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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements as of December 31, 2011 and December 25, 2010 and for each of the three years in the period ended December 31, 2011 and related notes, which are included in this Form 10-K as well as with the other sections of this Form 10-K, including "Part I, Item 1: Business," "Part II, Item 6: Selected Financial Data," and "Part II, Item 8: Financial Statements and Supplementary Data."

Introduction

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

(i) x86 microprocessors, as standalone devices or as incorporated as an APU, for the commercial and consumer markets, embedded microprocessors for commercial, commercial client and consumer markets and chipsets for desktop and mobile devices, including mobile PCs and tablets, professional workstations and servers; and

(ii) graphics, video and multimedia products for desktop and mobile devices, including mobile PCs and tablets, home media PCs and professional workstations, servers and technology for game consoles.

In MD&A, we will describe the general financial condition and the results of operations for Advanced Micro Devices, Inc. and its consolidated subsidiaries, including a discussion of our results of operations for 2011 compared to 2010 and 2010 compared to 2009, an analysis of changes in our financial condition and a discussion of our contractual obligations and off balance sheet arrangements. For accounting purposes, we consolidated the accounts of GLOBALFOUNDRIES, Inc. (GF) and its consolidated subsidiaries from March 2, 2009 through December 26, 2009. Accordingly, for this period, references in this Item 7 and in Item 8 "Financial Statements and Supplementary Data" to "us," "our," or "AMD" include the consolidated operating results of AMD and its consolidated subsidiaries, including GF and its consolidated subsidiaries.

Overview

In 2011, we experienced important changes in our business. First, we continued to develop and deliver differentiated products. We launched our AMD family of APU products and experienced strong customer demand, especially for our AMD E-Series and C-Series APUs designed for low-power desktop and mobile platforms, codenamed "Brazos," and our AMD A-Series APUs, codenamed "Llano," for mainstream desktop and mobile platforms. We introduced a number of competitive graphics products in 2011. In July 2011, we launched the AMD Radeon™ HD 6990M graphics processor designed for enthusiast mobile gamers. We also launched the AMD Radeon HD 7970 graphics processor in December 2011, our first graphics processor based on 28nm process technology and AMD's Graphic Core Next Technology. We also continued to focus on improving our competitive position in the server market and believe we regained momentum in the second half of 2011 with the introduction of our new multi-core AMD Opteron™ 6200 and 4200 series processors, which are based on our "Bulldozer" x86 architecture.

During 2011, we continued to focus on optimizing our financial model. In November 2011, we implemented a restructuring plan designed to strengthen our competitive positioning, implement a more competitive cost structure and conduct a workforce rebalancing to better address faster growing market segments. We expect that the restructuring plan will result in operational savings, primarily in operating expenses, of approximately $118 million in 2012. We also implemented additional efficiencies across our operations, which we expect will save approximately $90 million in 2012 operating expenses in addition to the restructuring plan savings, resulting in more than $200 million of expected combined operational savings in 2012. We intend to use a significant portion of the anticipated savings to fund initiatives designed to accelerate our strategies for low power, emerging markets and the cloud. We also focused on improving our balance sheet. We reduced our outstanding debt by approximately $200 million principal amount in 2011, and we generated non-GAAP adjusted free cash flow, which we describe in more detail in the "Financial Condition – Liquidity" section below, of $528 million, a significant improvement compared to non-GAAP adjusted free cash flow of $355 million in 2010.

However, our progress during 2011 was tempered by supply constraints related to our 32nm microprocessor products. We took steps during the course of the year to better manage our relationships with our third-party wafer foundries, and during the second half of 2011, 32nm yields and performance have improved.

Net revenue for 2011 was $6.6 billion, relatively flat compared to net revenue of $6.5 billion for 2010. Gross margin, as a percentage of net revenue for 2011 was 45%, a 1% decrease compared to 46% in 2010. Gross margin in 2011 included a $24 million charge recorded in connection with a payment to GF, primarily related to certain GF manufacturing assets, and a charge of approximately $5 million related to a legal settlement. Gross margin in 2010 included a $69 million benefit related to the deconsolidation of GF. Absent the effects of these events, which we believe are not indicative of our ongoing operating performance, our gross margin would have been 45% in each of 2011 and 2010. Beginning in the first quarter of 2011, we changed our method of accounting for our ownership interest in GF from the equity method to the cost method of accounting. As a result, we no longer recognize any share of GF's net income or loss in our consolidated statements of operations.

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GLOBALFOUNDRIES

Formation and Accounting in 2009

On March 2, 2009, we consummated the transactions contemplated by the Master Transaction Agreement among us, ATIC, and WCH, pursuant to which we formed GF. At the closing of these transactions (the Closing), we contributed certain assets and liabilities to GF, including, among other things, shares of the groups of German subsidiaries owning our manufacturing facilities, certain manufacturing assets, real property, tangible personal property, employees, inventories, books and records, a portion of our patent portfolio, intellectual property and technology, rights under certain material contracts and authorizations necessary for GF to carry on its business. In exchange we received GF securities consisting of one Class A Ordinary Share, 1,090,950 Class A Preferred Shares and 700,000 Class B Preferred Shares, and the assumption of certain liabilities by GF. ATIC contributed $1.4 billion of cash to GF in exchange for GF securities consisting of one Class A Ordinary Share, 218,190 Class A Preferred Shares, 172,760 Class B Preferred Shares, $202 million aggregate principal amount of 4% Class A Subordinated Convertible Notes (the Class A Notes) and $807 million aggregate principal amount of 11% Class B Subordinated Convertible Notes (the Class B Notes), and transferred $700 million of cash to us in exchange for the transfer by us of 700,000 GF Class B Preferred Shares.

