ADVANCED MICRO DEVICES INC
Form 10-Q
July 26, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 25, 2016
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	94088
(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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
Indicate the number of shares outstanding of the registrant's common stock, $0.01 par value, as of July 21, 2016:
795,557,811

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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		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions, except per share amounts)			
Net revenue	$ 1,027	$ 942	$ 1,859	$ 1,972
Cost of sales	708	710	1,271	1,414
Gross margin	319	232	588	558
Research and development	243	235	485	477
Marketing, general and administrative	117	134	222	265
Amortization of acquired intangible assets	—	—	—	3
Restructuring and other special charges, net	(7)	—	(10)	87
Licensing gain	(26)	—	(33)	—
Operating loss	(8)	(137)	(76)	(274)
Interest expense	(41)	(40)	(81)	(80)
Other income (expense), net	150	(3)	150	(3)
Income (loss) before income taxes and equity loss	101	(180)	(7)	(357)
Provision for income taxes	29	1	30	4
Equity in income (loss) of ATMP JV	(3)	—	(3)	—
Net income (loss)	$ 69	$ (181)	$ (40)	$ (361)
Net income (loss) per share				
Basic	$ 0.09	$ (0.23)	$ (0.05)	$ (0.46)
Diluted	$ 0.08	$ (0.23)	$ (0.05)	$ (0.46)
Shares used in per share calculation				
Basic	794	778	794	778
Diluted	821	778	794	778

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Net income (loss)	$69	$(181)	$(40)	$(361)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period, net of tax effects of $0, $0, $1 and $0	1	—	(1)	—
Unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) arising during the period, net of tax effects of $1, $0, $3 and $0	2	3	4	(8)
Reclassification adjustment for (gains) losses realized and included in net income (loss), net of tax effects of $1, $0, $0 and $0	—	4	2	8
Total other comprehensive income (loss)	3	7	5	—
Total comprehensive income (loss)	$72	$(174)	$(35)	$(361)

See accompanying notes to condensed consolidated financial statements.

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Advanced Micro Devices, Inc.
Condensed Consolidated Balance Sheets [1] [2]
(Unaudited)

	June 25, 2016	December 26, 2015
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 957	$ 785
Accounts receivable, net of allowances of $0 and $0	671	533
Inventories, net	743	678
Prepayment and other - GLOBALFOUNDRIES	12	33
Prepaid expenses	68	43
Other current assets	55	248
Total current assets	2,506	2,320
Property, plant and equipment, net	169	188
Goodwill	289	278
Investment in ATMP JV	62	—
Other assets	290	298
Total assets	$ 3,316	$ 3,084
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Short-term debt	$ 226	$ 230
Accounts payable	616	279
Payable to GLOBALFOUNDRIES	94	245
Payable to ATMP JV	150	—
Accrued liabilities	392	472
Other current liabilities	61	124
Deferred income on shipments to distributors	42	53
Total current liabilities	1,581	1,403
Long-term debt	2,012	2,007
Other long-term liabilities	136	86
Commitments and contingencies (See Note 11)		
Stockholders' equity (deficit):		
Capital stock:		
Common stock, par value $0.01; 1,500 shares authorized on June 25, 2016 and December 26, 2015; shares issued: 810 shares on June 25, 2016 and 806 shares on December 26, 2015; shares outstanding: 795 shares on June 25, 2016 and 792 shares on December 26, 2015	8	8
Additional paid-in capital	7,053	7,017
Treasury stock, at cost (14 shares on June 25, 2016 and December 26, 2015)	(125)	(123)
Accumulated deficit	(7,346)	(7,306)
Accumulated other comprehensive loss	(3)	(8)
Total stockholders' equity (deficit)	(413)	(412)
Total liabilities and stockholders' equity (deficit)	$ 3,316	$ 3,084

[1] Amounts
reflected
adoption of
FASB ASU

2015-17, Balance Sheet Classification of Deferred Taxes beginning in the first quarter of 2016.

(2) Amounts reflected adoption of FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs beginning in the first quarter of 2016.

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 25, 2016	June 27, 2015
	(In millions)	
Cash flows from operating activities:		
Net Loss	$(40)	$(361)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of equity interests in ATMP JV	(150)	—
Equity in income (loss) of ATMP JV	(1)	—
Depreciation and amortization	66	91
Provision for deferred income taxes	11	—
Stock-based compensation expense	34	34
Non-cash interest expense	7	6
Restructuring and other special charges, net	—	72
Other	(6)	3
Changes in operating assets and liabilities:		
Accounts receivable	(138)	129
Inventories	(66)	(117)
Prepayment and other - GLOBALFOUNDRIES	21	94
Prepaid expenses and other assets	(117)	(73)
Payable to ATMP JV	150	—
Payable to GLOBALFOUNDRIES	(151)	(21)
Accounts payable, accrued liabilities and other	253	(86)
Net cash used in operating activities	(127)	(229)
Cash flows from investing activities:		
Proceeds from sale of equity interests in ATMP JV	351	—
Purchases of available-for-sale securities	—	(227)
Purchases of property, plant and equipment	(47)	(39)
Proceeds from maturities of available-for-sale securities	—	462
Other	(1)	—
Net cash provided by investing activities	303	196
Cash flows from financing activities:		
Proceeds from issuance of common stock	2	1
Proceeds from (repayments of) borrowings, net	(4)	100
Repayments of long-term debt and capital lease obligations	—	(44)
Other	(2)	—
Net cash provided by (used in) financing activities	(4)	57
Net increase in cash and cash equivalents	172	24
Cash and cash equivalents at beginning of period	785	805
Cash and cash equivalents at end of period	$957	$829

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 and six months ended June 25, 2016 shown in this report are not necessarily indicative of results to be expected for the full year ending December 31, 2016. 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 26, 2015.
The Company uses a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters and six months ended June 25, 2016 and June 27, 2015 each consisted of 13 weeks and 26 weeks, respectively.
Principles of Consolidation. The condensed consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated.
Recently Issued Accounting Standards
Income Tax. In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which simplifies the presentation of deferred income taxes by requiring that all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheet. The Company has adopted ASU 2015-17 prospectively in the first quarter of 2016. As a result, the Company netted $31 million of deferred tax assets and deferred tax liabilities, respectively, and reclassified $8 million current deferred tax assets and $6 million current deferred tax liabilities to non-current deferred tax assets and liabilities, respectively, on its condensed consolidated balance sheet as of March 26, 2016. The prior period information was not retrospectively adjusted.
Interest—Imputation of Interest. In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, with early adoption permitted. The new guidance will be applied retrospectively to each prior period presented. In August 2015, the FASB issued ASU 2015 -15 to amend ASU 2015-03 and address debt issuance costs related to line-of-credit arrangements. ASU 2015-15 allows an entity to present debt issuance costs related to a line-of-credit as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. This accounting standard update did not impact the effective date of the previously issued guidance. The Company retrospectively adopted ASU 2015-03 and 2015-15 in the first quarter of 2016. As a result, the Company reclassified the financing costs from long term assets to long term debt by $23 million and $25 million as of March 26, 2016 and December 26, 2015, respectively, on its consolidated balance sheets.
Inventory. In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11), which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and for interim periods therein, with early adoption permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2015-11 on its consolidated financial statements.
Disclosure of Going Concern Uncertainties. In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15) , which provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years ending after December 15, 2016 and for interim and annual periods therein with early adoption permitted. The Company is

currently evaluating the impact of its pending adoption of ASU 2014-15 on its consolidated financial statements.
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. The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those

goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates. ASU 2014-09 also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. In July 2015, FASB announced a decision to defer the effective date for this ASU. ASU 2014-09 is effective for the Company in the first quarter of 2018 with early adoption permitted (for annual reporting periods beginning after December 15, 2016). The Company may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined which approach it will apply.

Financial Instruments. In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01), which provides guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including 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. During February 2016, the FASB issued ASU No. 2016-02, Leases. (ASU 2016-02), which increases transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). 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, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 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. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with early application permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2016-07 on its consolidated financial statements.

Stock Compensation. In March 2016, the FASB issued ASU No. 2016-09, Stock Compensation (ASU 2016-09), which is intended to simplify several aspects of the accounting for share-based payment award transactions. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods. The Company is currently evaluating the impact of its pending adoption of ASU 2016-09 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).

Fifth Amendment to Wafer Supply Agreement. On April 16, 2015, the Company entered into a fifth amendment to the WSA. The primary effect of the fifth amendment was to establish volume purchase commitments and fixed pricing for the 2015 calendar year as well as to modify certain other terms of the WSA applicable to wafers for some of the Company's microprocessor unit, graphics processor unit and semi-custom products to be delivered by GF to the

Company during the 2015 calendar year.

The Company’s total purchases from GF related to wafer manufacturing and research and development activities for the quarters ended June 25, 2016 and June 27, 2015 were $85 million and $246 million, respectively. The Company’s total purchases from GF related to wafer manufacturing and research and development activities for the six months ended June 25, 2016 and June 27, 2015 were $293 million and $416 million, respectively.

