, a purported shareholder derivative lawsuit captioned *Wessels v. Read, et al.*, Case No. 1:14 cv-262486 (Wessels) was filed against the Company (as a nominal defendant only) and certain of its directors and officers in the Santa Clara County Superior Court of the State of California. The complaint purports to assert claims against the Company and certain individual directors and officers for breach of fiduciary duty, waste of corporate assets and unjust enrichment. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by the Company and the individual directors and officers regarding its 32nm technology and "Llano" product, which statements and omissions, the plaintiffs claim, allegedly operated to artificially inflate the price paid for the Company's common stock during the period. On April 27, 2015, a similar purported shareholder derivative lawsuit captioned *Christopher Hamilton and David Hamilton v. Barnes, et al.*, Case No. 5:15-cv-01890 (Hamilton) was filed against the Company (as a nominal defendant only) and certain of its directors and officers in the

United States District Court for the Northern District of California. The case was transferred to the judge handling the Hatamian Lawsuit and is now Case No. 4:15-cv-01890.

On September 29, 2015, a similar purported shareholder derivative lawsuit captioned *Jake Ha v Caldwell, et al.,* Case No. 3:15-cv-04485 (Ha) was filed against the Company (as a nominal defendant only) and certain of its directors and officers in the United States District Court for the Northern District of California. The lawsuit also seeks a court order voiding the stockholder vote on the Company's 2015 proxy. The case was transferred to the judge handling the Hatamian Lawsuit and is now Case No. 4:15-cv-04485. The Wessels, Hamilton and Ha shareholder derivative lawsuits are currently stayed.

Based upon information presently known to management, the Company believes that the potential liability, if any, will not have a material adverse effect on its financial condition, cash flows or results of operations.

ZiiLabs Litigation

On December 16, 2016, a patent lawsuit captioned *ZiiLabs v. AMD*, C.A. No. 2:16-cv-1418 in the United States District Court for Eastern District of Texas (the "ZiiLabs Lawsuit") was filed against the Company in the United States District Court for the Eastern District of Texas. The complaint alleges that we infringed four patents related generally to graphics processors and memory controllers. The complaint seeks damages, interest, and attorneys' fees. ZiiLabs filed several similar lawsuits against other companies on the same day. On the same date, ZiiLabs also filed a complaint with the United States International Trade Commission ("USITC") pursuant to Section 337 of the Tariff Act of 1930 against us and several other companies asserting the same four patents ("USITC Proceeding"). The complaint seeks a limited exclusion order barring the importation of certain products that contain AMD memory controllers and graphics processors. Some of AMD's customers are also named respondents. On January 18, 2017, the USITC announced that it would institute the investigation, entitled 337-TA-1037, *In the Matter of Certain Graphics Processors, DDR Memory Controllers, and Products Containing the Same*. Discovery is ongoing, and the target date for the USITC to issue a final determination is June 25, 2018. The Ziilabs Lawsuit has been stayed pending completion of the USITC Proceeding.

Based upon information presently known to management, the Company believes that the potential liability, if any, will not have a material adverse effect on its financial condition, cash flows or results of operations.

Other Legal Matters

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

NOTE 13. Restructuring and Other Special Charges, Net

2015 Restructuring Plan

In the third quarter of 2015, the Company implemented a restructuring plan (the 2015 Restructuring Plan) focused on its ongoing efforts to simplify its business and better align resources around its priorities and business outlook. The 2015 Restructuring Plan largely involved a reduction of global headcount by approximately 5% and included organizational actions such as outsourcing certain IT services and application development. The actions associated with the 2015 Restructuring Plan were completed during the first quarter of 2017. The liabilities related to the 2015 Restructuring Plan recorded in Other current liabilities on the Company's condensed consolidated balance sheets as of April 1, 2017 and December 31, 2016 were zero and $3 million, respectively.

2014 Restructuring Plan

In the fourth quarter of 2014, the Company implemented a restructuring plan (the 2014 Restructuring Plan) designed to improve operating efficiencies. The 2014 Restructuring Plan involved a reduction of global headcount by approximately 6% and an alignment of its real estate footprint with its reduced headcount. The 2014 Restructuring Plan was completed during the third quarter of 2015. The liabilities related to the 2014 Restructuring Plan recorded in Other current liabilities on the Company's condensed consolidated balance sheets as of April 1, 2017 and December 31, 2016 were $2 million and $4 million, respectively.

NOTE 14. Accumulated Other Comprehensive Loss

The tables below summarize the changes in accumulated other comprehensive loss by component:

	Three Months Ended					
	April 1, 2017			March 26, 2016		
	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on cash flow hedges	Total	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on cash flow hedges	Total
	(In millions)					
Beginning balance	$ (1)	$ (4)	$ (5)	$ (1)	$ (7)	$ (8)
Unrealized gains (losses) arising during the period	—	3	3	(3)	4	1
Reclassification adjustment for (gains) losses realized and included in net income (loss)	—	(1)	(1)	—	3	3
Tax effect	—	(1)	(1)	1	(3)	(2)
Total other comprehensive income (loss)	—	1	1	(2)	4	2
Ending balance	$ (1)	$ (3)	$ (4)	$ (3)	$ (3)	$ (6)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements in this report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements speak only as of the date hereof or as of the dates indicated in the statements and should not be relied upon as predictions of future events, as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "pro forma," "estimates," "anticipates," or the negative of these words and phrases, other variations of these words and phrases or comparable terminology.The forward-looking statements relate to, among other things: demand for AMD's products; the growth, change and competitive landscape of the markets in which AMD participates; future restructuring activities; the nature and extent of AMD's future payments to GLOBALFOUNDRIES Inc. (GF) and the materiality of these payments; the materiality of AMD's future purchases from GF; the expected amounts to be received by AMD under the IP licensing agreement and AMD's expected royalty payments from future product sales of China JVs' products to be developed on the basis of such licensed IP; sales patterns of AMD's PC products and semi-custom System-on-Chip (SoC) products for game consoles; the level of international sales as compared to total sales; that other unrecognized tax benefits will not materially change in the next 12 months; that AMD's cash and cash equivalents balances together with the availability under that certain secured revolving line of credit (Secured Revolving Line of Credit) made available to AMD and certain of its subsidiaries under the Amended and Restated Loan Agreement, will be sufficient to fund AMD's operations including capital expenditures over the next 12 months; AMD's ability to obtain sufficient external financing on favorable terms, or at all; AMD's expectation that based on the information presently known to management, the securities class action and the shareholder derivative suit will not have a material adverse effect on its financial condition, cash flows or results of operations; and AMD does not expect to pay dividends in the future. Material factors that could cause actual results to differ materially from current expectations include, without limitation, the following: Intel Corporation's dominance of the microprocessor market and its aggressive business practices may limit AMD's ability to compete effectively; AMD has a wafer supply agreement with GF with obligations to purchase all of its microprocessor and APU product requirements, and a certain portion of its GPU product requirements from GF with limited exceptions. If GF is not able to satisfy AMD's manufacturing requirements, its business could be adversely impacted; AMD relies on third parties to manufacture its products, and if they are unable to do so on a timely basis in sufficient quantities and using competitive technologies, AMD's business could be materially adversely affected; failure to achieve expected manufacturing yields for AMD's products could negatively impact its financial results; the success of AMD's business is dependent upon its ability to introduce products on a timely basis with features and performance levels that provide value to its customers while supporting and coinciding with significant industry transitions; if AMD cannot generate sufficient revenue and operating cash flow or obtain external financing, it may face a cash shortfall and be unable to make all of its planned investments in research and development or other strategic investments; the loss of a significant customer may have a material adverse effect on AMD; AMD's receipt of revenue from its semi-custom SoC products is dependent upon its technology being designed into third-party products and the success of those products; global economic uncertainty may adversely impact AMD's business and operating results; the markets in which AMD's products are sold are highly competitive; AMD may not be able to generate sufficient cash to service its debt obligations or meet its working capital requirements; AMD has a large amount of indebtedness which could adversely affect its financial position and prevent it from implementing its strategy or fulfilling its contractual obligations; the agreements governing AMD's notes and the Secured Revolving Line of Credit impose restrictions on AMD that may adversely affect its ability to operate its business; AMD's issuance to West Coast Hitech L.P. (WCH) of warrants to purchase 75 million shares of its common stock, if and when exercised, will dilute the ownership interests of AMD's existing stockholders, and the conversion of the 2.125% Notes may dilute the ownership interest of AMD's existing stockholders, or may otherwise depress the price of its common stock; uncertainties involving the ordering and shipment of AMD's products could materially adversely affect it; the demand for AMD's products depends in part on the market conditions in the industries into which they are sold. Fluctuations in demand for AMD's products or a market decline in any of these industries could have a material adverse effect on its results of operations; AMD's ability to design and introduce new products in a timely manner is dependent upon third-party intellectual property; AMD depends on third-party companies for the design, manufacture and supply of motherboards, software and other computer platform components to support its business; if AMD loses Microsoft Corporation's support for its products or other software vendors do not design and develop software to run on AMD's products, its ability to sell its products could be materially adversely affected; AMD's reliance on third-party distributors and AIB partners subjects it to certain risks; AMD's inability to continue to attract and retain qualified personnel may hinder its business; in the event of a change of control, AMD may not be able to repurchase its outstanding debt as required by the applicable indentures and its Secured Revolving Line of Credit, which would result in a default under the indentures and its Secured Revolving Line of Credit; the semiconductor industry is highly cyclical and has experienced severe downturns that have materially adversely affected, and may continue to materially adversely affect its business in the future; acquisitions, divestitures and/or joint *ventures could disrupt its business, harm its financial condition and operating results or dilute, or adversely affect the price of, its common stock; AMD's business is dependent upon the proper functioning of its internal business processes and information systems and modification or interruption of such systems may disrupt its business, processes* *and internal controls; data breaches and cyber-attacks could compromise AMD's intellectual property or other sensitive information, be costly to remediate and cause significant damage to its business and reputation; AMD's operating results are subject to quarterly and seasonal sales patterns; if essential equipment, materials or manufacturing processes are not available to manufacture its products, AMD could be materially adversely affected; if AMD's products are not compatible with some or all industry-standard software and hardware, it could be materially adversely affected; costs related to defective products could have a material adverse effect on AMD; if AMD fails to maintain the efficiency of its supply chain as it responds to changes in customer demand for its products, its business could be materially adversely affected; AMD outsources to third parties certain supply-chain logistics functions, including portions of its product distribution, transportation management and information technology support services; AMD may incur future impairments of goodwill; AMD's stock price is subject to volatility; AMD's worldwide operations are subject to political, legal and economic risks and natural disasters, which could have a material adverse effect on it; worldwide political conditions may adversely affect demand for AMD's products; unfavorable currency exchange rate fluctuations could adversely affect AMD; AMD's inability to effectively control the sales of its products on the gray market could have a material adverse effect on it; if AMD cannot adequately protect its technology or other intellectual property in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures, it may lose a competitive advantage and incur significant expenses; AMD is a party to litigation and may become a party to other claims or litigation that could cause it to incur substantial costs or pay substantial damages or prohibit it from selling its products; AMD's business is subject to potential tax liabilities; and AMD is subject to environmental laws, conflict minerals-related provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as a variety of other laws or regulations that could result in additional costs and liabilities.*

For a discussion of factors that could cause actual results to differ materially from the forward-looking statements, see "Part II, Item 1A—Risk Factors" beginning on page 36 and "Financial Condition" beginning on page 30 and other risks and uncertainties set forth below in this report or detailed in our other Securities and Exchange Commission (SEC) reports and filings. We assume no obligation to update forward-looking statements.