At the Closing, we also issued to WCH, for an aggregate purchase price of $125 million, 58 million shares of our common stock and warrants to purchase 35 million shares of our common stock at an exercise price of $0.01 per share (the Warrants). The Warrants are currently exercisable and expire on March 2, 2019. The shares issuable under these Warrants have been included in our basic and diluted earnings per share calculation since the third quarter of 2009 when the Warrants became exercisable.

Under the Master Transaction Agreement, the cash consideration that WCH and ATIC paid and the securities that they received are as follows:

- Cash paid by WCH to AMD for the purchase of 58 million shares of AMD common stock and Warrants: $125 million;
- Cash paid by ATIC to GF for the aggregate principal amount of Class A Notes, which are convertible into 201,810 Class A Preferred Shares: $202 million;
- Cash paid by ATIC to GF for the aggregate principal amount of Class B Notes, which are convertible into 807,240 Class B Preferred Shares: $807 million;
- Cash paid by ATIC to GF for 218,190 Class A Preferred Shares: $218 million;
- Cash paid by ATIC to GF for 172,760 Class B Preferred Shares: $173 million; and
- Cash paid by ATIC to AMD for 700,000 Class B Preferred Shares: $700 million.

At the Closing, AMD and ATIC owned 1,090,950, or 83%, and 218,190, or 17%, respectively, of Class A Preferred Shares, and ATIC owned 100% of the Class B Preferred Shares and 100% of the Class A Notes and Class B Notes.

In November 2009, upon the settlement of our litigation with Intel Corporation and the execution of a patent cross license agreement between us and Intel, the requirements satisfying the Reconciliation Event were met. As a result, GF's Class A and Class B Preferred Shares vote on an as converted basis with any outstanding GF Ordinary Shares.

Class B Preferred Shares. GF's Class B Preferred Shares rank senior in right of payment to all other classes or series of equity securities of GF for purposes of dividends, distributions and upon a liquidation, dissolution or winding up of GF (Liquidation Event). Each Class B Preferred Share is deemed to accrete in value at a rate of 12% per year, compounded semiannually, of the initial purchase price per such share. The accreted value accrues daily from the Closing and is taken into account upon certain distributions to the holders of Class B Preferred Shares or upon conversion of the Class B Preferred Shares. Upon a Liquidation Event, each Class B Preferred Share will be entitled to receive, prior to any distribution to the holders of any other classes or series of equity securities, an amount equal to its accreted value. Each Class B Preferred Share is convertible, at the option of the holder thereof, into Class B Ordinary Shares at the then applicable Class B Conversion Rate. Each Class B Preferred Share will also automatically convert into Class B Ordinary Shares at the then applicable Class B Conversion Rate upon the earlier of (i) an initial public offering of GF (IPO) or (ii) a change of control transaction of GF. The initial Class B Conversion Rate is 100 Class B Ordinary Shares for each Class B Preferred Share converted, subject to customary anti-dilution adjustments. The Class B Preferred Shares currently vote on an as-converted basis with any outstanding Ordinary Shares, voting together as a single class, with respect to any question upon which holders of Ordinary Shares have the right to vote.

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Class A Preferred Shares. GF's Class A Preferred Shares rank senior in right of payment to the Ordinary Shares of GF and junior in right of payment to the Class B Preferred Shares for purposes of dividends, distributions and upon a Liquidation Event. The Class A Preferred Shares are not entitled to any dividend or pre-determined accretion in value. Upon a Liquidation Event, each Class A Preferred Share will be entitled to receive, after the distribution to the holders of the Class B Preferred Shares but prior to any distribution to the holders of Ordinary Shares, out of any remaining assets of GF, an amount equal to the initial purchase price per share of the Class A Preferred Shares. Each Class A Preferred Share is convertible, at the option of the holder, into Class B Ordinary Shares at the then applicable Class A Conversion Rate. Each Class A Preferred Share will also automatically convert into Class B Ordinary Shares at the then applicable Class A Conversion Rate upon the earlier of (i) an IPO or (ii) a change of control transaction of GF. The initial Class A Conversion Rate is 100 Class B Ordinary Shares for each Class A Preferred Share, subject to customary anti-dilution adjustments. The Class A Preferred Shares currently vote on an as-converted basis with any outstanding Ordinary Shares, voting together as a single class, with respect to any question upon which holders of Ordinary Shares have the right to vote.

Class A Subordinated Convertible Notes. GF's Class A Notes accrue interest at a rate of 4% per annum, compounded semiannually. Interest on the Class A Notes is payable semiannually in additional Class A Notes. The Class A Notes are the unsecured obligations of GF and rank subordinated in right of payment to any current or future senior indebtedness of GF. The Class A Notes are not redeemable by GF without the note holder's consent. The Class A Notes are convertible, in whole or in part, in multiples of $1,000, into GF Class A Preferred Shares at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date based on the conversion ratio in effect on the date of conversion. The Class A Notes mature ten years from the date of issuance. However, they automatically convert into Class A Preferred Shares upon the earlier of (i) an IPO, (ii) certain change of control transactions of GF or (iii) the close of business on the business day immediately preceding the maturity date.