The Company’s currently known purchase obligations to GF for wafer manufacturing and research and development activities are approximately $434 million for fiscal 2016 which include certain wafer deliveries under the fifth amendment to the WSA that had been delayed to fiscal 2016. The Company is not able to meaningfully quantify or estimate its future purchase obligations to GF beyond this amount because it is currently in the process of negotiating a sixth amendment to the WSA. The Company expects that its future purchases from GF will continue to be material.

GF continues to be a related party of the Company because Mubadala Development Company PJSC (Mubadala) and Mubadala Technology Investments LLC (Mubadala Tech) are affiliated with West Coast Hitech L.P. (WCH), the Company’s largest stockholder. GF, WCH and Mubadala Tech are wholly-owned subsidiaries of Mubadala.

NOTE 3. Supplemental Balance Sheet Information

Inventories

	June 25, 2016	December 26, 2015
	(In millions)	
Raw materials	$13	$ 16
Work in process	579	482
Finished goods	151	180
Total inventories, net	$743	$ 678

Other Current Assets

	June 25, 2016	December 26, 2015
	(In millions)	
Assets held-for-sale	$—	$ 183
Other current assets	55	65
Total other current assets	$55	$ 248

Property, Plant and Equipment

	June 25, 2016	December 26, 2015
	(In millions)	
Leasehold improvements	$147	$ 146
Equipment	791	821
Construction in progress	12	17
Property, plant and equipment, gross	950	984
Accumulated depreciation and amortization	(781)	(796)
Total property, plant and equipment, net	$169	$ 188

Other Assets

	June 25, 2016	December 26, 2015
	(In millions)	
Software and technology licenses, net	$231	$ 189
Other	59	109
Total other assets	$290	$ 298

Accrued Liabilities

	June 25, 2016	December 26, 2015
	(In millions)	
Accrued compensation and benefits	$112	$ 95
Marketing programs and advertising expenses	99	109
Software and technology licenses payable	19	50
Other	162	218
Total accrued liabilities	$392	$ 472

Other Current Liabilities

	June 25, 2016	December 26, 2015
	(In millions)	
Liabilities related to assets held-for-sale	$—	$ 79
Other current liabilities	61	45
Total other current liabilities	$61	$ 124

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 AMD Technologies (China) Co., Ltd., a wholly-foreign owned enterprise incorporated as a limited liability company, and Advanced Micro Devices Export Sdn. Bhd., a Malaysian limited liability company, to affiliates of Nantong Fujitsu Microelectronics Co., Ltd., a Chinese joint stock company (NFME), to form two joint ventures (collectively, the ATMP JV), pursuant to the terms of an Equity Interest Purchase Agreement, dated as of October 15, 2015 (the Equity Interest Purchase Agreement), between the Company and NFME. As a result of the sale, NFME’s affiliates own 85% of the equity interests in each ATMP JV while certain of the Company’s subsidiaries own the remaining 15%. The Company has no obligations to fund the ATMP JV.

As the result of the transaction, the Company received approximately $351 million, including purchase price adjustments, in net cash proceeds in the second quarter of 2016 for selling 85% of the equity interest in each of AMD Technologies (China) Co., Ltd. and Advanced Micro Devices Export Sdn. Bhd. These proceeds, net of certain transaction costs, were included in investing activities on the Company's condensed consolidated statements of cash flows for the six months ended June 25, 2016. The Company estimates final net cash proceeds, excluding final purchase price adjustments which the Company expects will be settled in upcoming quarters, after payment of taxes and customary expenses in the current and future quarters, of approximately $320 million.

In connection with the divestiture, the Company recognized a pre-tax gain of $150 million within Other income (expense), net on its condensed consolidated statements of operations during the quarter and six months ended June 25, 2016. The pre-tax gain reflects the excess of the sum of net cash proceeds and fair value of the Company's retained 15% equity interests in the ATMP JV over the sum of the net book values of the Company's former subsidiaries and other closing costs directly attributed to the divestiture. The above gain includes $12 million of excess of fair value of the Company's retained interest over the corresponding net book values.

In determining the fair value of the Company's retained 15% equity interests in the ATMP JV, the Company used quoted prices from comparable bids for this transaction. The Company also considered other factors including the control premium and the amount of consideration received for the portion sold.

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 June 25, 2016, the carrying value of the Company's investment in the ATMP JV was approximately $62 million. Opening balances of ATMP JV are currently undergoing a valuation analysis which may result in adjustment to the carrying value of the investment in ATMP JV, adjustment to the recognized gain on sale of the 85% equity interest or equity method income (loss) in ATMP JV.

Following the deconsolidation, the ATMP JV is a related party of the Company. The ATMP JV provides assembly, test, mark and pack (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 in the second quarter of 2016 amounted to approximately $66 million. The Company’s payable to the ATMP JV, as of June 25, 2016 was $150 million also included amounts payable to the former subsidiaries,

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AMD Technologies (China) Co., Ltd. and Advanced Micro Devices Export Sdn. Bhd., arising from the transactions prior to the sale.

The Company recorded a loss of $3 million in Equity in income (loss) of ATMP JV on its condensed consolidated statements of operations for the quarter and six months ended June 25, 2016, 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 China JVs). 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 China JVs' operations. The Company has no obligations to fund the China JVs. The China JVs' primary purpose is to support the Company's expansion into the server and workstation product market in China. The Company licensed certain of its intellectual property (Licensed IP) to the China JVs for a total of approximately $293 million in license fees payable over several years contingent upon achievement of certain milestones. The Company also expects to receive a royalty based on the sales of the China JVs' products to be developed on the basis of such Licensed IP. The Company will also provide certain engineering and technical support to the China JVs in connection with the product development.

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 and will not consolidate either of these entities. The Company accounts for its investments in the China JVs under the equity method of accounting.

Income related to the Licensed IP will be recognized 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, and thereafter, together with 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 and six months ended June 25, 2016, the Company recognized $26 million and $33 million, respectively, of operating income related to the Licensed IP.

The Company's total exposure to losses through its investment into the China JVs is limited to the Company's investments in the China JVs, which was zero as of June 25, 2016. The Company's share in the net losses of the China JVs for the quarter and six months ended June 25, 2016 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 China JVs losses in excess of the Company's investment in the China JVs.

As of June 25, 2016, the total assets and liabilities of the China JVs were not material.

NOTE 6. Net Income (Loss) Per Share

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

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

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

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions, except per share amounts)			
Numerator – Net income (loss):				
Numerator for basic and diluted net income (loss) per share	$ 69	$ (181)	$ (40)	$ (361)
Denominator – Weighted average shares				
Denominator for basic net income (loss) per share	794	778	794	778
Effect of potentially dilutive shares:				
Employee stock options and restricted stock units	27	—	—	—
Denominator for diluted net income (loss) per share	821	778	794	778
Net income (loss) per share:				
Basic	$ 0.09	$ (0.23)	$ (0.05)	$ (0.46)
Diluted	$ 0.08	$ (0.23)	$ (0.05)	$ (0.46)

Potential shares from stock options and restricted stock units totaling 19 million and 51 million were not included in the net income (loss) per share calculations for the second quarters of 2016 and 2015, respectively, because their inclusion would have been anti-dilutive.

Potential shares from employee stock options and restricted stock units totaling 41 million and 63 million were not included in the net loss per share calculation for the six months ended June 25, 2016 and June 27, 2015, because their inclusion would have been anti-dilutive.

NOTE 7. Financial Instruments

Cash and Cash Equivalents

Cash and financial instruments measured and recorded at fair value on a recurring basis as of June 25, 2016 and December 26, 2015 are summarized below:

	June 25, 2016	December 26, 2015
	(In millions)	
Cash and cash equivalents		
Cash	$407	$ 409
Level 2[(1)] [(2)]		
Commercial paper	550	376
Total level 2	550	376
Total	$957	$ 785

(1) The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the quarter and six months ended June 25, 2016 or the year ended December 26, 2015.

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

Available-for-sale securities held by the Company as of June 25, 2016 and December 26, 2015 consisted of commercial paper. The amortized cost of available-for-sale securities approximated the fair value for all periods presented.

In addition to those amounts presented above, as of June 25, 2016 and December 26, 2015, the Company had approximately $3 million and $1 million, respectively, of available-for-sale investments in money market funds, used as collateral for letters of credit deposits, which were included in Other current assets and Other assets, respectively, on the Company's condensed consolidated balance sheets. These money market funds are classified within Level 1 because they are valued using quoted prices

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for identical instruments in active markets. Their amortized costs are the same as the fair value for all periods presented. The Company is restricted from accessing these deposits.
Also in addition to those amounts presented above, as of June 25, 2016 and December 26, 2015, the Company had approximately $14 million and $15 million, respectively, of available-for-sale investments in mutual funds held in a Rabbi trust established for the Company's deferred compensation plan, which were included in Other assets on the Company's condensed consolidated balance sheets. These mutual funds are classified within Level 1 because they are valued using quoted prices for identical instruments in active markets. Their amortized cost approximates the fair value for all periods presented. The Company is restricted from accessing these investments.
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:

	June 25, 2016		December 26, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In millions)			
Short-term debt	$226	$ 226	$230	$ 230
Long-term debt[(1)]	$2,002	$ 1,839	$2,000	$ 1,372

(1) Carrying amounts of long-term debt are net of unamortized debt issuance costs of $23 million as of June 25, 2016 and $25 million as of December 26, 2015, based on the adoption of ASU 2015-03.