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The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this report and our audited consolidated financial statements and related notes as of December 31, 2016 and December 26, 2015, and for each of the three years in the period ended December 31, 2016 as filed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

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

- x86 microprocessors, as standalone devices or as incorporated as an accelerated processing unit (APU), chipsets, discrete graphics processing units (GPUs) and professional graphics; and

- server and embedded processors, semi-custom System-on-Chip (SoC) products and technology for game consoles. We also license portions of our intellectual property portfolio.

In this section, we will describe the general financial condition and the results of operations of Advanced Micro Devices, Inc. and its wholly-owned subsidiaries (collectively, “us,” “our” or “AMD”), including a discussion of our results of operations for the quarter ended April 1, 2017 compared to the quarter ended March 26, 2016, an analysis of changes in our financial condition and a discussion of our contractual obligations.

During the first quarter of 2017, we focused on continuing to execute our major roadmap milestones as we introduced AMD Ryzen™ 7 desktop processors, our first processors based on our entirely new AMD "Zen" core microarchitecture. We designed AMD Ryzen desktop processors for the high performance desktop market and to bring multi-core performance to PC gamers, creators and enthusiasts. Initial customer demand for our Ryzen desktop processors was strong and sales of these products were accretive to our gross margin in the first quarter of 2017.

Net revenue in the first quarter of 2017 was $984 million, an 18% increase compared to the first quarter of 2016. Gross margin, as a percentage of net revenue, for the first quarter of 2017 was 34%, an increase of 2 percentage points from the first quarter of 2016. We reduced our operating and net losses during the first quarter of 2017 compared to the prior year period. Operating loss for the first quarter of 2017 was $29 million compared to an operating loss of $68 million in the first quarter of 2016 and during the first quarter of 2017, net loss was $73 million compared to a net loss of $109 million in the first quarter of 2016.

Cash, cash equivalents and marketable securities as of the end of the first quarter of 2017 were $943 million, compared to $1.26 billion at December 31, 2016. Total debt as of the end of the first quarter of 2017 was $1.41 billion, a decrease from $1.44 billion at December 31, 2016.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist you in understanding our financial statements, the changes in certain key items in those financial statements from year to year and quarter to quarter, the primary factors that resulted in those changes, and how certain accounting principles, policies and estimates affect our financial statements.

Results of Operations

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

- the Computing and Graphics segment, which primarily includes desktop and notebook processors and chipsets, discrete GPUs and professional graphics; and

- the Enterprise, Embedded and Semi-Custom segment, which primarily includes server and embedded processors, semi-custom SoC products, development services, technology for game consoles and licensing portions of our intellectual property portfolio.

In addition to these reportable segments, we have an All Other category, which is not a reportable segment. This category primarily includes certain expenses and credits that are not allocated to any of the reportable segments because management does not consider these expenses and credits in evaluating the performance of the reportable segments. Included in this category are, employee stock-based compensation expense and restructuring and other special charges, net.

We use a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended April 1, 2017 and March 26, 2016 each consisted of 13 weeks.

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

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

	Three Months Ended	
	April 1, 2017	**March 26, 2016**
	(In millions)	
Net revenue:		
Computing and Graphics	$ 593	$ 460
Enterprise, Embedded and Semi-Custom	391	372
Total net revenue	$ 984	$ 832
Operating income (loss):		
Computing and Graphics	$ (15)	$ (70)
Enterprise, Embedded and Semi-Custom	9	16
All Other	(23)	(14)
Total operating loss	$ (29)	$ (68)

Computing and Graphics

Computing and Graphics net revenue of $593 million in the first quarter of 2017 increased by 29%, compared to net revenue of $460 million in the first quarter of 2016, primarily as a result of a 24% increase in average selling price primarily attributable to our microprocessor products and GPU products. The increase in average selling price of our microprocessor products was primarily driven by our desktop microprocessor products resulting from sales of our recently launched high performance Ryzen desktop processors. The increase in average selling price of our GPU products was primarily driven by desktop GPU products.

Computing and Graphics operating loss was $15 million in the first quarter of 2017 compared to an operating loss of $70 million in the first quarter of 2016. The improvement in operating results was primarily due to the increase in net revenue , partially offset by the increase in cost of sales driven by the increase in net revenue and increase in operating expenses. Operating expenses increased for the reasons set forth under “Expenses” below.

Enterprise, Embedded and Semi-Custom

Enterprise, Embedded and Semi-Custom net revenue of $391 million in the first quarter of 2017 increased by 5% compared to net revenue of $372 million in the first quarter of 2016. The increase in net revenue was primarily due to higher unit shipments of our semi-custom SoC products, partially offset by a decrease in non-recurring engineering (NRE) revenue.

Enterprise, Embedded and Semi-Custom operating income was $9 million in the first quarter of 2017 compared to operating income of $16 million in the first quarter of 2016. The decline in operating results was primarily due to a $25 million increase in operating expenses, partially offset by a $20 million increase in IP licensing gain related to the THATIC JV due to timing because the IP licensing gain was recognized for a full quarter in the first quarter of 2017 compared to a partial quarter in the first quarter of 2016 as the recognition started in March 2016. Operating expenses increased for the reasons set forth under “Expenses” below.

All Other

All Other operating loss of $23 million in the first quarter of 2017 was related to stock-based compensation expense.

All Other operating loss of $14 million in the first quarter of 2016 was primarily related to stock-based compensation expense.

International Sales

International sales as a percentage of net revenue were 76% in the first quarter of 2017 and 85% in the first quarter of 2016. The decrease in international sales as a percentage of net revenue in the first quarter of 2017 compared to the first quarter of 2016 was primarily driven by a higher proportion of revenue from domestic sales of our desktop microprocessor products, GPU products and semi-custom SoC products.

We expect that international sales will continue to be a significant portion of total sales in the foreseeable future. Substantially all of our sales transactions were denominated in U.S. dollars.

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

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

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions except for percentages)	
Cost of sales	$ 653	$ 563
Gross margin	$ 331	$ 269
Gross margin percentage	34%	32%
Research and development	$ 266	$ 242
Marketing, general and administrative	$ 121	$ 105
Restructuring and other special charges, net	$ —	$ (3)
Licensing gain	$ (27)	$ (7)
Interest expense	$ (32)	$ (40)
Other expense, net	$ (5)	$ —
Provision for income taxes	$ 5	$ 1

Gross Margin

Gross margin as a percentage of net revenue was 34% in the first quarter of 2017 compared to 32% in the first quarter of 2016. The improvement in gross margin was primarily driven by a higher overall mix of revenue from our Computing and Graphics segment, primarily due to richer product mix due to Ryzen desktop processors sales.

Expenses

Research and Development Expenses

Research and development expenses of $266 million in the first quarter of 2017 increased by $24 million, or 10%, compared to $242 million in the first quarter of 2016. The increase was primarily due to a $20 million increase in research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment due to higher data center related investments and a $5 million increase attributable to our All Other category in stock-based compensation expense.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of $121 million in the first quarter of 2017 increased by $16 million, or 15%, compared to $105 million in the first quarter of 2016. The increase was primarily due to a $9 million increase in marketing, general and administrative expenses attributable to our Computing and Graphics segment and a $5 million increase attributable to our Enterprise, Embedded and Semi-Custom segment, both primarily due to increases in sales and marketing activities.

Restructuring and Other Special Charges, Net

2015 Restructuring Plan

In the third quarter of 2015, we implemented a restructuring plan (the 2015 Restructuring Plan) focused on our ongoing efforts to simplify our business and better align resources around our priorities and business outlook. The 2015 Restructuring Plan involved a reduction of global headcount by approximately 5% and included organizational actions such as outsourcing certain IT services and application development. The actions associated with the 2015 Restructuring Plan were completed during the first quarter of 2017. The liabilities related to the 2015 Restructuring Plan recorded in Other current liabilities on our condensed consolidated balance sheets as of April 1, 2017 and December 31, 2016 were zero and $3 million, respectively.

2014 Restructuring Plan

In the fourth quarter of 2014, we implemented a restructuring plan (the 2014 Restructuring Plan) designed to improve operating efficiencies. The 2014 Restructuring Plan involved a reduction of global headcount by approximately 6% and an alignment of our real estate footprint with our reduced headcount. The 2014 Restructuring Plan was completed during the third quarter of 2015. The liabilities related to the 2014 Restructuring Plan recorded in Other current liabilities on our condensed consolidated balance sheets as of April 1, 2017 and December 31, 2016 were $2 million and $4 million, respectively.

Interest Expense

Interest expense of $32 million in the first quarter of 2017 decreased by $8 million compared to $40 million in the first quarter of 2016 primarily due to a lower overall interest rate and lower debt balance.

Other Expense, Net

Other expense, net was $5 million in the first quarter of 2017, compared to zero in the first quarter of 2016.

In the first quarter of 2017, we recognized $5 million of other expense, net, primarily due to the $4 million loss on the debt settlement with treasury stock and a $3 million investment impairment charge of our cost method investments, partially offset by $2 million of interest income.

Income Taxes

In the first quarter of 2017, we recorded an income tax provision of $5 million, consisting of $2 million of foreign taxes in profitable locations and $4 million for withholding taxes applicable to license fee revenue from foreign locations, partially offset by $1 million of tax benefits comprising the tax effects of items credited directly to other comprehensive income, Canadian tax credits, and the monetization of certain U.S. tax credits.