Class B Subordinated Convertible Notes. GF's Class B Notes accrue interest at a rate of 11% per annum, compounded semiannually. Interest on the Class B Notes is payable semiannually in additional Class B Notes. The Class B Notes are the unsecured obligations of GF and rank subordinated in right of payment to any current or future senior indebtedness of GF. The Class B Notes are not redeemable by GF without the note holder's consent. The Class B Notes are convertible, in whole or in part, in multiples of $1,000, into GF Class B Preferred Shares at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date at the conversion ratio in effect on the date of conversion. The Class B Notes mature ten years from the date of issuance. However, they automatically convert into GF Class B Preferred Shares upon the earlier of (i) an IPO, (ii) certain change of control transactions of GF or (iii) the close of business on the business day immediately preceding the maturity date.

Based on the structure of the transaction and the guidance on accounting for interests in variable interest entities, during 2009, GF was deemed a variable-interest entity, and we were deemed to be the primary beneficiary. Therefore, we were required to consolidate the accounts of GF from March 2, 2009 through December 26, 2009. For this period, ATIC's noncontrolling interest, represented by its equity interests in GF, was presented outside of stockholders' equity in the consolidated balance sheet due to ATIC's right to put those securities back to us in the event of a change of control of AMD during the two years following the date of the Closing. Our net income attributable to common stockholders per share consisted of our consolidated net income, as adjusted for (i) the portion of GF's losses attributable to ATIC, which was based on ATIC's proportional ownership interest in GF's Class A Preferred Shares (17% in 2009), and (ii) the non-cash accretion on GF's Class B Preferred Shares attributable to us, based on our proportional ownership interest of GF's Class A Preferred Shares (83% in 2009).

At the Closing, AMD, ATIC and GF also entered into a Shareholders' Agreement (the Shareholders' Agreement), a Funding Agreement (the Funding Agreement), and a Wafer Supply Agreement (the WSA), certain terms of which are summarized below.

Shareholders' Agreement. The Shareholders' Agreement sets forth the rights and obligations of AMD and ATIC as shareholders of GF. The initial GF board of directors (GF Board) consisted of eight directors, and AMD and ATIC each designated four directors. After the Reconciliation Event, the number of directors a GF shareholder may designate increases or decreases according to the percentage of GF's shares it owns on a fully diluted basis. We had the right to designate three directors to the GF Board as of December 26, 2009. If a change of control of AMD occurs after the Reconciliation Event, ATIC will have the option to purchase in cash any or all of the GF securities (valued at their fair market value) held by us and our permitted transferees, ATIC can require us or the other party to the change in control transaction to assume a pro-rata portion of ATIC's funding commitment under the Funding Agreement until 2013, and ATIC can require the other party to the change in control transaction to guarantee all of our obligations under the transaction documents.

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Funding Agreement. The Funding Agreement provides for the funding of GF and governs the terms and conditions under which ATIC is obligated to provide such funding. Pursuant to the Funding Agreement, ATIC has committed to additional equity funding of a minimum of $3.6 billion and up to $6.0 billion to be provided in phases over five years from the Closing. The aggregate amount of equity funding to be provided by the shareholders in any year depends on the time period of such funding and the amounts set forth in the five-year capital plan of GF. In addition, GF is required to obtain specified third-party debt in any given year, as set forth in its five-year capital plan. To the extent that GF obtains more than the specified amount of third-party debt, ATIC is able to reduce its funding commitment accordingly. We have the right, but not the obligation, to provide additional future capital to GF in an amount pro rata to our interest in the fully converted Ordinary Shares of GF. To the extent we choose not to participate in an equity financing of GF, ATIC is obligated to purchase our share of GF securities, subject to ATIC's funding commitments under the Funding Agreement.

ATIC's obligations to provide funding are subject to certain conditions, including the accuracy of GF's representations and warranties in the Funding Agreement, the absence of a material adverse effect on GF or us and the absence of a material breach or default by GF or us under the provisions of any transaction document. There are additional funding conditions which are set forth in more detail in the Funding Agreement.

During 2009, ATIC contributed $260 million of cash to GF in exchange for GF securities consisting of $52 million aggregate principal amount of Class A Notes and $208 million aggregate principal amount of Class B Notes. We declined to participate in the funding. As of December 26, 2009, our ownership interest in GF was approximately 32% on a fully diluted basis.

Wafer Supply Agreement. The WSA governs the terms by which we purchase products manufactured by GF. Pursuant to the WSA, during 2010, we purchased substantially all of our microprocessor unit (MPU) product requirements from GF. During 2010, we paid GF for wafers on a cost-plus basis. If we acquire a third-party business that manufactures MPU products, we will have up to two years to transition the manufacture of such MPU products to GF. In addition, once GF establishes certain specific qualified processes for bulk silicon wafers, we will purchase from GF, where competitive, specified percentages of our GPU requirements. At our request, GF will also provide sort services to us on a product-by-product basis.

We will provide GF with binding product forecasts of our MPU and GPU product requirements. The price for GPU products will be determined by the parties when GF is able to begin manufacturing GPU products for us.

The WSA terminates no later than March 2, 2024. GF has agreed to use commercially reasonable efforts to assist us to transition the supply of products to another provider, and to continue to fulfill purchase orders for up to two years following the termination or expiration of the WSA. During the transition period, pricing for microprocessor products will remain as set forth in the WSA, but our purchase commitments to GF will no longer apply.