The Company's short-term and long-term debt are 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 income (loss), the amount of gain (loss) reclassified from accumulated other comprehensive income (loss) and included in earnings related to the foreign currency forward contracts designated as cash flow hedges and the amount of gain (loss) included in other income (expense), net, related to contracts not designated as hedging instruments, which was allocated in the condensed consolidated statements of operations:

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Foreign Currency Forward Contracts - gains (losses)				
Contracts designated as cash flow hedging instruments				
Other comprehensive income (loss)	$2	$ 7	$8	$ —
Cost of sales	—	—	—	(1)
Research and development	1	(2)	(1)	(4)
Marketing, general and administrative	—	(2)	—	$ (3)
Contracts not designated as hedging instruments				
Other income (expense), net	$2	$ —	$2	$ (1)

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

The following table shows the fair value amounts included in 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:

	June 25, 2016	December 26, 2015
	(In millions)	
Foreign Currency Forward Contracts - gains (losses)		
Contracts designated as cash flow hedging instruments	$ 2	$ (6)
Contracts not designated as hedging instruments	$ 1	$ —

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

As of June 25, 2016 and December 26, 2015, the notional values of the Company's outstanding foreign currency forward contracts were $265 million and $156 million, respectively. All the contracts mature within 12 months, and, upon maturity, the amounts recorded in Accumulated other comprehensive income (loss) are expected to be reclassified into earnings. The Company hedges its exposure to the variability in future cash flows for forecasted transactions over a maximum of 12 months.

Fair Value Hedges

The Company's fair value hedge 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.

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

	June 25, 2016	December 26, 2015
	(In millions)	
Interest Rate Swap Contracts - gains (losses)		
Contracts designated as fair value hedging instruments	$ 10	$ 7

NOTE 8. Income Taxes

In the second quarter of 2016, the Company recorded an income tax provision of $29 million. This included $2 million due primarily to foreign taxes in profitable locations and $2 million for withholding taxes applicable to license fee revenue from foreign locations partially offset by $2 million of tax benefits arising from other comprehensive income and Canadian tax credits. In addition, the Company recorded the tax effect of completion of the sale of a majority equity interest in two subsidiaries comprising $21 million of income tax expense in China and $6 million of withholding tax expense associated with a future repatriation of the gain generated in China by the Chinese portion of that transaction (see Note 4. Equity Interest Purchase Agreement - ATMP Joint Venture).

In future periods, the Company will apply the equity method of accounting to its 15% investment in the two former subsidiaries. The Company's share of applicable tax expense will be netted with the equity share of future profits or losses. In 2015, the Company recorded an income tax provision of $2 million related to the activities of the two former subsidiaries.

The Company has 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 it to satisfy the "more likely than not" criterion for the recognition of deferred tax assets.

For the six months ended June 25, 2016, the Company recorded an income tax provision of $30 million due to foreign taxes in profitable locations and items identified above.

In the second quarter of 2015 and for the six months ended June 27, 2015, the Company recorded an income tax provision of $1 million and $4 million, respectively, due to foreign taxes in profitable locations.

As of June 25, 2016, 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 June 25, 2016, in management's estimate, is not more likely than not to be achieved.

The Company's total gross unrecognized tax benefits as of June 25, 2016 were $41 million. The Company currently does not expect to reduce its unrecognized tax benefits over the next 12 months. The Company does not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the settlement, resolution or closure of tax audits are highly uncertain.

NOTE 9. 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, restructuring and other special charges, net and amortization of acquired intangible assets.

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

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Net revenue:				
Computing and Graphics	$435	$ 379	$895	$911
Enterprise, Embedded and Semi-Custom	592	563	964	1,061
Total net revenue	$1,027	$ 942	$1,859	$1,972
Operating income (loss):				
Computing and Graphics	$(81)	$ (147)	$(151)	$(222)
Enterprise, Embedded and Semi-Custom	84	27	100	72
All Other	(11)	(17)	(25)	(124)
Total operating loss	$(8)	$ (137)	$(76)	$(274)

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

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Operating loss:				
Stock-based compensation expense	$(18)	$ (17)	$(34)	$ (34)
Restructuring and other special charges, net	7	—	10	(87)
Other	—	—	(1)	(3)
Total operating loss	$(11)	$ (17)	$(25)	$ (124)

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NOTE 10. Stock-Based Incentive Compensation Plans

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

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Cost of sales	$—	$ 1	$1	$ 2
Research and development	10	10	19	20
Marketing, general and administrative	8	6	14	12
Stock-based compensation expense, net of tax of $0	$18	$ 17	$34	$ 34

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

Stock Options

In the first six months of 2016, the Company did not grant any employee stock options to its employees.

The weighted average assumptions applied in the lattice-binomial model that the Company uses to estimate the fair value of employee stock options are as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Expected volatility	N/A	54.86 %	N/A	54.43 %
Risk-free interest rate	N/A	1.15 %	N/A	1.21 %
Expected dividends	N/A	0.00 %	N/A	0.00 %
Expected life	N/A	3.91 years	N/A	3.91 years

In the second quarter of 2015, the Company granted 0.5 million shares of employee stock options, with weighted average grant date fair value per share of $1.06. For the six months ended June 27, 2015, the Company granted 0.7 million employee stock options with weighted average grant date fair values per share of $1.12.

Restricted Stock Units

In the second quarters of 2016 and 2015, the Company granted 5.6 million and 4.1 million shares of restricted stock units, respectively, with weighted average grant date fair values per share of $2.97 and $2.46, respectively. For the six months ended June 25, 2016 and June 27, 2015, the Company granted 6.4 million and 9.4 million shares of restricted stock units, respectively, with weighted average grant date fair values per share of $2.86 and $2.50, respectively.

NOTE 11. 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		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Beginning balance	$13	$ 21	$15	$ 19
New warranties issued	5	6	10	14
Settlements	(4)	(6)	(8)	(15)
Changes in liability for pre-existing warranties, including expirations	(3)	(4)	(6)	(1)
Ending balance	$11	$ 17	$11	$ 17

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 is ongoing.

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.

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 12. Restructuring and Other Special Charges, Net

2015 Restructuring Plan

In the third quarter of 2015, the Company implemented a restructuring plan (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 includes organizational actions such as outsourcing certain IT services and application development. The actions associated with the 2015 Restructuring Plan are expected to be substantially completed by the end of the third quarter of 2016.
The following table provides a summary of the restructuring activities in the first six months of 2016 and the related liabilities recorded in Other current liabilities and Other long-term liabilities on the Company's condensed consolidated balance sheets as of June 25, 2016:

	Severance and related benefits	Other exit related costs	Total
	(In millions)		
Balance as of December 26, 2015	$14	$ —	$14
Charges (reversals), net	(2)	—	(2)
Cash payments	(7)	—	(7)
Balance as of June 25, 2016	$5	$ —	$5

2014 Restructuring Plan

In the fourth quarter of 2014, the Company implemented a restructuring plan (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. In the first six months of 2015, the Company recorded an $11 million restructuring charge, which consisted of $4 million for severance and benefit costs and $7 million for facilities related costs. The 2014 Restructuring Plan was largely completed by the end of the third quarter of 2015. During the first six months of 2016, the Company recorded a restructuring charge reversal of $7 million, of which $5 million related to facilities costs associated with a lease amendment which reduced a lease liability previously accrued under this plan.
The following table provides a summary of the restructuring activities in the first six months of 2016 and the related liabilities recorded in Other current liabilities and Other long-term liabilities on the Company's condensed consolidated balance sheets as of June 25, 2016:

	Severance and related benefits	Other exit related costs	Total
	(In millions)		
Balance as of December 26, 2015	$5	$ 15	$ 20
Charges (reversals), net	(1)	(7)	(8)
Cash payments	(1)	(2)	(3)
Balance as of June 25, 2016	$3	$ 6	$ 9

Dense Server Systems Business Exit

As a part of the Company's strategy to simplify and sharpen its investment focus, the Company exited the dense server systems business, formerly SeaMicro, in the first quarter of 2015. As a result, the Company recorded a charge of $76 million in Restructuring and other special charges, net on the Company's condensed consolidated statements of operations in the first six months of 2015. This charge included an impairment charge of $62 million related to the acquired intangible assets. The Company concluded that the carrying value of the acquired intangible assets associated with its dense server systems business was fully impaired as the Company did not have plans to utilize the related freedom fabric technology in any of its future products nor did it have any plans at that time to monetize the associated intellectual property. In addition, the exit charge consisted of a $7 million non-cash charge related to asset impairments, $4 million of severance and related benefits and $3 million for contract or program termination costs. The Company has substantially completed this exit activity during the first quarter of 2016.