We have not recognized the tax benefit of future foreign tax credits associated with the withholding tax expense as the size and age profile of existing tax attributes does not allow us to satisfy the "more likely than not" criterion for the recognition of deferred tax assets.

In the first quarter of 2016, we recorded an income tax provision of $1 million, consisting of $3 million of foreign taxes in profitable locations, partially offset by $2 million of tax benefits comprising the tax effects of items credited directly to other comprehensive income and Canadian tax credits.

As of April 1, 2017, substantially all of our U.S. and Canadian deferred tax assets, net of deferred tax liabilities, continue to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income, which as of April 1, 2017, in our estimate, is not more likely than not to be achieved.

Our gross unrecognized tax benefits as of April 1, 2017 were $42 million. We do not believe it is reasonably possible that unrecognized tax benefits will materially change in the next 12 months. However, the settlement, resolution or closure of our tax audits are highly uncertain.

Stock-Based Compensation Expense

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

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Cost of sales	$ —	$ 1
Research and development	14	9
Marketing, general and administrative	9	6
Stock-based compensation expense, net of tax of $0	$ 23	$ 16

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

Stock-based compensation expense of $23 million in the first quarter of 2017 increased by $7 million compared to $16 million in the first quarter of 2016. The increase was primarily due to a higher weighted average grant date fair value of unvested restricted stock units in the first quarter of 2017, compared to the first quarter of 2016.

GLOBALFOUNDRIES

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

Sixth Amendment to Wafer Supply Agreement. On August 30, 2016, we entered into a sixth amendment (the Sixth Amendment) to the WSA. The Sixth Amendment modified certain terms of the WSA applicable to wafers for our microprocessor, graphics processor and semi-custom products for a five-year period from January 1, 2016 to December 31, 2020. AMD and GF also agreed to establish a comprehensive framework for technology collaboration for the 7nm technology node.

The Sixth Amendment also provides us a limited waiver with rights to contract with another wafer foundry with respect to certain products in the 14nm and 7nm technology nodes and gives us greater flexibility in sourcing foundry services across our product portfolio. In consideration for these rights, we agreed to pay GF $100 million in installments starting in the fourth fiscal quarter of 2016 through the third fiscal quarter of 2017. During the first fiscal quarter of 2017, we paid GF $25 million and, as of April 1, 2017, we paid GF $50 million in the aggregate. Starting in 2017 and continuing through 2020, we also agreed to make quarterly payments to GF based on the volume of certain wafers purchased from another wafer foundry.

Further, for each calendar year during the term of the Sixth Amendment, AMD and GF agreed to annual wafer purchase targets that increase from 2016 through 2020. If we do not meet the annual wafer purchase target for any calendar year, we will be required to pay to GF a portion of the difference between the our actual wafer purchases and the wafer purchase target for that year. The annual targets were established based on our business and market expectations and take into account the limited waiver we received for certain products. As of April 1, 2017, we expect to meet our 2017 wafer purchase target.

AMD and GF also agreed on fixed pricing for wafers purchased during 2016 and established a framework to agree on annual wafer pricing for the years 2017 to 2020.

Our total purchases from GF related to wafer manufacturing, research and development activities and other for the quarters ended April 1, 2017 and March 26, 2016 were $176 million and $208 million, respectively. As of April 1, 2017 and December 31, 2016, the amount of prepayment and other receivables related to GF was $10 million and $32 million, included in Prepayment and other receivables - related parties on our condensed consolidated balance sheets, respectively. As of April 1, 2017 and December 31, 2016, the amount payable to GF was $204 million and $255 million, respectively, included in Payable to related parties on our condensed consolidated balance sheets.

Warrant Agreement. Also on August 30, 2016, in consideration for the limited waiver and rights under the Sixth Amendment, we entered into a warrant agreement (the Warrant Agreement) with West Coast Hitech L.P. (WCH), a wholly-owned subsidiary of Mubadala Development Company PJSC (Mubadala). Under the Warrant Agreement, WCH and its permitted assigns are entitled to purchase 75 million shares of our common stock (the Warrant Shares) at a purchase price of $5.98 per share. The warrant is exercisable in whole or in part until February 29, 2020, provided that the maximum number of Warrant Shares that may be exercised prior to the one-year anniversary of the Warrant Agreement cannot exceed 50 million. Notwithstanding the foregoing, the Warrant Agreement will only be exercisable to the extent that Mubadala does not beneficially own, either directly through any other entities directly and indirectly owned by Mubadala or its subsidiaries, an aggregate of more than 19.99% of our outstanding capital stock after any such exercise.

GF continues to be a related party of AMD because Mubadala and Mubadala Technology Investments LLC (Mubadala Tech) are affiliated with WCH, our largest stockholder. GF, WCH and Mubadala Tech are wholly-owned subsidiaries of Mubadala.

Equity Interest Purchase Agreement - ATMP Joint Venture

On April 29, 2016, we and certain of our subsidiaries completed the sale of a majority of the equity interests in Suzhou TF-AMD Semiconductor Co., Ltd. (formerly, AMD Technologies (China) Co., Ltd.), and TF AMD Microelectronics (Penang) Sdn. Bhd. (formerly, Advanced Micro Devices Export Sdn. Bhd.), to affiliates of Tongfu Microelectronics Co., Ltd. (formerly, Nantong Fujitsu Microelectronics Co., Ltd.) (TFME), a Chinese joint stock company, to form two joint ventures (collectively, the ATMP JV). As a result of the sale, TFME's affiliates own 85% of the equity interests in the ATMP JV while certain of our subsidiaries own the remaining 15%. We have no obligations to fund the ATMP JV.

We account for our equity interests in the ATMP JV under the equity method of accounting due to our significant influence over the ATMP JV. As of April 1, 2017 and December 31, 2016, the carrying value of our investment in the ATMP JV was approximately $58 million and $59 million, respectively. Following the deconsolidation, the ATMP JV is our related party. The ATMP JV provides assembly, test, mark and packaging (ATMP) services to us. We currently pay the ATMP JV for ATMP services on a cost-plus basis. Our total purchases from the ATMP JV during the quarter ended April 1, 2017 amounted to approximately $96 million. As of April 1, 2017 and December 31, 2016, the amount payable to the ATMP JV was $125 million and $128 million, respectively, included in Payables to related parties on our condensed consolidated balance sheets.

During the quarter ended April 1, 2017, we recorded $2 million in Equity loss in investee on our condensed consolidated statements of operations, which includes certain expenses incurred by us on behalf of the ATMP JV.

Equity Joint Venture - Intellectual Property Licensing Agreement

In February 2016, we and Tianjin Haiguang Advanced Technology Investment Co., Ltd. (THATIC), a third-party Chinese entity (JV Partner), formed a joint venture comprised of two separate legal entities, China JV1 and China JV2 (collectively, the THATIC JV). Our equity share in China JV1 and China JV2 is a majority and minority interest, respectively, funded by our contribution of certain of its patents. The JV Partner is responsible for the initial and on-going financing of the THATIC JV's operations. We have no obligations to fund the THATIC JV.

We concluded the China JV1 and China JV2 are not operating joint ventures and are variable interest entities due to their reliance on on-going financing by the JV Partner. We determined that we are not the primary beneficiary of either China JV1 or China JV2, as we do not have unilateral power to direct selling and marketing, manufacturing and product development activities related to the THATIC JV's products. Accordingly, we will not consolidate either of these entities and therefore account for our investments in the THATIC JV under the equity method of accounting. THATIC JV is a related party of ours.

In February 2016, we licensed certain of our intellectual property (Licensed IP) to the THATIC JV for a total of approximately $293 million in license fee payable over several years contingent upon achievement of certain milestones. We also expect to receive a royalty based on the sales of the THATIC JV's products to be developed on the basis of such Licensed IP. We will also provide certain engineering and technical support to the THATIC JV in connection with the product development. In March 2017, we entered into a development and intellectual property agreement with THATIC JV, and also expect to receive a royalty based on the sales of the THATIC JV's products to be developed on the basis of such agreement. We will also provide certain engineering and technical support to the THATIC JV in connection with the product development.

We recognize income related to the Licensed IP over the period commencing upon delivery of the first Licensed IP milestone through the date of the milestone that requires our continuing involvement in the product development process. Royalty payments will be recognized in income once earned. We will classify Licensed IP income and royalty income as other operating income. During the quarter ended April 1, 2017, we recognized $27 million licensing gain associated with the Licensed IP and an immaterial amount of development fee as a credit to research and development expenses. During the quarter ended March 26, 2016, we recognized $7 million licensing gain and no development fee credit, associated with these agreements. No royalty income was recognized during the quarters ended April 1, 2017 and March 26, 2016.

Our total exposure to losses through our investment in the THATIC JV is limited to our investments in the THATIC JV, which was zero as of April 1, 2017. Our share in the net losses of the THATIC JV for the quarter ended April 1, 2017 was not material and is not recorded in our condensed consolidated statement of operations since we are not obligated to fund the THATIC JV's losses in excess of our investment in the THATIC JV. Our receivable from THATIC JV was $20 million and zero as of April 1, 2017 and December 31, 2016, respectively, included in Prepayment and other receivables - related parties on our condensed consolidated balance sheets. As of April 1, 2017, the total assets and liabilities of the THATIC JV were not material.

FINANCIAL CONDITION

Liquidity and Capital Resources

As of April 1, 2017, our cash, cash equivalents and marketable securities were $943 million compared to $1.26 billion as of December 31, 2016. The decrease in the first quarter of 2017 was due to net cash used in our operating and investing activities, partially offset by cash provided by financing activities, as described below. The percentage of cash, cash equivalents and marketable securities held domestically was 93% as of April 1, 2017, compared to 98% at December 31, 2016.

The following is a summary of our cash flows for the periods indicated:

	Three Months Ended	
	April 1, 2017	March 26, 2016
	(In millions)	
Net cash provided by (used in):		
Operating activities	$ (299)	$ (42)
Investing activities	(246)	(26)
Financing activities	3	(1)

Our debt obligations of $1.41 billion net of unamortized debt issuance costs and unamortized debt discount associated with the 2.125% Convertible Senior Notes Due 2026 (2.125% Notes) as of April 1, 2017 decreased from $1.44 billion at December 31, 2016.

We believe our cash, cash equivalents and marketable securities balance along with our Secured Revolving Line of Credit will be sufficient to fund operations, including capital expenditures, over the next 12 months. We believe that in the event we decide to obtain external funding, we may be able to access the capital markets on terms and in amounts adequate to meet our objectives.