Governance Changes, Funding and Accounting in 2010

Deconsolidation of GF

On December 18, 2009, ATIC International Investment Company (ATIC II) acquired Chartered Semiconductor Manufacturing Ltd. (Chartered). On December 28, 2009, with our consent, ATIC II, Chartered and GF entered into a Management and Operating Agreement (MOA), which provided for the joint management and operation of GF and Chartered, thereby allowing GF and Chartered to share costs, take advantage of operating synergies and market wafer fabrications services on a collective basis. In order to allow for the signing of the MOA on December 28, 2009, prior to obtaining any regulatory approvals, we agreed to irrevocably waive rights under the Shareholders Agreement with respect to certain matters that require unanimous GF Board approval. Additionally, if any such matters came before the GF Board, we agreed that our designated GF directors will vote in the same manner as the majority of ATIC-designated GF Board members voting on any such matters. As a result of waiving such approval rights, as of December 28, 2009, for financial reporting purposes we no longer shared control with ATIC over GF. Based on our fully diluted ownership interest in GF, we had the right to designate two directors to the GF Board of Directors as of December 25, 2010.

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In June 2009, the FASB issued an amendment to improve financial reporting by enterprises involved with variable interest entities. This new guidance became effective for us beginning the first day of 2010. Under the new guidance, the investor who is deemed to both (i) have the power to direct the activities of the variable interest entity that most significantly impact the variable interest entity's economic performance and (ii) be exposed to losses and returns will be the primary beneficiary who should then consolidate the variable interest entity. We evaluated whether the governance changes described above would, pursuant to the new guidance, affect our consolidation of GF. We considered the purpose and design of GF, the activities of GF that most significantly affect the economic performance of GF and the concept of "who has the power," as contemplated by the new guidance. Based on the results of this evaluation and in light of the governance changes whereby we believe we only had protective rights relative to the operations of GF, we concluded that the other investor in GF, ATIC, is the party who has the power to direct the activities of GF that most significantly impact GF's performance and is, therefore, the primary beneficiary of GF. Accordingly, effective as of December 27, 2009, we deconsolidated GF, and during fiscal 2010 we accounted for our ownership interest in GF under the equity method of accounting. For purposes of our application of the equity method of accounting during 2010, we recorded our share of GF's results excluding the results of Chartered because GF did not have an equity ownership interest in Chartered. The terms of the Funding Agreement and the WSA described above were not affected by the deconsolidation of GF. Following the deconsolidation, GF became our related party.

Funding of GF

Pursuant to each GF funding request from the beginning of 2010 through November 17, 2010, the equity securities issued by GF consisted of 20% of Class A Preferred Shares and 80% of Class B Preferred Shares. On November 24, 2010, we, ATIC and GF signed a letter agreement regarding future funding of GF. Pursuant to this letter agreement, the parties agreed that the securities to be issued in consideration of any future GF funding would consist solely of GF's Class A Preferred Shares. In addition, the purchase price per Class A Preferred Share would be determined by dividing GF's net tangible assets (derived from its most recent fiscal year-end audited consolidated balance sheet) by GF's total number of outstanding preferred shares (assuming the conversion of any outstanding GF Class A Notes into Class A Preferred Shares and Class B Notes into Class B Preferred Shares) as of the date of the balance sheet referred to above and multiplying by 1.10. Prior to the letter agreement, the funding multiple was 0.90.

During 2010, ATIC contributed $930 million of cash to GF in exchange for GF securities consisting of 444,313 Class A Preferred Shares and 617,695 Class B Preferred Shares. We did not participate in the fundings. As a result, our ownership interest in GF's Class A Preferred Shares decreased from approximately 83% as of December 26, 2009 to approximately 62% as of December 25, 2010, and our ownership interest in GF was approximately 23% on a fully diluted basis. These contributions resulted in an aggregate gain on our ownership interest dilution of $232 million, which we recorded as part of the equity in net loss of investee line item on our consolidated statement of operations.

Contribution Agreement, Funding and Accounting in 2011; Amended Shareholders', Funding and Wafer Supply Agreements

GLOBALFOUNDRIES Singapore Pte. Ltd. (GFS, formerly Chartered) Contribution in Fiscal 2011

On December 27, 2010, pursuant to the Contribution Agreement, ATIC International Investment Company LLC, an affiliate of ATIC, contributed all of the outstanding Ordinary Shares of GFS to GF in exchange for 2,808,981 newly issued shares of GF Class A Preferred Shares. The issuance of Class A Preferred Shares to ATIC International diluted our ownership interest in GF from 23% to 14% on a fully diluted basis and from 34% to 18% on a voting basis. As the result of this dilution, during the first quarter of 2011 and the year ended December 31, 2011, we recognized a non-cash gain of approximately $492 million, net of certain transaction related charges, in Equity income (loss) and dilution gain in investee, net. In connection with our reduced ownership interest in GF, the number of AMD-designated directors on GF's board decreased from two to one.

In connection with this contribution, we amended and restated the Shareholders' Agreement and the Funding Agreement.