NOTE 13. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended					
	June 25, 2016			June 27, 2015		
	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	$(3)	$ (3)	$ (6)	$ 1	$ (13)	$ (12)
Unrealized gains (losses) arising during the period	1	3	4	—	3	3
Reclassification adjustment for (gains) losses realized and included in net income (loss)	—	(1)	(1)	—	4	4
Tax effect	—	—	—	—	—	—
Total other comprehensive income (loss)	1	2	3	—	7	7
Ending balance	$(2)	$ (1)	$ (3)	$ 1	$ (6)	$ (5)

	Six Months Ended					
	June 25, 2016			June 27, 2015		
	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)	$ (7)	$(8)	$ 1	$ (6)	$(5)
Unrealized gains (losses) arising during the period	(2)	7	5	—	(8)	(8)
Reclassification adjustment for (gains) losses realized and included in net income (loss)	—	2	2	—	8	8
Tax effect	1	(3)	(2)	—	—	—
Total other comprehensive income (loss)	(1)	6	5	—	—	—
Ending balance	$(2)	$ (1)	$(3)	$ 1	$ (6)	$(5)

NOTE 14. 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. 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).

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 $75 million available for issuance of letters of credit, which remained unchanged from the loan and security agreement dated November 12, 2013, as amended on December 11, 2014. 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 matures on April 14, 2020 and 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.
At June 25, 2016 and December 26, 2015, the Secured Revolving Line of Credit had an outstanding loan balance of $226 million and $230 million, at an interest rate of 4.25% and 4.00%, respectively. At June 25, 2016, the Secured Revolving Line of Credit also had $21 million related to outstanding letters of credit, and up to $163 million available for future borrowings. 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 June 25, 2016, the Company was in compliance with all required covenants stated in the Amended and Restated Loan Agreement.

First Amendment to the Amended and Restated Loan and Security Agreement

On June 10, 2015, the Loan Parties entered into a first amendment to the Amended and Restated Loan and Security Agreement (the "First Amendment") by and among the Loan Parties, the Lenders and the Agent, which modifies the Amended and Restated Loan and Security Agreement. Amendments to the Amended and Restated Loan Agreement effected by the First Amendment included the addition of exceptions to the liens and asset sale covenants to permit the Loan Parties to enter into certain supply chain finance arrangements, as well as the addition of certain definitions related thereto.

Second Amendment to the Amended and Restated Loan and Security Agreement

On April 29, 2016, the Loan Parties entered into a second amendment to the Amended and Restated Loan and Security Agreement (the “Second Amendment”) by and among the Loan Parties, the Lenders and the Agent, which modifies the Amended and Restated Loan and Security Agreement. The primary amendment to the Amended and Restated Loan Agreement effected by the Second Amendment related to the expansion of the definition of permitted asset dispositions to include the sale or transfer of inventory to the ATMP JV pursuant to the Equity Interest Purchase Agreement between AMD and NFME.

Third Amendment to the Amended and Restated Loan and Security Agreement

On June 21, 2016, the Loan Parties entered into a third amendment to the Amended and Restated Loan and Security Agreement (the "Third Amendment") by and among the Loan Parties, the Lenders and the Agent, which modifies the Amended and Restated Loan and Security Agreement. Amendments to the Amended and Restated Loan Agreement effected by the Third Amendment included the further expansion of the asset sale covenants to permit the Loan Parties to enter into certain supply chain finance arrangements.

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 amount and timing of the final net cash proceeds from the joint venture transaction between AMD and Nantong Fujitsu Microelectronics Co. Ltd.; 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; AMD may not realize the benefits anticipated from any acquisitions, divestitures and/or joint ventures; 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; AMD's expected completion of its restructuring plan announced in October 2015 (the 2015 Restructuring Plan); that other unrecognized tax benefits will not materially change in the next 12 months; that AMD’s cash and cash equivalents balances and its secured revolving line of credit (Secured Revolving Line of Credit) 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 relies on GF to manufacture all of its microprocessor and accelerated processing unit (APU) products and a certain portion of its discrete graphics processing units (GPUs) products, 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; AMD may not be able to generate sufficient cash to service its debt obligations or meet its working capital requirements; AMD has a substantial 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; the markets in which AMD’s products are sold are highly competitive; 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; the completion and impact of the 2015 Restructuring Plan, its transformation initiatives and any future restructuring actions could adversely affect it; 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 product development programs; 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 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 39 and "Financial Condition" beginning on page 33 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 26, 2015 and December 27, 2014, and for each of the three years in the period ended December 26, 2015 as filed in our Annual Report on Form 10-K for the year ended December 26, 2015.

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 and six months ended June 25, 2016 compared to the quarter and six months ended June 27, 2015, an analysis of changes in our financial condition and a discussion of our contractual obligations.

Net revenue in the second quarter of 2016 was $1.027 billion, a 9% increase compared to the second quarter of 2015. The year over year increase was primarily due to a 15% increase in Computing and Graphics net revenue and a 5% increase in Enterprise, Embedded and Semi-Custom net revenue. The increase in Computing and Graphics segment net revenue was primarily due to higher sales of our notebook microprocessors and GPU products. The increase in Enterprise, Embedded and Semi-Custom segment net revenue was primarily driven by higher sales of our semi-custom SoCs and an increase in our non-recurring engineering revenue (NRE). Gross margin, as a percentage of net revenue, for the second quarter of 2016 was 31% compared to 25% in the second quarter of 2015. Gross margin in the second quarter of 2015 was adversely impacted by a technology node transition charge of $33 million, which accounted for three gross margin percentage points. In addition, gross margin of our Enterprise, Embedded and Semi-Custom segment improved in the second quarter of 2016 compared to the second quarter of 2015 due to lower cost of sales.

During the second quarter of 2016, we continued to execute our product roadmap and delivered new products. In April 2016, we announced the AMD FirePro™ W9100 with 32GB of memory support designed for large asset workflows with creative applications. In May 2016, we announced the availability of our Polaris architecture-based Radeon™ RX Series graphic cards. These Polaris-based graphic cards are designed to deliver premium virtual reality capability and improved performance and efficiency. Also in May, we announced the AMD FirePro S7100X GPU for blade servers (a self-contained server) designed as a graphics virtualization solution to provide workstation-class experience for up to 16 users. Also in May 2016, we announced our 7th Generation AMD A-Series Processors for notebooks equipped with advanced video, graphics, performance and security features.

Cash and cash equivalents as of June 25, 2016 were $957 million, an increase of $241 million compared to March 26, 2016, primarily driven by the net cash proceeds received from the assembly, test, mark and pack (ATMP) joint venture transaction with Nantong Fujitsu Microelectronics Co., Ltd. that occurred in the second quarter of 2016. Our total debt level remained flat from the first quarter of 2016 at $2.24 billion.

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GLOBALFOUNDRIES
Wafer Supply Agreement. The Wafer Supply Agreement (WSA) governs the terms by which we purchase products manufactured by GLOBALFOUNDRIES Inc. (GF).
Fifth Amendment to Wafer Supply Agreement. On April 16, 2015, we entered into a fifth amendment to the WSA. The primary effect of the fifth amendment was to establish volume purchase commitments and fixed pricing for the 2015 calendar year as well as to modify certain other terms of the WSA applicable to wafers for some of our microprocessor unit, graphics processor unit and semi-custom products to be delivered by GF to us during the 2015 calendar year.
Our total purchases from GF related to wafer manufacturing and research and development activities for the quarters ended June 25, 2016 and June 27, 2015 were $85 million and $246 million, respectively. Our total purchases from GF related to wafer manufacturing and research and development activities for the six months ended June 25, 2016 and June 27, 2015 were $293 million and $416 million, respectively.
Our currently known purchase obligations to GF for wafer manufacturing and research and development activities are approximately $434 million for fiscal 2016 which include certain wafer deliveries under the fifth amendment to the WSA that had been delayed to fiscal 2016. We are not able to meaningfully quantify or estimate our future purchase obligations to GF beyond this amount because we are currently in the process of negotiating a sixth amendment to the WSA. We expect that our future purchases from GF will continue to be material.
GF continues to be a related party of AMD because Mubadala Development Company PJSC (Mubadala) and Mubadala Technology Investments LLC (Mubadala Tech) are affiliated with West Coast Hitech L.P. (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 AMD Technologies (China) Co., Ltd., a wholly-foreign owned enterprise incorporated as a limited liability company, and Advanced Micro Devices Export Sdn. Bhd., a Malaysian limited liability company, to affiliates of Nantong Fujitsu Microelectronics Co., Ltd., a Chinese joint stock company (NFME), to form two joint ventures (collectively, the ATMP JV), pursuant to the terms of an Equity Interest Purchase Agreement, dated as of October 15, 2015 (the Equity Interest Purchase Agreement), between us and NFME. As a result of the sale, NFME’s affiliates own 85% of the equity interests in each ATMP JV while certain of our subsidiaries own the remaining 15%. We have no obligations to fund the ATMP JV.
As a result of the transaction, we received approximately $351 million, including purchase price adjustments, in net cash proceeds in the second quarter of 2016 for selling 85% of the equity interest in each of AMD Technologies (China) Co., Ltd. and Advanced Micro Devices Export Sdn. Bhd. These proceeds, net of certain transaction costs, were included in investing activities on our condensed consolidated statements of cash flows for the six months ended June 25, 2016. We estimate final net cash proceeds, excluding final purchase price adjustments which we expect will be settled in upcoming quarters, after payment of taxes and customary expenses in the current and future quarters, of approximately $320 million.
In connection with the divestiture, we recognized a pre-tax gain of $150 million within Other income (expense), net on our condensed consolidated statements of operations during the quarter and six months ended June 25, 2016. The pre-tax gain reflects the excess of the sum of net cash proceeds and fair value of our retained 15% equity interests in the ATMP JV over the sum of the net book values of our former subsidiaries and other closing costs directly attributed to the divestiture. The above gain includes $12 million in excess of fair value of our retained interest over the corresponding net book values.