Should we require additional funding, such as to meet payment obligations of our long-term debt when due, we may need to raise the required funds through borrowings or public or private sales of debt or equity securities, which may be issued from time to time under an effective registration statement, through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933 or a combination of one or more of the foregoing. Uncertain global economic conditions have in the past adversely impacted, and may in the future adversely impact, our business. If market conditions deteriorate, we may be limited in our ability to access the capital markets to meet liquidity needs on favorable terms or at all, which could adversely affect our liquidity and financial condition, including our ability to refinance maturing liabilities.

Operating Activities

Net cash used in operating activities was $299 million in the first quarter of 2017 compared to $42 million in the first quarter of 2016. The increase in cash used in operating activities was primarily due to timing of accounts payable payments, partially offset by the decrease in interest payments due to lower debt balance in the first quarter of 2017 compared to the first quarter of 2016.

Investing Activities

Net cash used in investing activities was $246 million in the first quarter of 2017, which consisted of cash outflows of $221 million for purchases of available-for-sale securities and $23 million for purchases of property, plant and equipment.

Net cash used in investing activities was $26 million in the first quarter of 2016, primarily for purchases of property, plant and equipment.

Financing Activities

Net cash provided by financing activities was $3 million in the first quarter of 2017, primarily due to a cash inflow of $8 million for proceeds from issuance of common stock from the exercise of employee stock options, partially offset by a cash outflow of $5 million for tax withholding on the vesting of restricted stock.

Net cash used in financing activities was $1 million in the first quarter of 2016.

Contractual Obligations

The following table summarizes our consolidated principal contractual obligations, as of April 1, 2017, and is supplemented by the discussion following the table:

	Payments due by period as of April 1, 2017						
(In millions)	Total	Remainder of 2017	2018	2019	2020	2021	2022 and thereafter
6.75% Notes	$ 191	$ —	$ —	$ 191	$ —	$ —	$ —
7.50% Notes	347	—	—	—	—	—	347
7.00% Notes	390	—	—	—	—	—	390
2.125% Notes	805	—	—	—	—	—	805
Other long-term liabilities (1)	106	31	31	36	6	—	2
Aggregate interest obligation (2)	584	85	85	77	72	72	193
Operating leases	356	37	48	43	40	61	127
Purchase obligations (3)	474	375	90	5	3	1	—
Obligations to GF (4)	3,173	859	770	764	780	—	—
Total contractual obligations (5)	$ 6,426	$ 1,387	$ 1,024	$ 1,116	$ 901	$ 134	$ 1,864

(1) Amounts largely represent future fixed and non-cancelable cash payments associated with software technology and licenses and IP licenses, including the payments due within the next 12 months.

(2) Represents estimated aggregate interest obligations for our outstanding debt obligations that are payable in cash, excluding non-cash amortization of debt issuance costs.

(3) We have purchase obligations for goods and services where payments are based, in part, on the volume or type of services we acquire. In those cases, we only included the minimum volume of purchase obligations in the table above. Purchase orders for goods and services that are cancelable upon notice and without significant penalties are not included in the amounts above.

(4) Includes our currently expected purchases from GF for the remainder of 2017 for wafer manufacturing and research and development activities and minimum purchase obligations for wafer purchases for years 2018 through 2020. We cannot meaningfully quantify or estimate our future purchase obligations to GF beyond 2020 but expect that our future purchases from GF will continue to be material.

(5) Total amount excludes contractual obligations already recorded on our condensed consolidated balance sheets except for debt obligations and other liabilities related to software and technology licenses and IP licenses.

The expected timing of payments of the obligations in the preceding table is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

6.75% Senior Notes Due 2019

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

At any time before March 1, 2019, we may redeem some or all of our 6.75% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a “make whole” premium (as set forth in the 6.75% Indenture).

During the first quarter of 2017, we settled $5 million in aggregate principal amount of our 6.75% Notes with treasury stock. As of April 1, 2017, the outstanding aggregate principal amount of our 6.75% Notes was $191 million.

7.50% Senior Notes Due 2022

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

Prior to August 15, 2022, we may redeem some or all of our 7.50% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a “make whole” premium (as set forth in the 7.50% Indenture).

During the first quarter of 2017, we settled $3 million in aggregate principal amount of our 7.50% Notes with treasury stock. As of April 1, 2017, the outstanding aggregate principal amount of our 7.50% Notes was $347 million.

7.00% Senior Notes Due 2024

On June 16, 2014, we issued $500 million of our 7.00%Senior Notes Due 2024 (7.00% Notes). The 7.00% Notes are our general unsecured senior obligations. Interest is payable on January 1 and July 1 of each year beginning January 1, 2015 until the maturity date of July 1, 2024. The 7.00% Notes are governed by the terms of an indenture (the 7.00% Indenture) dated June 16, 2014 between us and Wells Fargo Bank, N.A., as trustee.

At any time before July 1, 2017, we may redeem up to 35% of the aggregate principal amount of the 7.00% Notes within 90 days of the closing of an equity offering with the net proceeds thereof at a redemption price equal to 107.000% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. Prior to July 1, 2019, we may redeem some or all of the 7.00% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a “make whole” premium (as set forth in the 7.00% Indenture).

Starting July 1, 2019, we may redeem our 7.00% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	Price as Percentage of Principal Amount
Beginning on July 1, 2019 through June 30, 2020	103.500%
Beginning on July 1, 2020 through June 30, 2021	102.333%
Beginning on July 1, 2021 through June 30, 2022	101.167%
On July 1, 2022 and thereafter	100.000%

During the first quarter of 2017, we settled $26 million in aggregate principal amount of our 7.00% Notes with treasury stock. As of April 1, 2017, the outstanding aggregate principal amount of our 7.00% Notes was $390 million.

2.125% Convertible Senior Notes Due 2026

On September 14, 2016, we issued $700 million in aggregate principal amount of our 2.125% Notes. We also granted an option to the underwriters to purchase up to an additional $105 million aggregate principal amount of our 2.125% Notes. On September 28, 2016, this option was exercised in full and we issued an additional $105 million aggregate principal amount of our 2.125% Notes.

Our 2.125% Notes are our general unsecured senior obligations and will mature on September 1, 2026, unless earlier repurchased or converted. Interest is payable in arrears on March 1 and September 1 of each year beginning on March 1, 2017. Our 2.125% Notes are governed by the terms of a base indenture and a supplemental indenture (together the 2.125% Indentures) dated September 14, 2016 between us and Wells Fargo Bank, N.A., as trustee.

Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding June 1, 2026 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2016 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. The first event above was met in the first quarter of 2017 and as a result, the 2.125% Notes are convertible at the option of the holder in the second quarter of 2017. On or after June 1, 2026 until the close of business on the business day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of the our common stock, at our election.

We may not redeem the notes prior to the maturity date, and no sinking fund is provided for the notes.

The conversion rate will initially be 125.0031 shares of common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $8.00 per share of common stock). The conversion rate will be subject to adjustment

in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event in certain circumstances.

If we undergo a fundamental change prior to the maturity date of the notes, holders may require us to repurchase for cash all or any portion of their notes at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

As of April 1, 2017, the outstanding aggregate principal amount of our 2.125% Notes was $805 million.

Potential Repurchase of Outstanding Notes

We may elect to purchase or otherwise retire all or a portion of our 6.75% Notes, 7.50% Notes, 7.00% Notes and 2.125% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer when we believe the market conditions are favorable.

Secured Revolving Line of Credit

Amended and Restated Loan and Security Agreement

On April 14, 2015, AMD and its subsidiaries, AMD International Sales & Service, Ltd. (AMDISS) and ATI Technologies ULC (collectively, the Loan Parties), entered into an amended and restated loan and security agreement (the Amended and Restated Loan Agreement) by and among the Loan Parties, the financial institutions party thereto from time to time as lenders (the Lenders) and Bank of America, N.A., acting as agent for the Lenders (the Agent).

Fifth Amendment to the Amended and Restated Loan and Security Agreement

On March 21, 2017, the Loan Parties entered into a fifth amendment to the Amended and Restated Loan Agreement (the Fifth Amendment) by and among the Loan Parties, the financial institutions party thereto from time to time as lenders and the Agent, which modifies the Amended and Restated Loan Agreement. The Fifth Amendment amends the Amended and Restated Loan Agreement by, among other things, extending the maturity date of the Secured Revolving Line of Credit from April 14, 2020 to March 21, 2022, reducing the Applicable Margin (as defined in the Amended and Restated Loan Agreement), reducing the commitment fee, lowering the minimum threshold of Availability (as defined in the Amended and Restated Loan Agreement) required to be maintained by AMD and AMDISS in order to avoid cash dominion, amending the borrowing base reporting requirement, amending maximum dollar limits related to supply chain finance arrangements, and reducing the amount of the Secured Revolving Line of Credit available for the issuance for letters of credit from $75 million to $45 million.

The Amended and Restated Loan Agreement provides for a Secured Revolving Line of Credit for a principal amount up to $500 million with up to $45 million available for issuance of letters of credit. Borrowings under the Secured Revolving Line of Credit are limited to up to 85% of eligible accounts receivable (90% for certain qualified eligible accounts receivable), minus specified reserves. The size of the commitments under the Secured Revolving Line of Credit may be increased by up to an aggregate amount of $200 million.

The Secured Revolving Line of Credit is secured by a first priority security interest in the Loan Parties' accounts receivable, inventory, deposit accounts maintained with the Agent and other specified assets, including books and records.

As of April 1, 2017 and December 31, 2016, we did not have any borrowings outstanding under the Secured Revolving Line of Credit. At April 1, 2017, we had $19 million letters of credit outstanding and up to $209 million available for future borrowings under the Secured Revolving Line of Credit. We report our intra-period changes in our revolving credit balance on a net basis in our condensed consolidated statement of cash flows as we intend the period of the borrowings to be brief, repaying borrowed amounts within 90 days. As of April 1, 2017, we were in compliance with all required covenants in the Amended and Restated Loan Agreement.

The agreements governing our 6.75% Notes, 7.50% Notes, 7.00% Notes, 2.125% Notes and our Secured Revolving Line of Credit contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under the Secured Revolving Line of Credit to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable.