Amended Shareholders' Agreement

On December 27, 2010, we amended the Shareholders' Agreement. Under the Amended and Restated Shareholders' Agreement, subject to certain exceptions set forth in the agreement, we have the right to designate one representative to the GF board of directors, which continues for two years following the date on which our ownership in GF, on a fully converted to GF ordinary shares basis, falls below 10%. Our ownership in GF, on a fully diluted basis, fell below 10% in September 2011. Therefore, we will no longer be able to designate a representative to the GF board of directors in September 2013.

Amended Funding Agreement

On December 27, 2010, we amended the Funding Agreement to implement the provisions of the November 24, 2010 letter agreement described above.

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Following the GFS contribution and governance changes described above, we assessed our ability to exercise significant influence over GF and considered factors such as our representation on GF's board of directors, participation in GF's policy-making processes, material intra-entity transactions, interchange of managerial personnel, technological dependency, and the extent of our ownership in relation to ownership by the other shareholders. Based on the results of our assessment, we concluded that we no longer had the ability to exercise significant influence over GF. Accordingly, as of the first quarter of 2011, we changed our method of accounting for our ownership interest in GF from the equity method to the cost method of accounting.

Under the cost method of accounting, we no longer recognize any share of GF's net income or loss in our consolidated statement of operations. In addition, we review the carrying value of our investment in GF for impairment at each reporting period. Impairment indicators, among other factors, include significant deterioration in GF's earnings performance or business prospects, significant changes in the market conditions in which GF operates, and GF's ability to continue as a going concern.

GF continues to be a related party of AMD. Our expenses related to GF's wafer manufacturing were $904 million and $1.2 billion in 2011 and 2010, respectively. Our total expenses related to research and development activities were $79 million and $114 million for 2011 and 2010, respectively. In addition, during the first quarter of 2011, we incurred a charge of $24 million related to a payment to GF, primarily for certain manufacturing assets of GF, which do not benefit us.

Funding of GF

During 2011, ATIC contributed $4.4 billion of cash to GF in exchange for GF securities consisting of 4,386,257 Class A Preferred shares. We did not participate in the fundings. As a result, our ownership interest in GF's Class A Preferred shares decreased from approximately 62% as of December 25, 2010, to approximately 12% as of December 31, 2011, and as of December 31, 2011, our ownership interest in GF was 9% on a fully diluted basis. Since the formation of GF through December 31, 2011, ATIC contributed an aggregate of $5.6 billion of cash to GF in exchange for GF securities.

Impairment of investment in GF

During the fourth quarter of 2011, we identified indicators of impairment, including revised financial projections which we received from GF. The fair value of our GF investment was determined by a valuation analysis of GF's Class A Preferred Shares, utilizing the revised financial projections. We concluded the decline in fair value is other than temporary. As a result of the valuation analysis, we recorded a non-cash impairment charge of approximately $209 million, based on the difference between the carrying value and the fair value of the investment as of December 31, 2011. As of December 31, 2011, our investment balance in GF after impairment was $278 million.

Amended Wafer Supply Agreement

On April 2, 2011, we amended the WSA. The primary effect of the amendment was to change the pricing methodology applicable to wafers delivered in 2011 for our microprocessors, including APU products. The amendment also modified our existing commitments regarding the production of certain GPU and chipset products at GF. Pursuant to the amendment, GF committed to provide us with, and we committed to purchase, a fixed number of 45nm and 32nm wafers per quarter in 2011. We paid GF a fixed price for 45nm wafers delivered in 2011. Our price for 32nm wafers varied based on the wafer volumes and manufacturing yield of such wafers and was based on good die. In addition, we also agreed to pay an additional quarterly amount to GF during 2012 totaling up to $430 million if GF met specified conditions related to continued availability of 32nm capacity as of the beginning of 2012. Under the current terms of the WSA, in 2012, we will compensate GF on a cost plus basis for projected manufacturing capacity that we have requested for our microprocessors, including APU products. However, we are currently in the process of negotiating a second amendment to the WSA, including the pricing methodology.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. 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 assets and liabilities. Although actual results have historically been reasonably consistent with management's expectations, actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

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We believe the following critical accounting estimates are the most significant to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

Revenue Allowances. We record a provision for estimated sales returns and allowances on product sales for estimated future price reductions and other customer incentives in the same period that the related revenues are recorded. We base these estimates on actual historical sales returns, allowances, historical price reductions, market activity, and other known or anticipated trends and factors. These estimates are subject to management's judgment, and actual provisions could be different from our estimates and current provisions, resulting in future adjustments to our revenues and operating results.

Inventory Valuation. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand. These projections assist us in determining the carrying value of our inventory. Generally, inventories on hand in excess of forecasted demand for the next two quarters are not valued. In addition, we write off inventories that are considered obsolete. We adjust the remaining specific inventory balances to approximate the lower of our standard manufacturing cost or market value. Among other factors, management considers forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and net realizable value. If, in any period, we anticipate future demand or market conditions to be less favorable than our previous estimates, additional inventory write-downs may be required and would be reflected in cost of sales in the period the revision is made. This would have a negative impact on our gross margin in that period. If in any period we are able to sell inventories that were not valued or that had been written off in a previous period, related revenues would be recorded without any offsetting charge to cost of sales, resulting in a net benefit to our gross margin in that period.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but rather is tested for impairment at least annually, or more frequently if there are indicators of impairment present.