In determining the fair value of our retained 15% equity interests in the ATMP JV, we used quoted prices from comparable bids for this transaction. We also considered other factors including the control premium and the amount of consideration received for the portion sold.

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 June 25, 2016, the carrying value of our investment in the ATMP JV was approximately $62 million. Opening balances of ATMP JV are currently undergoing a valuation analysis which may result in adjustment to the carrying value of the investment in ATMP JV, adjustment to the recognized gain on sale of the 85% equity interest or equity method income (loss) in ATMP JV.

Following the deconsolidation, the ATMP JV is our related party. The ATMP JV provides assembly, test, mark and pack (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 in the second quarter of 2016 amounted to approximately $66 million. Our payable to the ATMP JV, as of June 25, 2016 was
$150 million also included amounts payable to the former subsidiaries, AMD Technologies (China) Co., Ltd. and Advanced Micro Devices Export Sdn. Bhd., arising from the transactions prior to the sale.

We recorded a loss of $3 million in Equity in income (loss) of ATMP JV on our condensed consolidated statements of operations for the quarter and six months ended June 25, 2016, 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 China JVs). Our equity share in China JV1 and China JV2 is a majority and minority interest, respectively, funded by our contribution of certain of our patents. The JV Partner is responsible for the initial and on-going financing of the China JVs' operations. We have no obligations to fund the China JVs. The China JVs' primary purpose is to support our expansion into the server and workstation product market in China. We licensed certain of our intellectual property (Licensed IP) to the China JVs for a total of approximately $293 million in 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 China JVs' products to be developed on the basis of such Licensed IP. We will also provide certain engineering and technical support to the China JVs in connection with the product development.

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 JV Partner. We determined that we are not the primary beneficiary of either China JV1 or China JV2 and we will not consolidate either of these entities. We account for our investments in the China JVs under the equity method of accounting.

Income related to the Licensed IP will be recognized 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, and thereafter, together with 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 and six months ended June 25, 2016, we recognized $26 million and $33 million, respectively, of operating income related to the Licensed IP.

Our total exposure to losses through our investment into the China JVs is limited to our investments in the China JVs, which was zero as of June 25, 2016. Our share in the net losses of the China JVs for the quarter and six months ended June 25, 2016 was not material and is not recorded in our condensed consolidated statement of operations since we are not obligated to fund the China JVs losses in excess of our investment in the China JVs.

As of June 25, 2016, the total assets and liabilities of the China JVs were not material.

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 and six months ended June 25, 2016 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 26, 2015.

We will perform an annual goodwill impairment analysis as of the first day of the fourth quarter of 2016 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.

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 System-on-Chip (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. Also included in this category are employee stock-based compensation expense, restructuring and other special charges, net and amortization of acquired intangible assets.

We use a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended June 25, 2016 and June 27, 2015 each consisted of 13 weeks. The six months ended June 25, 2016 and June 27, 2015 each consisted of 26 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		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Net revenue:				
Computing and Graphics	$435	$ 379	$895	$911
Enterprise, Embedded and Semi-Custom	592	563	964	1,061
Total net revenue	$1,027	$ 942	$1,859	$1,972
Operating income (loss):				
Computing and Graphics	$(81)	$ (147)	$(151)	$(222)
Enterprise, Embedded and Semi-Custom	84	27	100	72
All Other	(11)	(17)	(25)	(124)
Total operating loss	$(8)	$ (137)	$(76)	$(274)

Computing and Graphics

Computing and Graphics net revenue of $435 million in the second quarter of 2016 increased by 15%, compared to net revenue of $379 million in the second quarter of 2015, primarily as a result of an 18% increase in unit shipments. The increase in unit shipments was primarily attributable to higher unit shipments of our notebook microprocessor products and GPU products due to higher demand.

Computing and Graphics net revenue of $895 million in the first six months of 2016 decreased by 2%, compared to $911 million in the first six months of 2015, as a result of a 4% decrease in average selling price, partially offset by a 1% increase in unit shipments. The decrease in average selling price was primarily attributable to a decrease in average selling price of our notebook microprocessor and chipset products, partially offset by an increase in average selling price of our GPU products. The increase in unit shipments was primarily attributable to higher unit shipments of our GPU products, partially offset by lower unit shipment of our microprocessor products.

Computing and Graphics operating loss was $81 million in the second quarter of 2016 compared to an operating loss of $147 million in the second quarter of 2015. The improvement in operating results was primarily due to the increase

in net revenue referenced above and a decrease in operating expenses, partially offset by an increase in cost of sales. Cost of sales increased
primarily due to higher unit shipments in the second quarter of 2016 compared to the second quarter of 2015. Operating expenses decreased for the reasons set forth under “Expenses” below.

Computing and Graphics operating loss was $151 million in the first six months of 2016 compared to operating loss of $222 million in the first six months of 2015. The improvement in operating results was primarily due to a decrease in operating expenses and a decrease in cost of sales, offset by the decrease in net revenue referenced above. Cost of sales decreased primarily due to lower unit shipments in the first six months of 2016, compared to the first six months of 2015. Operating expenses decreased for the reasons set forth under “Expenses” below.

Enterprise, Embedded and Semi-Custom

Enterprise, Embedded and Semi-Custom net revenue of $592 million in the second quarter of 2016 increased by 5% compared to net revenue of $563 million in the second quarter of 2015. The increase was primarily due to higher unit shipments of our semi-custom SoC products and an increase in our NRE revenue.

Enterprise, Embedded and Semi-Custom net revenue of $964 million in the first six months of 2016 decreased by 9% compared to net revenue of $1,061 million in the first six months of 2015. The decrease was primarily due to a decrease in unit shipments of our semi-custom SoC products, partially offset by an increase in our NRE revenue.

Enterprise, Embedded and Semi-Custom operating income was $84 million in the second quarter of 2016 compared to operating income of $27 million in the second quarter of 2015. The improvement in operating results was primarily due to the absence of a technology node transition charge of $33 million recorded in the second quarter of 2015, the increase in net revenue referenced above and a $26 million IP licensing gain related to the Licensed IP to the China JVs, partially offset by an increase in operating expenses. Operating expenses increased for the reasons set forth under “Expenses” below.

Enterprise, Embedded and Semi-Custom operating income was $100 million in the first six months of 2016 compared to operating income of $72 million in the first six months of 2015. The improvement in operating results was primarily due to a decrease in cost of sales, in part due to the absence of a technology node transition charge of $33 million recorded in the first six months of 2015, and a $33 million IP licensing gain related to the Licensed IP to the China JVs, partially offset by the decrease in net revenue referenced above and an increase in operating expenses. Cost of sales decreased primarily due to lower unit shipments and lower manufacturing cost in the first six months of 2016 compared to the first six months of 2015. Operating expenses increased for the reasons set forth under “Expenses” below.

All Other

All Other operating loss of $11 million in the second quarter of 2016 included stock-based compensation expense of $18 million, offset by restructuring reversals of $7 million. All Other operating loss of $17 million in the second quarter of 2015 included stock-based compensation expense of $17 million.

All Other operating loss of $25 million in the first six months of 2016 primarily included stock-based compensation expense of $34 million, partially offset by restructuring reversals of $10 million. All Other operating loss of $124 million in the first six months of 2015 included restructuring and other special charges, net of $87 million, stock-based compensation expense of $34 million and $3 million related to amortization of acquired intangible assets. Restructuring and other special charges, net of $87 million included $76 million related to our decision to exit from the dense server systems business and $11 million related to our restructuring plan that was implemented in the fourth quarter of 2014.

International Sales

International sales as a percentage of net revenue were 77% in the second quarter of 2016 and 75% in the second quarter of 2015. The increase in international sales as a percentage of net revenue in the second quarter of 2016 compared to the second quarter of 2015 was primarily driven by a higher proportion of revenue from international sales of our semi-custom SoC products.