Operating Leases

We lease certain of our facilities under non-cancelable lease agreements that expire at various dates through 2028. We lease certain office equipment for terms ranging from one to five years. Total future non-cancelable lease obligations as of April 1, 2017 were $356 million, including $301 million of future lease payments and estimated operating costs related to the real estate transactions that occurred in Austin, Texas; Sunnyvale and Santa Clara, California; Markham, Ontario, Canada; and Singapore. During the second quarter of 2016, we signed an amendment to the lease agreement associated with our headquarters in Sunnyvale, California so that the lease expires in December 2017. In connection with the amendment, the lease payments were reduced for 2017. During the third quarter of 2016, we entered into a 10 year operating lease to occupy 220,000 square feet of new office space in Santa Clara, California. Base rent obligation is estimated to commence in August 2017 and the total estimate base rent payments over the life of the lease are approximately $104 million. In addition to the base rent payments we will be obligated to pay certain customary amounts for our share of operating expenses and tax obligations. We will also incur costs for capital projects on the new office space. We have the option to extend the term of the lease for two additional five-year periods.

Purchase Obligations

Our purchase obligations primarily include our obligations to purchase wafers and substrates from third parties, excluding our wafer purchase commitments to GF under the WSA. As of April 1, 2017, total non-cancelable purchase obligations were $474 million.

Obligations to GF

Our currently expected purchases from GF for the remainder of 2017 for wafer and research and development activities, and minimum purchase obligations for wafer purchases for years 2018 through 2020 are approximately $3.2 billion. We are not able to meaningfully quantify or estimate our future purchase obligations to GF beyond this amount but expect that our future purchases from GF will continue to be material.

Off-Balance Sheet Arrangements

As of April 1, 2017, we had no off-balance sheet arrangements.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts in our condensed consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our net revenue, inventories, asset impairments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of our assets and liabilities. Although actual results have historically been reasonably consistent with management’s expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

Management believes there have been no significant changes during the quarter ended April 1, 2017 to the items that we disclosed as our critical accounting estimates in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2016.

We will perform an annual goodwill impairment analysis as of the first day of the fourth quarter of 2017 pursuant to our accounting policy. However, we will also test for goodwill impairment at any time during the year if there are indicators of impairment present. If there are declines in our market capitalization, business climate or operating results, we may incur impairment charges that could be material.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to "Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended December 31, 2016.

There have not been any material changes in market risk since December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports made under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of April 1, 2017, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal controls over financial reporting during our first quarter of 2017 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Securities Class Action

On January 15, 2014, a class action lawsuit captioned *Hatamian v. AMD, et al.*, C.A. No. 3:14-cv-00226 (the Hatamian Lawsuit) was filed against us in the United States District Court for the Northern District of California. The complaint purports to assert claims against us and certain individual officers for alleged violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 of the Exchange Act. The plaintiffs seek to represent a proposed class of all persons who purchased or otherwise acquired our common stock during the period April 4, 2011 through October 18, 2012. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by us and the individual officers regarding our 32nm technology and "Llano" product, which statements and omissions, the plaintiffs claim, allegedly operated to artificially inflate the price paid for our common stock during the period. The complaint seeks unspecified compensatory damages, attorneys' fees and costs. On July 7, 2014, we filed a motion to dismiss plaintiffs' claims. On March 31, 2015, the Court denied the motion to dismiss. On May 14, 2015, we filed our answer to plaintiffs' corrected amended complaint. On September 4, 2015, plaintiffs filed their motion for class certification, and on March 16, 2016, the Court granted plaintiffs' motion. A court-ordered mediation held in January 2016 did not result in a settlement of the lawsuit. The discovery process has concluded.

Based upon information presently known to management, we believe that the potential liability, if any, will not have a material adverse effect on our financial condition, cash flows or results of operations.

Shareholder Derivative Lawsuits

On March 20, 2014, a purported shareholder derivative lawsuit captioned *Wessels v. Read, et al.*, Case No. 1:14 cv-262486 (Wessels) was filed against us (as a nominal defendant only) and certain of our directors and officers in the Santa Clara County Superior Court of the State of California. The complaint purports to assert claims against us and certain individual directors and officers for breach of fiduciary duty, waste of corporate assets and unjust enrichment. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by us and the individual directors and officers regarding our 32nm technology and "Llano" product, which statements and omissions, the plaintiffs claim, allegedly operated to artificially inflate the price paid for our common stock during the period. On April 27, 2015, a similar purported shareholder derivative lawsuit captioned *Christopher Hamilton and David Hamilton v. Barnes, et al.*, Case No. 5:15-cv-01890 (Hamilton) was filed against us (as a nominal defendant only) and certain of our directors and officers in the United States District Court for the Northern District of California. The case was transferred to the judge handling the Hatamian Lawsuit and is now Case No. 4:15-cv-01890.

On September 29, 2015, a similar purported shareholder derivative lawsuit captioned *Jake Ha v Caldwell, et al.,* Case No. 3:15-cv-04485 (Ha) was filed against us (as a nominal defendant only) and certain of our directors and officers in the United States District Court for the Northern District of California. The lawsuit also seeks a court order voiding the stockholder vote on our 2015 proxy. The case was transferred to the judge handling the Hatamian Lawsuit and is now Case No. 4:15-cv-04485. The Wessels, Hamilton and Ha shareholder derivative lawsuits are currently stayed.

Based upon information presently known to management, we believe that the potential liability, if any, will not have a material adverse effect on our financial condition, cash flows or results of operations.

ZiiLabs Litigation

On December 16, 2016, a patent lawsuit captioned *ZiiLabs v. AMD*, C.A. No. 2:16-cv-1418 in the United States District Court for Eastern District of Texas (the "ZiiLabs Lawsuit") was filed against us in the United States District Court for the Eastern District of Texas. The complaint alleges that we infringed four patents related generally to graphics processors and memory controllers. The complaint seeks damages, interest, and attorneys' fees. ZiiLabs filed several similar lawsuits against other companies on the same day. On the same date, ZiiLabs also filed a complaint with the United States International Trade Commission ("USITC") pursuant to Section 337 of the Tariff Act of 1930 against us and several other companies asserting the same four patents ("USITC Proceeding"). The complaint seeks a limited exclusion order barring the importation of certain products that contain AMD memory controllers and graphics processors. Some of AMD's customers are also named respondents. On January 18, 2017, the USITC announced that it would institute the investigation, entitled 337-TA-1037, *In the Matter of Certain Graphics Processors, DDR Memory Controllers, and Products Containing the Same*. Discovery is ongoing, and the target date for the USITC to issue a final determination is June 25, 2018. The Ziilabs Lawsuit has been stayed pending completion of the USITC Proceeding.

Based upon information presently known to management, we believe that the potential liability, if any, will not have a material adverse effect on our financial condition, cash flows or results of operations.

ITEM 1A. RISK FACTORS

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

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

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

Intel exerts substantial influence over computer manufacturers and their channels of distribution through various brand and other marketing programs. As a result of Intel's position in the microprocessor market, Intel has been able to control x86 microprocessor and computer system standards and benchmarks and to dictate the type of products the microprocessor market requires of us. Intel also dominates the computer system platform, which includes core logic chipsets, graphics chips, motherboards and other components necessary to assemble a computer system. Additionally, Intel is able to drive de facto standards and specifications for x86 microprocessors that could cause us and other companies to have delayed access to such standards.

Intel has substantially greater financial resources than we do and accordingly spends substantially greater amounts on marketing and research and development than we do. We expect Intel to maintain its market position and to continue to invest heavily in marketing, research and development, new manufacturing facilities and other technology companies. To the extent Intel manufactures a significantly larger portion of its microprocessor products using more advanced process technologies, or introduces competitive new products into the market before we do, we may be more vulnerable to Intel's aggressive marketing and pricing strategies for microprocessor products. For example, Intel has introduced microprocessors for low-cost notebooks, similar to products that we offer for low-cost notebooks

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

- business practices, including rebating and allocation strategies and pricing actions, designed to limit our market share and margins;
- product mix and introduction schedules;
- product bundling, marketing and merchandising strategies;
- exclusivity payments to its current and potential customers and channel partners;
- de facto control over industry standards, and heavy influence on PC manufacturers and other PC industry participants, including motherboard, memory, chipset and basic input/output system, or BIOS, suppliers and software companies as well as the graphics interface for Intel platforms; and
- marketing and advertising expenditures in support of positioning the Intel brand over the brand of its original equipment manufacturer OEM customers.

Intel could also take actions that place our discrete GPUs at a competitive disadvantage, including giving one or more of our competitors in the graphics market, such as Nvidia Corporation, preferential access to its proprietary graphics interface or other useful information. Intel's position in the microprocessor market and integrated graphics chipset market, its introduction of competitive new products, its existing relationships with top-tier OEMs and its aggressive marketing and pricing strategies could result in lower unit sales and a lower average selling price for our products, which could have a material adverse effect on us.

We have a wafer supply agreement with GF with obligations to purchase all of our microprocessor and APU product requirements, and a certain portion of our GPU product requirements from GF, with limited exceptions. If GF is not able to satisfy our manufacturing requirements, our business could be adversely impacted.

The WSA governs the terms by which we purchase products manufactured by GF. The WSA is in place until 2024. Pursuant to the WSA, we are required to purchase all of our microprocessor and APU product requirements, and a portion of our GPU

product requirements from GF with limited exceptions. If GF is unable to achieve anticipated manufacturing yields, remain competitive using or implementing advanced leading-edge process technologies needed to manufacture future generations of our products, manufacture our products on a timely basis at competitive prices or meet our capacity requirements, then we may experience delays in product launches, supply shortages for certain products or increased costs and our business could be materially adversely affected. Moreover, if GF is unable to satisfy our manufacturing requirements and we are unable to secure from GF additional exceptions allowing us to contract with another wafer foundry to satisfy those requirements, then our business could be materially adversely affected.

In August 2016, we entered into the sixth amendment to the WSA (Sixth Amendment) pursuant to which we agreed to certain annual wafer purchase targets through 2020, and if we fail to meet the agreed wafer purchase target during a calendar year we will be required to pay to GF a portion of the difference between our actual wafer purchases and the applicable annual purchase target. If our actual wafer requirements are less than the number of wafers required to meet the applicable annual wafer purchase target, we could have excess inventory or higher inventory unit costs, both of which may adversely impact our gross margin and our results of operations.

In addition, GF has relied on Mubadala Technology Investments LLC (Mubadala Tech) for its funding needs. If Mubadala Tech fails to adequately fund GF on a timely basis, or at all, GF’s ability to manufacture products for us could be materially adversely affected.

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

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

We cannot guarantee that these manufacturers or our other third-party manufacturing suppliers will be able to meet our near-term or long-term manufacturing requirements. If we experience supply constraints from our third-party manufacturing suppliers, we may be required to allocate the affected products amongst our customers, which could have a material adverse effect on our relationships with these customers and on our financial condition. In addition, if we are unable to meet customer demand due to fluctuating or late supply from our manufacturing suppliers, it could result in lost sales and have a material adverse effect on our business.