We perform the annual goodwill impairment analysis as of the first day of the fourth quarter of each fiscal year. We evaluate whether goodwill has been impaired at the reporting unit level by first determining whether the estimated fair value of the reporting unit is less than its carrying value and, if so, by determining whether the implied fair value of goodwill within the reporting unit is less than the carrying value. The implied fair value of goodwill is determined through the application of one or more valuation models common to our industry, including the income, market and cost approaches. While market valuation data for comparable companies is gathered and analyzed, we believe that there has not been sufficient comparability between the peer groups and the specific reporting units to allow for the derivation of reliable indications of value using a market approach. Therefore, we have ultimately employed the income approach which requires estimates of future operating results and cash flows of each of the reporting units, discounted using estimated discount rates. The key assumptions we have used to determine the fair value of our reporting units includes projected cash flows for the next 10 years and discount rates ranging from 15% to 30%. Discount rates are based on our weighted average cost of capital, adjusted for the risks associated with operations. A variance in the discount rate could have a significant impact on the amount of the goodwill impairment charge recorded, if any.

Based on the results of our annual analysis of goodwill in 2011 and 2010, each reporting unit's fair values exceeded their carrying values by a significant amount, indicating that there was no goodwill impairment.

Impairment of Long-Lived Assets including Acquired Intangible Assets. We consider quarterly whether indicators of impairment of long-lived assets and intangible assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset and significant changes in the extent or manner in which an asset is used. If these or other indicators are present, we test for recoverability of the asset by determining whether the estimated undiscounted cash flows attributable to the assets in question are less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined through discounted future cash flows, appraisals or other methods. Significant judgment is involved in estimating future cash flows and deriving the discount rate to apply to the estimated future cash flows, and in evaluating the results of appraisals or other valuation methods. For example, in recent analyses performed, discount rates have ranged from 18% to 32%, but this may not be indicative of future analyses. If the asset determined to be impaired is to be held and used, we recognize an impairment loss through a charge to our operating results, which also reduces the carrying basis of the related asset. The new carrying value of the related asset is depreciated or amortized over the remaining estimated useful life of the asset. We also must make subjective judgments regarding the remaining useful life of the asset. We may incur additional impairment losses in future periods if factors influencing our estimates of the undiscounted cash flows change. For assets held for sale, impairment losses are measured at the lower of the carrying amount of the assets or the fair value of the assets less costs to sell. For assets to be disposed of other than by sale, impairment losses are measured as their carrying amount less salvage value, if any, at the time the assets cease to be used.

Income Taxes. In determining taxable income for financial statement reporting purposes, we must make certain estimates and judgments. These estimates and judgments are applied in the calculation of certain tax liabilities and in the determination of the

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recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our charge to income tax expense, in the form of a valuation allowance, for the deferred tax assets that we estimate will not ultimately be recoverable. We consider past performance, future expected taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the Internal Revenue Service or other taxing jurisdiction. If our estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result. We recognize potential accrued interest and penalties related to unrecognized tax benefits as interest expense and income tax expense, respectively.

Results of Operations

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

We review and assess operating performance using segment net revenues and operating income (loss) before interest, other income (expense), net, equity income (loss) and dilution gain in investee, net and income taxes. These performance measures include the allocation of expenses to the operating segments based on management's judgment.

In the first quarter of 2009, as a result of the formation of GF, we began reviewing and assessing operating performance using the following reportable segments:

- the Computing Solutions segment, which included microprocessors, chipsets and embedded processors and related revenue;
- the Graphics segment, which included graphics, video and multimedia products and related revenue as well as revenue received in connection with the development and sale of game console systems that incorporate our graphics technology; and
- the Foundry segment, which included operating results attributable to front end wafer manufacturing operations and related activities, including the operating results of GF, from March 2, 2009 to December 26, 2009.

In addition to these reportable segments, we had an All Other category, which was not a reportable segment. This category included certain expenses and credits that were not allocated to any of the operating segments because management did not consider these expenses and credits in evaluating the performance of the operating segments. These expenses were non-Foundry segment related expenses and included employee stock-based compensation expense, restructuring charges and amortization of acquired intangible assets. We also reported the results of the Handheld business unit in the All Other category because the operating results of this business unit were not material. We also had an Intersegment Eliminations category, which was also not a reportable segment. This category included intersegment eliminations for revenue, cost of sales and profits on inventory related to transactions between the Computing Solutions segment and the Foundry segment.

Beginning in the first quarter of 2010, as a result of the deconsolidation of GF, we no longer had a Foundry segment or an Intersegment Eliminations category. We began reviewing and assessing operating performance using the following reportable segments:

- the Computing Solutions segment, which includes microprocessors, as standalone devices or as incorporated as an APU, chipsets, and embedded microprocessors, embedded GPUs and related revenue; and
- the Graphics segment, which includes graphics, video and multimedia products and related revenue as well as revenue received in connection with the development and sale of game console systems that incorporate our graphics technology.

We continue to have an All Other category, as described above.

We use a 52 or 53 week fiscal year ending last Saturday in December. The years ended December 31, 2011, December 25, 2010 and December 26, 2009 included 53 weeks, 52 weeks and 52 weeks, respectively. However, the extra week in 2011 did not have a material impact on our results of operations. References in this report to 2011, 2010 and 2009 refer to the fiscal year unless explicitly stated otherwise.

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The following table provides a summary of net revenue and operating income (loss) by segment and income (loss) from continuing operations before income taxes for 2011, 2010 and 2009.