International sales as a percentage of net revenue were 80% in the first six months of 2016 and 75% in the first six months of 2015. The increase in international sales as percentage of net revenue was primarily driven by higher proportion of revenue from international sales of our semi-custom SoC products.

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

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Comparison of Gross Margin, Expenses, Interest Expense, Other Income (Expense), Net, Income Taxes and Equity in Income (Loss) of ATMP JV

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

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions except for percentages)			
Cost of sales	708	710	1,271	1,414
Gross margin	319	232	588	558
Gross margin percentage	31 %	25 %	32 %	28 %
Research and development	243	235	485	477
Marketing, general and administrative	117	134	222	265
Amortization of acquired intangible assets	—	—	—	3
Restructuring and other special charges, net	(7)	—	(10)	87
Licensing gain	(26)	—	(33)	—
Interest expense	(41)	(40)	(81)	(80)
Other income (expense), net	150	(3)	150	(3)
Provision for income taxes	29	1	30	4
Equity in income (loss) of ATMP JV	(3)	—	(3)	—

Gross Margin

Gross margin as a percentage of net revenue was 31% in the second quarter of 2016 compared to 25% in the second quarter of 2015. Gross margin in the second quarter of 2015 was adversely impacted by a technology node transition charge of $33 million, which accounted for three gross margin percentage points. In addition, gross margin of our Enterprise, Embedded and Semi-Custom segment improved in the second quarter of 2016 compared to the second quarter of 2015 due to lower cost of sales.

Gross margin as a percentage of net revenue was 32% in the first six months of 2016 compared to 28% in the first six months of 2015. Gross margin in the first six months of 2015 was adversely impacted by a technology node transition charge of $33 million, which accounted for two gross margin percentage points. In addition, gross margin of our Enterprise, Embedded and Semi-Custom segment improved in the first six months of 2016 compared to the first six months of 2015 due to lower cost of sales.

Expenses

Research and Development Expenses

Research and development expenses of $243 million in the second quarter of 2016 increased by $8 million, or 3%, compared to $235 million in the second quarter of 2015. The increase was primarily due to a $31 million increase in research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment, partially offset by a $23 million decrease in research and development expenses attributable to our Computing and Graphics segment. Research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment increased primarily due to a $27 million increase in product engineering and design costs. Research and development expenses attributable to our Computing and Graphics segment decreased primarily due to a $27 million decrease in product engineering and design costs.

Research and development expenses of $485 million in the first six months of 2016 increased by $8 million, or 2%, compared to $477 million in the first six months of 2015. The increase was primarily due to a $53 million increase in research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment, partially offset by a $44 million decrease in research and development expenses attributable to our Computing and Graphics segment. Research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment increased primarily due to a $48 million increase in product engineering and design costs and a $5 million increase in employee compensation and benefit expenses. Research and development expenses

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attributable to our Computing and Graphics segment decreased primarily due to a $53 million decrease in product engineering and design costs, partially offset by a $9 million increase in employee compensation and benefit expenses.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of $117 million in the second quarter of 2016 decreased by $17 million, or 13%, compared to $134 million in the second quarter of 2015. The decrease was primarily due to a $21 million decrease in marketing, general and administrative expenses attributable to our Computing and Graphics segment, primarily due to a $15 million decrease in sales and marketing activities and a $6 million decrease in other general and administrative expenses.

Marketing, general and administrative expenses of $222 million in the first six months of 2016 decreased by $43 million, or 16%, compared to $265 million in the first six months of 2015. The decrease was primarily due to a $42 million decrease in marketing, general and administrative expenses attributable to our Computing and Graphics segment, primarily due to a $29 million decrease in sales and marketing activities and a $13 million decrease in other general and administrative expenses.

Restructuring and Other Special Charges, Net

2015 Restructuring Plan

In the third quarter of 2015, we implemented a 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 includes organizational actions such as outsourcing certain IT services and application development. The actions associated with the 2015 Restructuring Plan are expected to be substantially completed by the end of the third quarter 2016.

The following table provides a summary of the restructuring activities in the first six months of 2016 and the related liabilities recorded in Other current liabilities and Other long-term liabilities on our condensed consolidated balance sheets as of June 25, 2016:

	Severance and related benefits	Other exit related costs	Total
	(In millions)		
Balance as of December 26, 2015	$14	$ —	$14
Charges (reversals), net	(2)	—	(2)
Cash payments	(7)	—	(7)
Balance as of June 25, 2016	$5	$ —	$5

2014 Restructuring Plan

In the fourth quarter of 2014, we implemented a restructuring plan (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. In the first six months of 2015, we recorded an $11 million restructuring charge, which consisted of $4 million for severance and benefit costs and $7 million for facilities related costs. The 2014 Restructuring Plan was largely completed by the end of the third quarter of 2015. During the first six months of 2016, we recorded a restructuring charge reversal of $7 million, of which $5 million related to facilities costs associated with a lease amendment which reduced a lease liability previously accrued under this plan.

The following table provides a summary of the restructuring activities in the first six months of 2016 and the related liabilities recorded in Other current liabilities and Other long-term liabilities on our condensed consolidated balance sheets as of June 25, 2016:

	Severance and related benefits	Other exit related costs	Total
	(In millions)		
Balance as of December 26, 2015	$5	$ 15	$20

Charges (reversals), net	(1)	(7)	(8)
Cash payments	(1)	(2)	(3)
Non-cash charges	—	—	—
Balance as of June 25, 2016	$3	$ 6	$9

Dense Server Systems Business Exit

As a part of our strategy to simplify and sharpen our investment focus, we exited the dense server systems business, formerly SeaMicro, in the first quarter of 2015. As a result, we recorded a charge of $76 million in Restructuring and other special charges, net on our condensed consolidated statements of operations in the first six months of 2015. This charge included an impairment charge of $62 million related to the acquired intangible assets. We concluded that the carrying value of the acquired intangible assets associated with our dense server systems business was fully impaired as we did not have plans to utilize the related freedom fabric technology in any of our future products nor did we have any plans at that time to monetize the associated intellectual property. In addition, the exit charge consisted of a $7 million non-cash charge related to asset impairments, $4 million of severance and related benefits and $3 million for contract or program termination costs. We have substantially completed this exit activity during the first quarter of 2016.

Interest Expense

Interest expense of $41 million in the second quarter of 2016 was flat compared to the second quarter of 2015. Interest expense of $81 million in the first six months of 2016 was flat compared to the first six months of 2015.

Other Income (Expense), Net

Other income, net of $150 million in the second quarter of 2016 increased by $153 million compared to $3 million Other expense, net in the second quarter of 2015 primarily due to the gain on sale of equity interests in ATMP JV of $150 million in the second quarter of 2016.

Other income, net of $150 million in the first six months of 2016 increased by $153 million compared to $3 million Other expense, net in the first six months of 2015 primarily due to the gain on sale of equity interests in ATMP JV of $150 million in the second quarter of 2016.

Income Taxes

In the second quarter of 2016, we recorded an income tax provision of $29 million. This included $2 million due primarily to foreign taxes in profitable locations and $2 million for withholding taxes applicable to license fee revenue from foreign locations partially offset by $2 million of tax benefits arising from other comprehensive income and Canadian tax credits. In addition, we recorded the tax effect of completion of the sale of a majority equity interest in two subsidiaries comprising $21 million of income tax expense in China and $6 million of withholding tax expense associated with a future repatriation of the gain generated in China by the Chinese portion of that transaction.

In future periods, we will apply the equity method of accounting to our 15% investment in the two former subsidiaries. Our share of applicable tax expense will be netted with the equity share of future profits or losses. In 2015, we recorded an income tax provision of $2 million related to the activities of the two former subsidiaries.

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.

For the six months ended June 25, 2016, we recorded an income tax provision of $30 million due to foreign taxes in profitable locations and items identified above.

In the second quarter of 2015 and six months ended June 27, 2015, we recorded an income tax provision of $1 million and $4 million, respectively, due to foreign taxes in profitable locations.

As of June 25, 2016, 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 June 25, 2016, in our estimate, is not more likely than not to be achieved.

Our gross unrecognized tax benefits as of June 25, 2016 were $41 million. We currently do not expect to reduce our unrecognized tax benefits over the next 12 months. We do not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the settlement, resolution or closure of 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		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
	(In millions)			
Cost of sales	$—	$ 1	$1	$ 2
Research and development	10	10	19	20
Marketing, general and administrative	8	6	14	12
Stock-based compensation expense, net of tax of $0	$18	$ 17	$34	$ 34

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 $18 million in the second quarter of 2016 slightly increased from $17 million in the second quarter of 2015.

Stock-based compensation expense of $34 million in the first six months of 2016 was flat compared to the first six months of 2015.