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

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

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

In April 2016, we consummated a transaction with Tongfu Fujitsu Microelectronics Co., Ltd. (formerly, Nantong Fujitsu Microelectronics Co., Ltd.) (TFME), under which we sold to TFME 85% of the equity interests in our ATMP facilities consisting of Suzhou TF-AMD Semiconductor Co., Ltd. (formerly AMD Technologies (China) Co., Ltd.) and TF-AMD Microelectronics

(Penang) Sdn. Bhd. (formerly Advanced Micro Devices Export Sdn. Bhd.) thereby forming two joint ventures (collectively, the JVs). The majority of our ATMP services will be provided by the JVs and there is no guarantee that the JVs will be able to fulfill our long-term ATMP requirements. If we are unable to meet customer demand due to fluctuating or late supply from the JVs, it could result in lost sales and have a material adverse effect on our business.

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

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

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

Our success depends to a significant extent on the development, qualification, implementation and acceptance of new product designs and improvements that provide value to our customers. Our ability to develop, qualify and distribute, and have manufactured, new products and related technologies to meet evolving industry requirements, at prices acceptable to our customers and on a timely basis are significant factors in determining our competitiveness in our target markets. For example, a large portion of our Computing and Graphics revenue is focused on consumer desktop PC and notebook. While overall growth in Computing and Graphics is stabilizing, the areas within Computing and Graphics are changing. Our ability to take advantage of the opportunities within the areas of Computing and Graphics is based on foreseeing those changes and making timely investments in the form factors that serve those areas. As consumers adopt new form factors, have new product feature preferences or have different requirements than those consumers in the PC market, PC sales could be negatively impacted, which could adversely impact our business. Our product roadmap includes AMD Ryzen™ processors based on our new x86 processor core codenamed “Zen” to help drive our re-entry into high-performance and server computing. We cannot assure you that our efforts to execute our product roadmap and address markets beyond our core PC market will result in innovative products and technologies that provide value to our customers. If we fail to or are delayed in developing, qualifying or shipping new products or technologies that provide value to our customers and address these new trends or if we fail to predict which new form factors consumers will adopt and adjust our business accordingly, we may lose competitive positioning, which could cause us to lose market share and require us to discount the selling prices of our products. Although we make substantial investments in research and development, we cannot be certain that we will be able to develop, obtain or successfully implement new products and technologies on a timely basis or that they will be well-received by our customers. Moreover, our investments in new products and technologies involve certain risks and uncertainties and could disrupt our ongoing business. New investments may not generate sufficient revenue, may incur unanticipated liabilities and may divert our limited resources and distract management from our current operations. We cannot be certain that our ongoing investments in new products and technologies will be successful, will meet our expectations and will not adversely affect our reputation, financial condition and operating results.

Delays in developing, qualifying or shipping new products can also cause us to miss our customers’ product design windows or, in some cases, breach contractual obligations or cause us to pay penalties. If our customers do not include our products in the initial design of their computer systems or products, they will typically not use our products in their systems or products until at least the next design configuration. The process of being qualified for inclusion in a customer’s system or product can be lengthy and could cause us to further miss a cycle in the demand of end-users, which also could result in a loss of market share and harm our business. In addition, market demand requires that products incorporate new features and performance standards on an industry-wide basis. Over the life of a specific product, the sale price is typically reduced over time. The introduction of new products and enhancements to existing products is necessary to maintain the overall corporate average selling price. If we are unable to introduce new products with sufficiently high sale prices or to increase unit sales volumes capable of offsetting the reductions in the sale prices of existing products over time, our business could be materially adversely affected.

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

Our ability to fund research and development expenditures depends on generating sufficient revenue and cash flow from operations and the availability of external financing, if necessary. Our research and development expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and may decrease our cash balances. If new competitors, technological advances by existing competitors or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. If we are required to invest significantly greater resources than anticipated in research and development efforts without an increase in revenue, our operating results could decline.

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

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

Collectively, Sony Corporation, Microsoft Corporation and HP Inc. accounted for approximately 44% of our consolidated net revenue for the quarter ended April 1, 2017. Sales to Sony and Microsoft consisted of products from our Enterprise, Embedded and Semi-Custom segment and sales to HP Inc. consisted primarily of products from our Computing and Graphics segment. We expect that a small number of customers will continue to account for a substantial part of revenue of our businesses in the future. If one of our key customers decides to stop buying our products, or if one of these customers materially reduces or reorganizes its operations or its demand for our products, our business would be materially adversely affected.

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

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

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

Uncertain global economic conditions have in the past and may in the future adversely impact our business, including, without limitation, a slowdown in the Chinese economy, one of the largest global markets for desktop and notebook PCs. Uncertainty in the worldwide economic environment may negatively impact consumer confidence and spending causing our customers to postpone purchases. In addition, during challenging economic times, our current or potential future customers may experience cash flow problems and as a result may modify, delay or cancel plans to purchase our products. Additionally, if our customers are not successful in generating sufficient revenue or are unable to secure financing, they may not be able to pay, or may delay payment of, accounts receivable that they owe us. The risk related to our customers' potentially defaulting on or delaying payments to us is increased because we expect that a small number of customers will continue to account for a substantial part of our revenue. Any inability of our current or potential future customers to pay us for our products may adversely affect our earnings and cash flow. Moreover, our key suppliers may reduce their output or become insolvent, thereby adversely impacting our ability to manufacture our products. In addition, uncertain economic conditions may make it more difficult for us to raise funds through borrowings or private or public sales of debt or equity securities.

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

The markets in which our products are sold are very competitive and delivering the latest and best products to market on a timely basis is critical to achieving revenue growth. We believe that the main factors that determine our product competitiveness are timely product introductions, product quality, product features and capabilities (including enabling state-of-the-art visual and virtual reality experience), energy efficiency (including power consumption and battery life), reliability, processor clock speed, performance, size (or form factor), selling price, cost, adherence to industry standards (and the creation of open industry standards), level of integration, software and hardware compatibility, security and stability, brand recognition and availability.

We expect that competition will continue to be intense due to rapid technological changes, frequent product introductions by our competitors or new competitors of products that may provide better performance/experience or may include additional features that render our products uncompetitive. We may also face aggressive pricing by competitors, especially during challenging economic times. Some competitors may have greater access or rights to complementary technologies, including interface, processor and memory technical information. For instance, with the introduction of our APU products and other competing solutions with integrated graphics, we believe that demand for additional discrete graphics chips and cards may decrease in the future due to improvements in the quality and performance of integrated graphics. In addition, our competitors have significant marketing and sales resources which could increase the competitive environment in such a declining market, leading to lower prices and margins. If competitors introduce competitive new products into the market before us, demand for our products could be adversely impacted and our business could be adversely affected.

In addition, we are entering markets with current and new competitors who may be able to adapt more quickly to customer requirements and emerging technologies. We cannot assure you that we will be able to compete successfully against current or new competitors who may have stronger positions in these new markets or superior ability to anticipate customer requirements and emerging industry trends. We may face delays or disruptions in research and development efforts, or we may be required to invest significantly greater resources in research and development than anticipated.

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

Our ability to make payments on and to refinance our debt will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter, and is subject to prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We cannot assure you that we will be able to generate cash flow or that we will be able to borrow funds, including under our secured revolving line of credit for a principal amount up to $500 million (our Secured Revolving Line of Credit), in amounts sufficient to enable us to service our debt or to meet our working capital requirements. If we are not able to generate sufficient cash flow from operations or to borrow sufficient funds to service our debt, we may be required to sell assets or equity, reduce expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or equity, borrow funds under our Secured Revolving Line of Credit or borrow more funds on terms acceptable to us, if at all.

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

Our total debt as of April 1, 2017 was $1.41 billion, net of unamortized debt issuance costs and unamortized debt discount associated with the 2.125% Notes. Our large indebtedness may:

- make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions and general corporate and other purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- place us at a competitive disadvantage compared to our competitors with relatively less debt; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

We enter into sale and factoring arrangements from time to time with respect to certain of our accounts receivables, which arrangements are non-recourse to us in the event that an account debtor fails to pay for credit-related reasons, and are not included in our indebtedness. We could become obligated to repurchase such accounts receivables or otherwise incur liability to the counterparties under these arrangements under certain circumstances, such as where a commercial dispute arises between us and an account debtor.

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

The indentures governing our 6.75% Senior Notes due 2019 (6.75% Notes), 7.50% Senior Notes due 2022 (7.50% Notes), 7.00% Senior Notes due 2024 (7.00% Notes) and 2.125% Notes contain various covenants which limit our ability to, among other things:

- incur additional indebtedness;
- pay dividends and make other restricted payments;
- make certain investments, including investments in our unrestricted subsidiaries;
- create or permit certain liens;
- create or permit restrictions on the ability of certain restricted subsidiaries to pay dividends or make other distributions to us;
- use the proceeds from sales of assets;
- enter into certain types of transactions with affiliates; and
- consolidate or merge or sell our assets as an entirety or substantially as an entirety.

In addition, the Amended and Restated Loan Agreement restricts our ability to make cash payments on the notes to the extent that, on the date of such payment, a default or event of default exists under the Amended and Restated Loan Agreement, or we have not had at all times during the 45 consecutive days immediately preceding such payment, or would not have, on a pro forma basis after giving effect to such payment, Excess Cash Availability (as defined in the Amended and Restated Loan Agreement) of at least $50 million. Any of our future debt agreements may contain similar restrictions. If we fail to make any cash payment on a series of notes when required by the applicable indenture, it would constitute an event of default under such indenture, which, in turn, would constitute an event of default under the agreements governing our other indebtedness.

Our Secured Revolving Line of Credit also contains various covenants which limit our ability to, among other things, make certain investments, merge or consolidate with other entities and permit certain subsidiaries from incurring indebtedness. In addition, further restrictions apply when certain payment conditions (the Payment Conditions) are not satisfied with respect to specified transactions, events or payments. The Payment Conditions include that (i) no default or event of default exists and (ii) at all times during the 45 consecutive days immediately prior to such transaction, event or payment and on a pro forma basis after giving effect to such transaction, event or payment and any incurrence or repayment of indebtedness in connection therewith, the Loan Parties' Excess Cash Availability (as defined in the Amended and Restated Loan Agreement) available cash is greater than the greater of 10% of the total commitment amount and $50 million. If Payment Conditions are not satisfied under certain circumstances, we will become subject to various additional covenants which limit our ability to, among other things:

- create liens upon any of the Loan Parties' property (other than customary permitted liens and liens in respect of up to $1.5 billion of secured credit facilities debt (which amount includes our Secured Revolving Line of Credit));
- declare or make cash distributions;
- create any encumbrance on the ability of a subsidiary to make any upstream payments;
- make asset dispositions other than certain ordinary course dispositions and certain supply chain finance arrangements;
- make certain loans, make payments with respect to subordinated debt or certain borrowed money prior to its due date; and
- enter into any non-arm's-length transaction with an affiliate (except for certain customary exceptions).