	2011	2010	2009
		(In millions)	
Net revenue:			
Computing Solutions	$5,002	$4,817	$ 4,170
Graphics	1,565	1,663	1,167
Foundry	—	—	1,101
All Other	1	14	66
Intersegment Eliminations	—	—	(1,101)
Total net revenue	$6,568	$6,494	$ 5,403
Operating income (loss):			
Computing Solutions	$ 556	$ 529	$ 142
Graphics	51	149	35
Foundry	—	—	(433)
All Other	(239)	170	968
Intersegment Eliminations	—	—	(48)
Total operating income	$ 368	$ 848	$ 664
Interest income	10	11	16
Interest expense	(180)	(199)	(438)
Other income (expense), net	(199)	311	166
Equity income (loss) and dilution gain in investee, net	492	(462)	—
Income from continuing operations before income taxes	$ 491	$ 509	$ 408

Computing Solutions

Computing Solutions net revenue of $5.0 billion in 2011 increased 4% compared to net revenue of $4.8 billion in 2010, primarily as a result of a 16% increase in unit shipments partially offset by an 11% decrease in average selling price. The increase in unit shipments was attributable to an increase in unit shipments of our microprocessors, including APU products for mobile devices, as well as our chipset products. Unit shipments of our microprocessors, including APU products for mobile devices increased due to strong demand for our Brazos and Llano-based APU platforms. However, the increase in unit shipments in 2011 was limited by supply constraints with respect to certain microprocessor products manufactured using the 32nm technology node. Chipset unit shipments increased primarily due to an increase in overall unit shipments of our microprocessor products. The decrease in overall average selling price was primarily attributable to a decrease in the average selling price of our microprocessors for servers due to a shift in our product mix and competitive market conditions as well as sales of our Brazos APU platforms, which have a lower average selling price than our other processor products.

Computing Solutions net revenue of $4.8 billion in 2010 increased 16% compared to net revenue of $4.2 billion in 2009, primarily as a result of an 18% increase in unit shipments partially offset by a 2% decrease in average selling price. The increase in unit shipments was attributable to an increase in unit shipments of our microprocessor products for mobile devices as well as chipset products, resulting primarily from an improved economic environment. In addition, chipset unit shipments increased as customers increasingly adopted our chipsets with our microprocessor products, while unit shipments of our microprocessors for mobile devices increased due to increased demand from existing and new customers for our new notebook platforms. Average selling price decreased due to a decrease in average selling price of embedded processors, partially offset by an increase in average selling price of our chipsets and microprocessor products. Average selling price of embedded processors decreased due to a shift in our product mix to lower-end, legacy products. Average selling price of microprocessor products increased due to a favorable shift in our product mix to higher end microprocessors, especially for servers, as customers continued to transition to our AMD Opteron™ 6000 series server platforms. Average selling price of our chipset products increased primarily due to a shift in product mix.

Computing Solutions operating income was $556 million in 2011 compared to $529 million in 2010. The improvement in operating results was primarily due to the increase in net revenue referenced above, partially offset by a $70 million increase in cost of sales, a $45 million increase in research and development expenses and a $42 million increase in marketing, general and administrative expenses. Cost of sales increased primarily due to higher microprocessor and chipsets unit shipments and the absence of a one-time benefit related to the deconsolidation of GF in 2010. Research and development expenses and marketing, general and administrative expenses increased for the reasons set forth under “Expenses,” below.

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Computing Solutions operating income was $529 million in 2010 compared to $142 million in 2009. The improvement was primarily due to the increase in net revenue referenced above and a $25 million decrease in cost of sales, partially offset by a $224 million increase in research and development expenses and a $61 million increase in marketing, general and administrative expenses. Cost of sales decreased due to reductions in manufacturing costs and a one-time benefit related to the deconsolidation of GF in 2010. Research and development expenses and marketing, general and administrative expenses increased for the reasons set forth under "Expenses," below.

Graphics

Graphics net revenue of $1.6 billion in 2011 decreased by 6% compared to net revenue of $1.7 billion in 2010. The decrease was due to a 6% decrease in net revenue from sales of GPU products. Net revenue from sales of GPU products decreased primarily due to a decrease in both GPU unit shipments and average selling price. The decrease in GPU unit shipments was primarily due to lower customer demand which we believe was due in part to the disruption in the supply of hard disk drives caused by the flooding in Thailand at the beginning of 2011. GPU average selling price decreased due to a shift in our product mix to lower end GPU products.

Graphics net revenue of $1.7 billion in 2010 increased 43% compared to net revenue of $1.2 billion in 2009. The increase was due to a 49% increase in net revenue from sales of GPU products. Net revenue from sales of GPU products increased primarily due to an increase in both GPU unit shipments and average selling price. Unit shipments increased due to strong demand for our DX 11® —ATI Radeon™ products. However, the increase was limited by supply constraints primarily related to constrained wafer foundry capacity in the first half of 2010. Supply constraints improved in the third quarter of 2010, and we did not experience any supply constraints during the fourth quarter of 2010. GPU average selling price increased due to a shift in our product mix to higher end GPU products.

Graphics operating income was $51 million in 2011 compared to $149 million in 2010. The decline in operating results was primarily due to the decrease in net revenue referenced above and a $20 million increase in marketing, general and administrative expenses, partially offset by a $25 million decrease in cost of sales. Marketing, general and administrative expenses increased for the reasons set forth under "Expenses," below. Cost of sales decreased primarily due to lower GPU shipments and correspondingly lower manufacturing costs.