FINANCIAL CONDITION

Liquidity and Capital Resources

As of June 25, 2016, our cash and cash equivalents were $957 million compared to $785 million as of December 26, 2015. The increase during the first six months of 2016 was primarily due to the $351 million net proceeds from sale of equity interests in the ATMP JV, the $52 million associated with the licensing agreement with the China JVs and timing of accounts payable payments, partially offset by debt interest payments of $73 million and $47 million used for purchases of property, plant and equipment in the first six months of 2016. The percentage of cash and cash equivalents held domestically was 88% as of June 25, 2016, flat compared to December 26, 2015.

Our debt obligations of $2.2 billion net of unamortized debt issuance costs as of June 25, 2016 were flat compared to December 26, 2015.

We believe our cash and cash equivalents 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, as amended, 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 $127 million in the first six months of 2016 compared to $229 million in the first six months of 2015. The improvement in operating activities was primarily due to timing of accounts payable payments, lower wafer purchases, lower operating expenses including lower labor costs, as a result of restructuring actions and receipt of $52

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million associated with the licensing agreement with the China JVs, partially offset by lower cash collections during the first six months of 2016 compared to the first six months of 2015 mainly due to timing.

Investing Activities

Net cash provided by investing activities was $303 million in the first six months of 2016, which consisted of net cash inflow of $351 million from sale of equity interests in the ATMP JV, partially offset by a cash outflow of $47 million for purchases of property, plant and equipment.

Net cash provided by investing activities was $196 million in the first six months of 2015, which consisted of net cash inflow of $235 million from purchases, sales and maturity of available for sale securities, partially offset by a cash outflow of $39 million for purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities was $4 million in the first six months of 2016 primarily due to $4 million net repayments of Secured Revolving Line of Credit borrowings.

Net cash provided by financing activities was $57 million in the first six months of 2015, primarily due to $100 million net proceeds from our Secured Revolving Line of Credit borrowings, of which $42 million was used to repay the remaining aggregate principal amount of our 6.00% Notes during the second quarter of 2015.

During the first six months of 2016 and 2015, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any effects relating to financing cash flows for these periods.

Contractual Obligations

The following table summarizes our consolidated principal contractual obligations, as of June 25, 2016, and is supplemented by the discussion following the table:

	Payments due by period as of June 25, 2016						
(In millions)	Total	Remainder of 2016	2017	2018	2019	2020	2021 and thereafter
6.75% Notes	$600	$ —	$—	$—	$600	$—	$ —
7.75% Notes	450	—	—	—	—	450	—
7.50% Notes	475	—	—	—	—	—	475
7.00% Notes	500	—	—	—	—	—	500
Secured Revolving Line of Credit	226	226	—	—	—	—	—
Other long-term liabilities	103	—	25	38	33	5	2
Aggregate interest obligation (1)	815	74	148	148	128	106	211
Operating leases	271	26	44	34	29	28	110
Purchase obligations (2)	667	623	38	5	1	—	—
Obligations to GF (3)	434	434	—	—	—	—	—
Total contractual obligations (4)	$4,541	$ 1,383	$255	$225	$791	$589	$ 1,298

(1) Represents estimated aggregate interest obligations for our outstanding debt obligations that are payable in cash, excluding non-cash amortization of debt issuance costs and the impacts of the interest rate swap agreements.

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

(3) Includes our currently known purchase obligations to GF for wafer manufacturing and research and development activities, which include certain wafer deliveries under the fifth amendment to the WSA that had been delayed to fiscal 2016. We cannot meaningfully quantify or estimate our future purchase obligations to GF beyond this amount because we are currently in the process of negotiating a sixth amendment to the WSA. We expect that our future purchases from GF will continue to be material.

(4) Total amount excludes contractual obligations already recorded on our condensed consolidated balance sheets except for debt obligations and other long-term liabilities.

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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).

As of June 25, 2016, the outstanding aggregate principal amount of our 6.75% Notes was $600 million.

7.75% Senior Notes Due 2020

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

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

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

As of June 25, 2016, the outstanding aggregate principal amount of our 7.75% Notes was $450 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).

As of June 25, 2016, the outstanding aggregate principal amount of our 7.50% Notes was $475 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	%

As of June 25, 2016, the outstanding aggregate principal amount of our 7.00% Notes was $500 million.

Potential Repurchase of Outstanding Notes

We may elect to purchase or otherwise retire all or a portion of our 6.75% Notes, 7.75% Notes, 7.50% Notes and 7.00% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer when we believe the market conditions are favorable to do so.

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. 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).

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 $75 million available for issuance of letters of credit, which remained unchanged from the loan and security agreement dated November 12, 2013, as amended on December 11, 2014. 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 matures on April 14, 2020 and 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 June 25, 2016 and December 26, 2015, the Secured Revolving Line of Credit had an outstanding loan balance of $226 million and $230 million, at an interest rate of 4.25% and 4.00%, respectively. At June 25, 2016, the Secured Revolving Line of Credit also had $21 million related to outstanding letters of credit, and up to $163 million available for future borrowings. 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 June 25, 2016, we were in compliance with all required covenants stated in the Amended and Restated Loan Agreement.

The agreements governing our 6.75% Notes, 7.75% Notes, 7.50% Notes, 7.00% 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.

First Amendment to the Amended and Restated Loan and Security Agreement

On June 10, 2015, the Loan Parties entered into a first amendment to the Amended and Restated Loan and Security Agreement (the "First Amendment") by and among the Loan Parties, the Lenders and the Agent, which modifies the

Amended and Restated Loan and Security Agreement. Amendments to the Amended and Restated Loan Agreement effected by the First Amendment included the addition of exceptions to the liens and asset sale covenants to permit the Loan Parties to enter into certain supply chain finance arrangements, as well as the addition of certain definitions related thereto.

Second Amendment to the Amended and Restated Loan and Security Agreement

On April 29, 2016, the Loan Parties entered into a second amendment to the Amended and Restated Loan and Security Agreement (the “Second Amendment”) by and among the Loan Parties, the Lenders and the Agent, which modifies the Amended and Restated Loan and Security Agreement. The primary amendment to the Amended and Restated Loan Agreement effected by the Second Amendment related to the expansion of the definition of permitted asset dispositions to include the sale or transfer of inventory to the ATMP JV pursuant to the Equity Interest Purchase Agreement between AMD and NFME.

Third Amendment to the Amended and Restated Loan and Security Agreement

On June 21, 2016, the Loan Parties entered into a third amendment to the Amended and Restated Loan and Security Agreement (the “Third Amendment”) by and among the Loan Parties, the Lenders and the Agent, which modifies the Amended and Restated Loan and Security Agreement. Amendments to the Amended and Restated Loan Agreement effected by the Third Amendment included the further expansion of the asset sale covenants to permit the Loan Parties to enter into certain supply chain finance arrangements.

Other Long-Term Liabilities

Other long-term liabilities in the contractual obligations table above primarily consists of $101 million of payments due under certain software and technology licenses that will be paid through 2020.

Other long-term liabilities in the contractual obligations table above exclude amounts recorded on our condensed consolidated balance sheet that do not require us to make cash payments, which, as of June 25, 2016, primarily consisted of $16 million of deferred gains resulting from certain real estate transactions that occurred in Sunnyvale, California in 1998, in Markham, Ontario, Canada in 2015 and 2008 and in Singapore in 2013 and $13 million interest accretion for future payments related to software and technology licenses. Deferred rent related to our facilities in Sunnyvale, California of $5 million and operating lease accruals of $5 million are excluded from other long-term liabilities in the contractual obligations table above as they are included in the operating leases obligations. Also excluded from other long-term liabilities in the contractual obligations table above are $12 million deferred tax liabilities, $3 million non-current unrecognized tax benefits and $3 million of environmental reserves, which represent potential cash payments that could be payable by us upon settlements with the related authorities. We have not included these amounts in the contractual obligations table above because we cannot make reasonably reliable estimates regarding the timing of the settlements with the related authorities, if any.

Operating Leases

We lease certain of our facilities and, in some jurisdictions, we lease the land on which our facilities are built under non-cancelable lease agreements that expire at various dates through 2028. We lease certain office equipment for terms ranging from one to five years. Total future non-cancelable lease obligations as of June 25, 2016 were $271 million, including $218 million of future lease payments and estimated operating costs related to the real estate transactions that occurred in Austin, Texas, Sunnyvale, California, Markham, 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.

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 June 25, 2016, total non-cancelable purchase obligations were $667 million.

Obligations to GF

Our currently known purchase obligations to GF for wafer manufacturing and research and development activities are approximately $434 million in fiscal 2016 which include certain wafer deliveries under the fifth amendment to the WSA that had been delayed to fiscal 2016. We are not able to meaningfully quantify or estimate our future purchase obligations to GF beyond this amount because we are currently in the process of negotiating a sixth amendment to the WSA. We expect that our future purchases from GF will continue to be material.

Off-Balance Sheet Arrangements

As of June 25, 2016, we had no off-balance sheet arrangements.

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 26, 2015.

There have not been any material changes in market risk since December 26, 2015.