The agreements governing our notes and our Secured Revolving Line of Credit contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness or any failure to repay debt when due in an amount in excess of $50 million would cause a cross default under the indentures (to the extent such default would result in the acceleration of such indebtedness) governing our 6.75% Notes, 7.50% Notes, 7.00% Notes and 2.125% Notes, as well as under our Secured Revolving Line of Credit. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under our Secured Revolving Line of Credit to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable. If the note holders or the trustee under the indentures governing our 6.75% Notes, 7.50% Notes, 7.00% Notes or 2.125% Notes or the lenders under our Secured Revolving Line of Credit accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

Our issuance to West Coast Hitech L.P. (WCH) of warrants to purchase 75 million shares of our common stock, if and when exercised, will dilute the ownership interests of our existing stockholders, and the conversion of the 2.125% Notes may dilute the ownership interest of our existing stockholders, or may otherwise depress the price of our common stock.

In consideration for the limited waiver and rights under the Sixth Amendment, we issued warrants to WCH to purchase 75 million shares of our common stock. Any issuance by us of common shares to WCH upon exercise of the warrants will dilute the ownership interests of our existing stockholders. Any sales in the public market by WCH of any shares owned by WCH could adversely affect prevailing market prices of our common stock, and the anticipated exercise by WCH of the warrants could depress the price of our common stock.

Also, the conversion of some or all of the 2.125% Notes may dilute the ownership interests of our existing stockholders. During the second quarter of 2017, all our 2.125% Notes are convertible at the option of their holders prior to their scheduled term. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the 2.125% Notes may encourage short selling by market participants because the conversion thereof could be used to satisfy short positions, or the anticipated conversion of the 2.125% Notes into cash and/or shares of our common stock could depress the price of our common stock.

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

We typically sell our products pursuant to individual purchase orders. We generally do not have long-term supply arrangements with our customers or minimum purchase requirements except that orders generally must be for standard pack quantities. Generally, our customers may cancel orders for standard products more than 30 days prior to shipment without incurring significant fees. We base our inventory levels in part on customers’ estimates of demand for their products, which may not accurately predict the quantity or type of our products that our customers will want in the future or ultimately end up purchasing. Our ability to forecast demand is even further complicated when our products are sold indirectly through downstream channel distributors and customers, as our forecasts for demand are then based on estimates provided by multiple parties throughout the downstream channel.

PC and consumer markets are characterized by short product lifecycles, which can lead to rapid obsolescence and price erosion. In addition, our customers may change their inventory practices on short notice for any reason. We may build inventories during periods of anticipated growth, and the cancellation or deferral of product orders or overproduction due to failure of anticipated orders to materialize, could result in excess or obsolete inventory, which could result in write-downs of inventory and an adverse effect on gross margins.

Factors that may result in excess or obsolete inventory, which could result in write-downs of the value of our inventory, a reduction in the average selling price or a reduction in our gross margin include:

- a sudden or significant decrease in demand for our products;
- a production or design defect in our products;
- a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements;
- a failure to accurately estimate customer demand for our products, including for our older products as our new products are introduced; or
- our competitors introducing new products or taking aggressive pricing actions.

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

Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. A large portion of our Computing and Graphics revenue is focused on the consumer desktop PC and notebook segments, which have experienced and continue to experience a decline driven by, among other factors, the adoption of smaller and other form factors, increased competition and changes in replacement cycles. The success of our semi-custom SoC products is dependent on securing customers for our semi-custom design pipeline and consumer market conditions, including the success of the new Sony PlayStation® 4 and Microsoft Xbox One game console systems worldwide.

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

In the design and development of new and enhanced products, we rely on third-party intellectual property such as software development tools and hardware testing tools. Furthermore, certain product features may rely on intellectual property acquired from third parties. The design requirements necessary to meet customer demand for more features and greater functionality from semiconductor products may exceed the capabilities of the third-party intellectual property or development tools available to us.

If the third-party intellectual property that we use becomes unavailable, is not available with required functionality and performance in the time frame or price point needed for our new products or fails to produce designs that meet customer demands, our business could be materially adversely affected.

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

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

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

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

Our reliance on third-party distributors and AIB partners subjects us to certain risks.

We market and sell our products directly and through third-party distributors and AIB partners pursuant to agreements that can generally be terminated for convenience by either party upon prior notice to the other party. These agreements are non-exclusive and permit both our distributors and AIBs to offer our competitors' products. We are dependent on our distributors and AIBs to supplement our direct marketing and sales efforts. If any significant distributor or AIB or a substantial number of our distributors or AIBs terminated their relationship with us, decided to market our competitors' products over our products or decided not to market our products at all, our ability to bring our products to market would be impacted and we would be materially adversely affected. If we are unable to manage the risks related to the use of our third-party distributors and AIB partners or offer appropriate incentives to focus them on the sale of our products, our business could be materially adversely affected.

Additionally, distributors and AIBs typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions, as well as provide return rights for any product that we have removed from our price book and that is not more than 12 months older than the manufacturing code date. Some agreements with our distributors also contain standard stock rotation provisions permitting limited levels of product returns. Our agreements with AIBs protect their inventory of our products against price reductions. We defer the gross margins on our sales to distributors and AIBs, resulting from both our deferral of revenue and related product costs, until the applicable products are re-sold by the distributors or the AIBs. However, in the event of a significant decline in the price of our products, the price protection rights we offer would materially adversely affect us because our revenue and corresponding gross margin would decline.

Our inability to continue to attract and retain qualified personnel may hinder our business.

Much of our future success depends upon the continued service of numerous qualified engineering, marketing, sales and executive personnel. Competition for highly skilled employees and executives in the technology industry is intense. If we are not able to continue to attract, train and retain qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be materially adversely affected. To help attract, retain and motivate qualified personnel, we use share-based incentive awards such as employee stock options and non-vested share units (restricted stock units). If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate personnel could be weakened, which could harm our results of operations. Also, if the value of our stock awards increases substantially, this could potentially create great personal wealth for our employees and affect our ability to retain these employees. In addition, our current and any future restructuring plans may adversely impact our ability to attract and retain key employees.

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

Upon a change of control, we will be required to offer to repurchase all of our 6.75% Notes, 7.50% Notes, 7.00% Notes and 2.125% Notes then outstanding at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the repurchase date. In addition, a change of control would be an event of default under our Secured Revolving Line of Credit. As of April 1, 2017, no borrowings were outstanding under the Secured Revolving Line of Credit, $19 million related to letters of credit under the Secured Revolving Line of Credit remained outstanding and $1.73 billion principal was outstanding under our notes. Future debt agreements may contain similar provisions. We may not have the financial resources to repurchase our outstanding notes and prepay all of our outstanding obligations under our Secured Revolving Line of Credit.

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

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

- substantial declines in average selling prices;
- the cyclical nature of supply and demand imbalances in the semiconductor industry;
- a decline in demand for end-user products (such as PCs) that incorporate our products; and
- excess inventory levels.

Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. For example, a large portion of our Computing and Graphics revenue is focused on consumer desktop PC and notebook segments. While the overall growth in these segments is stabilizing, the sub-segments of these markets are changing. Our ability to take advantage of the growth in these sub-segments is based on foreseeing those changes and making timely investments in the form factors that serve those growing sub-segments.

Global economic uncertainty and weakness have also impacted the semiconductor market as consumers and businesses have deferred purchases, which negatively impacted demand for our products. Our financial performance has been, and may in the future be, negatively affected by these downturns.

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

Acquisitions, divestitures and/or joint ventures could disrupt our business, harm our financial condition and operating results or dilute, or adversely affect the price of, our common stock.

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

Furthermore, we may not achieve the objectives and expectations with respect to future operations, products and services. On April 2016, we consummated the transaction with TFME, under which we sold to TFME 85% of the equity interests in our JVs. Going forward, we expect the majority of our ATMP services will be provided by the JVs and there is no guarantee that the JVs will be able to fulfill our long-term ATMP requirements. If we are unable to meet customer demand due to fluctuating or late supply from the JVs, it could result in lost sales and have a material adverse effect on our business.

In addition, we may not realize the anticipated benefits from any new business initiatives. For example, in connection with our strategy of licensing portions of our intellectual property portfolio, in the first quarter of 2016, we entered into a joint venture with Tianjin Haiguang Advanced Technology Investment Co., Ltd. (THATIC), comprised of two separate legal entities, China JV1 and China JV2 (collectively, the THATIC JV). The primary purpose of the THATIC JV is to support our expansion into the server and workstation product market in China. We also licensed certain of our intellectual property (Licensed IP) to the THATIC JV for license fees payable over several years contingent upon achievement of certain milestones. We also expect to receive a royalty based on the sales of the THATIC JV's products to be developed on the basis of such Licensed IP. We may not realize the expected benefits from this joint venture, including the THATIC JV's expected future performance, the receipt of any future milestone payments from the Licensed IP, and the receipt of any royalty payments from future sales of products by the THATIC JV.

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

We rely upon a number of internal business processes and information systems to support key business functions, and the efficient operation of these processes and systems is critical to our business. Our business processes and information systems need to be sufficiently scalable to support the growth of our business and may require modifications or upgrades that expose us to a number of operational risks. As such, our information systems will continually evolve and adapt in order to meet our business needs. These changes may be costly and disruptive to our operations and could impose substantial demands on management time.

These changes may also require changes in our information systems, modification of internal control procedures and significant training of employees and third-party resources. We continuously work on simplifying our information systems and applications through consolidation and standardization efforts. There can be no assurance that our business and operations will not experience any disruption in connection with this transition. Our information technology systems, and those of third-party information technology providers or business partners, may also be vulnerable to damage or disruption caused by circumstances beyond our control including catastrophic events, power anomalies or outages, natural disasters, viruses or malware, cyber-attacks, data breaches and computer system or network failures, exposing us to significant cost, reputational harm and disruption or damage to our business.

In addition, as our IT environment continues to evolve, we are embracing new ways of communicating and sharing data internally and externally with customers and partners using methods such as mobility and the cloud that can promote business efficiency. However, these practices can also result in a more distributed IT environment, making it more difficult for us to maintain visibility and control over internal and external users, and meet scalability and administrative requirements. If our security controls cannot keep pace with the speed of these changes, or if we are not able to meet regulatory and compliance requirements, our business would be materially adversely affected.

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

In the ordinary course of our business, we maintain sensitive data on our networks, including our intellectual property and proprietary or confidential business information relating to our business and that of our customers and business partners. The secure maintenance of this information is critical to our business and reputation. We believe that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks, hacking and phishing attacks, and other attempts to gain unauthorized access. These threats can come from a variety of sources, all ranging in sophistication from an individual hacker to a state-sponsored attack. Cyber threats may be generic, or they may be custom-crafted against our information systems. Over the past year, cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. Cyber-attacks could also cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business. In addition, we could be subject to potential claims for damages resulting from loss of data from alleged vulnerabilities in the security of our processors. We also maintain confidential and personally identifiable information about our workers. The integrity and protection of our worker data is critical to our business and our workers have a high expectation that we will adequately protect their personal information. We anticipate an increase in costs related to:

- implementing new data security procedures, including costs related to upgrading computer and network security;
- training workers to maintain and monitor our security measures;
- remediating any data security breach and addressing the related litigation; and
- mitigating reputational harm.

We often partner with third-party providers for certain worker services and we may provide certain limited worker information to such third parties based on the scope of the services provided to us. However, if these third parties fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, our workers' data may be improperly accessed, used or disclosed. A breach of data privacy is likely to cause significant disruption of our business operations. Failure to adequately maintain and update our security systems could materially adversely affect our operations and our ability to maintain worker confidence. Failure to prevent unauthorized access to electronic and other confidential information and data breaches could materially adversely affect our financial condition, our competitive position and operating results.

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

A large portion of our quarterly sales have historically been made in the last month of the quarter. This uneven sales pattern makes prediction of revenue for each financial period difficult and increases the risk of unanticipated variations in quarterly results and financial condition. In addition, our operating results tend to vary seasonally with the markets in which our products are sold. For example, historically, first quarter PC product sales are generally lower than fourth quarter sales. In addition, with respect to our semi-custom SoC products for game consoles, we expect sales patterns to follow the seasonal trends of a consumer business with sales in the first half of the year being lower than sales in the second half of the year. Many of the factors that create and affect quarterly and seasonal trends are beyond our control.

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

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

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

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

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

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

Products as complex as those we offer may contain defects or failures when first introduced or when new versions or enhancements to existing products are released. We cannot assure you that, despite our testing procedures, errors will not be found in new products or releases after commencement of commercial shipments in the future, which could result in loss of or delay in

market acceptance of our products, material recall and replacement costs, delay in recognition or loss of revenue, writing down the inventory of defective products, the diversion of the attention of our engineering personnel from product development efforts, defending against litigation related to defective products or related property damage or personal injury and damage to our reputation in the industry and could adversely affect our relationships with our customers. In addition, we may have difficulty identifying the end customers of the defective products in the field. As a result, we could incur substantial costs to implement modifications to correct defects. Any of these problems could materially adversely affect our business.

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

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

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

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

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

We may incur future impairments of goodwill.

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

Our stock price is subject to volatility.

Our stock price has experienced price and volume fluctuations and could be subject to wide fluctuations in the future. The trading price of our stock may fluctuate widely due to various factors including, actual or anticipated fluctuations in our financial conditions and operating results, changes in financial estimates by us or securities analysts, changes in our capital structure, including issuance of additional debt or equity to the public, interest rate changes, and broad market and industry fluctuations. Stock price fluctuations could impact the value of our equity compensation, which could affect our ability to recruit and retain employees. In addition, volatility in our stock price could adversely affect our business and financing opportunities.

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

We maintain operations around the world, including in the United States, Canada, Europe and Asia. We rely on third-party wafer foundries in Europe and Asia. Nearly all product assembly and final testing of our products is performed at manufacturing facilities, operated by third-party manufacturing facilities, in China, Malaysia and Taiwan. We also have international sales operations. International sales, as a percent of net revenue, were 76% in the first quarter of 2017. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future.

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

- expropriation;
- changes in a specific country's or region's political or economic conditions;
- changes in tax laws, trade protection measures and import or export licensing requirements;
- difficulties in protecting our intellectual property;
- difficulties in managing staffing and exposure to different employment practices and labor laws;
- changes in foreign currency exchange rates;
- restrictions on transfers of funds and other assets of our subsidiaries between jurisdictions;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities;
- loss or modification of exemptions for taxes and tariffs; and
- compliance with U.S. laws and regulations related to international operations, including export control and economic sanctions laws and regulations and the Foreign Corrupt Practices Act.

In addition, our worldwide operations (or those of our business partners) could be subject to natural disasters such as earthquakes, tsunamis, flooding, typhoons and volcanic eruptions that disrupt manufacturing or other operations. For example, our Sunnyvale operations are located near major earthquake fault lines in California. Any conflict or uncertainty in the countries in which we operate, including public health issues (for example, an outbreak of a contagious disease such as Avian Influenza, measles or Ebola), safety issues, natural disasters, fire, disruptions of service from utilities, nuclear power plant accidents or general economic or political factors. For example, the United Kingdom's recent referendum, commonly referred to as "Brexit," has created economic and political uncertainty in the European Union. Also the new U.S. administration has called for changes to domestic and foreign policy. We cannot predict the impact, if any, of the policies adopted by the new administration will have on our business. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes. Any of the above risks, should they occur, could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, longer payment cycles, increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business.

Worldwide political conditions may adversely affect demand for our products.

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

Unfavorable currency exchange rate fluctuations could adversely affect us.

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

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

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

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

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

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

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

From time to time, we are a defendant or plaintiff in various legal actions. For example, on January 15, 2014, March 20, 2014, April 27, 2015 and September 29, 2015, complaints were filed against us seeking damages for alleged securities law violations which are described in Note 12 of our consolidated financial statements. Our products are purchased by and/or used by consumers, which could increase our exposure to consumer actions such as product liability claims and consumer class action claims. On occasion, we receive claims that individuals were allegedly exposed to substances used in our former semiconductor wafer manufacturing facilities and that this alleged exposure caused harm. Litigation can involve complex factual and legal questions, and its outcome is uncertain. Any claim that is successfully asserted against us, including the claims filed against us on January 15, 2014, March 20, 2014, April 27, 2015 and September 29, 2015, may result in the payment of damages that could be material to our business.

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

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

Our business is subject to potential tax liabilities.

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

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

Our operations and properties have in the past been and continue to be subject to various United States and foreign laws and regulations, including those relating to materials used in our products and manufacturing processes, discharge of pollutants into the environment, the treatment, transport, storage and disposal of solid and hazardous wastes and remediation of contamination. These laws and regulations require our suppliers to obtain permits for operations making our products, including the discharge of air pollutants and wastewater. Although our management systems are designed to oversee our suppliers' compliance, we cannot assure you that our suppliers have been or will be at all times in complete compliance with such laws, regulations and permits. If our suppliers violate or fail to comply with any of them, a range of consequences could result, including fines, suspension of production, alteration of manufacturing processes, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. Such non-compliance from our manufacturing suppliers could result in disruptions in supply, higher sourcing costs, and/or reputational damage for us.

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union (EU) and China are two among a growing number of jurisdictions that have enacted restrictions on the use of lead and other materials in electronic products. These regulations affect semiconductor devices and packaging. As regulations restricting materials in electronic products continue to increase around the world, there is a risk that the cost, quality and manufacturing yields of products that are subject to these restrictions, may be less favorable compared to products that are not subject to such restrictions, or that the transition to compliant products may not meet customer roadmaps, or produce sudden changes in demand, which may result in excess inventory. A number of jurisdictions including the EU, Australia and China are developing or have finalized market entry or public procurement regulations for computers and servers based on ENERGY STAR specifications as well as additional energy consumption limits. There is the potential for certain of our products being excluded from some of these markets which could materially adversely affect us.

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

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted disclosure and reporting requirements for companies that use "conflict" minerals originating from the Democratic Republic of Congo or adjoining countries. We continue to incur additional costs associated with complying with these requirements, such as costs related to developing internal controls for the due diligence process, determining the source of any conflict minerals used in our products, auditing the process and reporting to our customers and the SEC. In addition to the SEC regulation, the European Union, China and other jurisdictions are developing new policies focused on conflict minerals that may impact and increase the cost of our compliance program. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of the subject minerals. Moreover, we are likely to encounter challenges to satisfy those customers who require that all of the components of our products are certified as "conflict free." If we cannot satisfy these customers, they may choose a competitor's products.

The U.S. federal government has issued new policies for federal procurement focused on eradicating the practice of forced labor and human trafficking. In addition, the United Kingdom and the State of California have issued laws that require us to disclose our policy and practices for identifying and eliminating forced labor and human trafficking in our supply chain. Several customers as well as the Electronic Industry Citizenship Coalition (EICC) have also issued expectations to eliminate these practices that may impact us. While we have a policy and management systems to identify and avoid these practices in our supply chain, we cannot guarantee that our suppliers will always be in conformance to these laws and expectations. We may face enforcement liability and reputational challenges if we are unable to sufficiently meet these expectations. Moreover, we are likely to encounter challenges with customers if we cannot satisfy their forced and trafficked labor polices and they may choose a competitor's products.

ITEM 6. EXHIBITS

10.1*	Advanced Micro Devices, Inc. Outside Director Equity Compensation Policy, amended and restated as of April 26, 2017.
10.2*	Form of Stock Option Agreement for Senior Vice Presidents and Above under the Advanced Micro Devices, Inc. 2004 Equity Incentive Plan.
10.3	Fifth Amendment to the Amended and Restated Loan and Security Agreement, dated as of March 21, 2017, by and among Advanced Micro Devices, Inc., a Delaware corporation, AMD International Sales & Service, Ltd., a Delaware corporation, ATI Technologies ULC, an Alberta unlimited liability corporation, the financial institutions party thereto from time to time as lenders and Bank of America, N.A., a national banking association, as agent for the lenders, filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated March 21, 2017, is hereby incorporated by reference.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Management contracts and compensatory plans or arrangements.

SIGNATURE

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

ADVANCED MICRO DEVICES, INC.

May 8, 2017	By:	*/s/ Devinder Kumar*
	Name:	Devinder Kumar
	Title:	Senior Vice President, Chief Financial Officer and Treasurer Signing on behalf of the Registrant as the Principal Financial Officer