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 the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 25, 2016, 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 second quarter of 2016 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION
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. OEMs that purchase microprocessors for computer systems are highly dependent on Intel, less innovative on their own and, to a large extent, are distributors of Intel technology. Additionally, Intel is able to drive de facto standards and specifications for x86 microprocessors that could cause us and other companies to have delayed access to such standards.

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 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.

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 rely on GF to manufacture all of our microprocessor and APU products and a certain portion of our GPU products, 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. Pursuant to the WSA, we are required 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 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.

Additionally, if our requirements are less than the number of wafers that we committed to purchase, we could have excess inventory or higher inventory unit costs, both of which may adversely impact our gross margin and our results of operations.

We are currently in the process of negotiating a sixth amendment to the WSA, and we expect that our future purchases from GF will continue to be material. If we do not successfully conclude our negotiations, it could have a material adverse impact on 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 assemble, test and package 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.

On April 29, 2016, we consummated the transaction contemplated by the Equity Interest Purchase Agreement dated October 15, 2015 with Nantong Fujitsu Microelectronics Co., Ltd. (JV Party), under which we sold to JV Party 85% of the equity interests in our ATMP facilities consisting of AMD Technologies (China) Co., Ltd. (now Suzhou TF-AMD Semiconductor Co., Ltd.) and Advanced Micro Devices Export Sdn. Bhd., thereby forming two joint ventures (collectively, the JVs). Going forward, the majority of our ATMP services will be provided by the JVs and there is no guarantee that the JVs will be able to adequately fulfill our ATMP requirements as we transition operations to the JV Party, nor is there any 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 segments, which have experienced and continue to experience a decline driven by, among other factors, the adoption of smaller form factors, increased competition and changes in replacement cycles. 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 a 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.

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, our top two and our top five customers accounted for approximately 54% and 74% of our net revenue, respectively, during the second quarter of 2016. On a segment basis, during the second quarter of 2016, five customers accounted for approximately 59% of the net revenue of our Computing and Graphics segment and five customers accounted for approximately 97% of the net revenue of our Enterprise, Embedded and Semi-Custom 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.

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

Our total debt as of June 25, 2016 was $2.2 billion, net of unamortized debt issuance costs. Our substantial indebtedness may:

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

We enter into interest rate swap agreements from time to time to manage our exposure to interest rate risk. These swap agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, the risk that these arrangements may not be effective in reducing our exposure to changes in interest rates and the risk that our exposure to interest rates may increase if interest rates increase.

We also 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 7.75% Senior Notes due 2020 (7.75% Notes), 7.50% Senior Notes due 2022 (7.50% Notes), 7.00% Senior Notes due 2024 (7.00% Notes) and 6.75% Senior Notes due 2019 (6.75% Notes) contain various covenants which limit our ability to, among other things:

- incur additional indebtedness;
- pay dividends and make other restricted payments;
- make certain investments, including investments in our unrestricted subsidiaries;
- create or permit certain liens;
- create or permit restrictions on the ability of certain restricted subsidiaries to pay dividends or make other distributions to us;
- use the proceeds from sales of assets;

- enter into certain types of transactions with affiliates; and
- consolidate or merge or sell our assets as an entirety or substantially as an entirety.

Our Secured Revolving Line of Credit also contains various covenants which limit our ability to, among other things, make certain investments, merge or consolidate with other entities and permit certain subsidiaries from incurring indebtedness. In addition, 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 First Amended and Restated Loan Agreement) available cash is greater than the greater of 20% of the total commitment amount and $100 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 any liens upon any of the Loan Parties' property (other than customary permitted liens and liens on up to $1.5 billion of secured credit facilities debt (which amount includes our Secured Revolving Line of Credit));
- declare or make 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
- become party to certain agreements restricting the Loan Parties' ability to enter into any non-arm's-length transaction with an affiliate.

The agreements governing our notes and our Secured Revolving Line of Credit contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness or any failure to repay debt when due in an amount in excess of $50 million would cause a cross default under the indentures governing our 7.75% Notes, 7.50% Notes, 7.00% Notes and 6.75% Notes, as well as under our Secured Revolving Line of Credit. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under our Secured Revolving Line of Credit to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable. If the note holders or the trustee under the indentures governing our 7.75% Notes, 7.50% Notes, 7.00% Notes, 6.75% Notes or the lenders under our Secured Revolving Line of Credit accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

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

The markets in which our products are sold are very competitive and delivering the latest and best products to market on a timely basis is critical to achieving revenue growth. We believe that the main factors that determine our product competitiveness are timely product introductions, product quality (including enabling state-of-the-art visual experience), 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 companion 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.

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.

For example, in the third quarter of 2015, we recorded an inventory write-down of $65 million consisting primarily of older generation APUs, which adversely impacted our operating results. Since market conditions are uncertain, these and other factors could materially adversely affect our business.

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 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 Sony PlayStation®4 and Microsoft Xbox One game console systems worldwide.

The completion and impact of the 2015 Restructuring Plan, our transformation initiatives and any future restructuring actions could adversely affect us.

In the third quarter of 2015, we implemented a restructuring plan (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 largely involved a reduction of global headcount by approximately 5% and includes organizational actions such as outsourcing certain IT services and application development. We expect the 2015 Restructuring Plan to be largely completed by the end of the third quarter of 2016. These restructuring actions and any future restructuring actions could have an adverse impact on our business as a result of decreases in employee morale and the failure to meet operational targets due to the loss of employees. We cannot be sure that we will realize operational savings or any other anticipated benefits from the 2015 Restructuring Plan or any future restructuring actions. Any operating savings are subject to assumptions, estimates and significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays or if other unforeseen events occur, our business and financial results could be adversely affected.

Any transformation initiatives or future restructuring actions we undertake may fail to achieve the anticipated results and may materially adversely affect our business and financial results.

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 consumer demand for more features and greater functionality from semiconductor products may exceed the capabilities of the third-party intellectual property or development tools available to us. If the third-party intellectual property that we use becomes unavailable, is not available 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 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 product development programs.

Much of our future success depends upon the continued service of numerous qualified engineering, marketing, sales and executive personnel. If we are not able to continue to attract, train and retain qualified personnel necessary for our business, the progress of our product development 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. 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 7.75% Notes, 7.50% Notes, 7.00% Notes and 6.75% Notes then outstanding at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the repurchase date. In addition, a change of control would be an event of default under our Secured Revolving Line of Credit. As of June 25, 2016, $226 million was outstanding under our Secured Revolving Line of Credit and $2.03 billion was outstanding under our notes. Future debt agreements may contain similar provisions. We may not have the financial resources to repurchase our outstanding notes and prepay all of our outstanding obligations under our Secured Revolving Line of Credit.

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

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

- substantial declines in average selling prices;
- the cyclical nature of supply 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, form factor devices continue to shift from desktop PCs and notebooks to smaller form factor devices. A large portion of our Computing and Graphics revenue is focused on consumer desktop PC and notebook segments, which have experienced and continue to experience a decline driven by, among other factors, the adoption of smaller form factors, increased competition and changes in replacement cycles.

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.

We may not achieve the objectives and expectations with respect to future operations, products and services. On April 29, 2016, we consummated the transaction contemplated by the Equity Interest Purchase Agreement dated October 15, 2015 with JV Party, under which we sold to JV Party 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 adequately fulfill our ATMP requirements as we transition operations to the JV Party, nor is there any 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 and Tianjin Haiguang Advanced Technology Investment Co., Ltd. (THATIC), comprised of two separate legal entities, China JV1 and China JV2 (collectively, the China JVs). The China JVs' primary purpose 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 China JVs 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 China JVs' products to be developed on the basis of such Licensed IP. We may not realize the expected benefits from this joint venture, including the China JVs' 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 the China JVs' products.

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 substantial 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 purchase equipment and materials for our internal back-end manufacturing operations from a number of suppliers and our operations depend upon obtaining deliveries of adequate supplies of equipment and materials on a timely basis. Our third-party suppliers also depend on the same timely delivery of adequate quantities of equipment and materials in the manufacture of our products. 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 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 77% in the second quarter of 2016. 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, could have a material adverse effect on our business. Any of the above risks, should they occur, could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, longer payment cycles, increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business.

Worldwide political conditions may adversely affect demand for our products.

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

Unfavorable currency exchange rate fluctuations could adversely affect us.

We have costs, assets and liabilities that are denominated in foreign currencies. 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 11 of our condensed 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 supplier's 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 Securities and Exchange Commission (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.

Recently the US 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 AMD to disclose its 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 AMD. While we have a policy and management systems to identify and avoid these practices in our supply chain, we cannot guarantee that AMD’s 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	Second Amendment to Amended and Restated Loan and Security Agreement dated as of April 29, 2016, among Advanced Micro Devices, Inc., AMD International Sales & Service, Ltd., ATI Technologies ULC and Bank of America, N.A.
10.2	Third Amendment to Amended and Restated Loan and Security Agreement dated as of June 21, 2016, among Advanced Micro Devices, Inc., AMD International Sales & Service, Ltd., ATI Technologies ULC and Bank of America, N.A.
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.

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.	
July 25, 2016	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