Graphics operating income was $149 million in 2010 compared to $35 million in 2009. The improvement was primarily due to the increase in net revenue referenced above, partially offset by a $345 million increase in cost of sales due to higher GPU unit shipments, a $22 million increase in research and development expenses and a $15 million increase in marketing, general and administrative expenses. Research and development expenses and marketing, general and administrative expenses increased for the reasons set forth under "Expenses," below.

Foundry

Foundry net revenue was $1.1 billion in 2009. Foundry operating loss was $433 million in 2009. In 2011 and 2010, we did not have a Foundry segment.

All Other

All Other revenue was immaterial in 2011, $14 million in 2010 and $66 million in 2009. All Other revenue declined because as of 2009, we no longer developed new Handheld products. We decided to exit the Handheld business after selling certain graphics and multimedia technology assets and intellectual property to Qualcomm in the first quarter of 2009.

All Other operating loss of $239 million in 2011 included $98 million in restructuring charges, net, $90 million of stock-based compensation expense, $29 million related to amortization of acquired intangible assets and a $24 million charge recorded in connection with a payment to GF primarily related to certain GF manufacturing assets that did not benefit us.

All Other operating income of $170 million in 2010 included $283 million of income from the settlement of our litigation with Samsung in the fourth quarter of 2010, a $30 million one-time benefit recognized in the first quarter of 2010 related to the deconsolidation of GF, and $14 million of net revenue, partially offset by $87 million of stock-based compensation expense and $61 million related to the amortization of acquired intangible assets,

All Other operating income of $968 million in 2009 included $1.2 billion of income from the settlement of our litigation with Intel in the fourth quarter of 2009 and $66 million of net revenue, partially offset by stock-based compensation expense of $69 million, $65 million in restructuring charges, net, $55 million of cost of sales, $46 million in research and development expenses and $32 million in marketing, general and administrative expenses.

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Intersegment Eliminations

Intersegment eliminations represent eliminations during consolidation in revenue and in cost of sales and profits on inventory between the Computing Solutions segment and the Foundry segment. For 2009, intersegment eliminations of revenue were $1.1 billion and intersegment eliminations of cost of sales and profits on inventory were $48 million. In 2011 and 2010, we did not have an Intersegment Eliminations category.

Comparison of Gross Margin, Expenses, Interest Income, Interest Expense, Other Income (Expense), Net, Income Taxes and Equity Income (Loss) and Dilution Gain in Investee, Net

The following is a summary of certain consolidated statement of operations data for 2011, 2010 and 2009.

	2011	2010	2009
	(In millions, except for percentages)		
Cost of sales	$3,628	$3,533	$ 3,131
Gross margin	2,940	2,961	2,272
Gross margin percentage	45%	46%	42%
Research and development	1,453	1,405	1,721
Marketing, general and administrative	992	934	994
Legal settlement	—	(283)	(1,242)
Amortization of acquired intangible assets	29	61	70
Restructuring charges (reversals), net	98	(4)	65
Interest income	10	11	16
Interest expense	(180)	(199)	(438)
Other income (expense), net	(199)	311	166
Provision (benefit) for income taxes	(4)	38	112
Equity income (loss) and dilution gain in investee, net	492	(462)	—

Gross Margin

Gross margin as a percentage of net revenue was 45% in 2011 compared to 46% in 2010. Gross margin in 2011 included a $24 million charge recorded in connection with a payment to GF for certain GF manufacturing assets and a charge of approximately $5 million related to a legal settlement. Gross margin in 2010 included a $69 million benefit related to the deconsolidation of GF. Absent the effects of these events, which we believe are not indicative of our ongoing operating performance, our gross margin would have been 45% in each of 2011 and 2010. Gross margin, as adjusted for the factors described above, remained flat in 2011 compared to 2010. During 2011, unit shipments of our low-cost, margin accretive Brazos APU platforms increased compared to 2010. However, this improvement in gross margin was offset by an unfavorable mix in supply of microprocessor products manufactured using the 32nm technology node and a decline in average selling price of our microprocessor products for servers.

Gross margin as a percentage of net revenue was 46% in 2010 compared to 42% in 2009. Gross margin in 2010 included the $69 million benefit related to the deconsolidation of GF. Gross margin in 2009 included $159 million attributable to the Foundry segment and Intersegment Eliminations related to profits on inventory and a $171 million benefit related to the sale of inventory that had been written-down in the fourth quarter of 2008. The factors that led to the sale of the inventory that was previously written down were the stabilization of the overall macroeconomic environment and improved business conditions in 2009 compared to the end of 2008, which led to an increase in end-user demand for PCs and, correspondingly, an increase in customer orders for, and shipments of, our products. Absent the effects of these events, which we believe are not indicative of our ongoing operating performance, our gross margin would have been 45% in 2010 compared to 36% in 2009. The improvement in gross margin, as adjusted for the factors described above, was primarily attributable to an improvement in our manufacturing costs, including our utilization of GF's manufacturing facilities, and higher average selling price for microprocessors and GPUs due to a favorable shift in product mix.

During 2009, we recorded grants and allowances GF received from the State of Saxony and the Federal Republic of Germany in connection with GF's manufacturing facilities in Dresden, Germany as long-term liabilities on our consolidated financial statements. We amortized these amounts as they were earned as a reduction to operating expenses. The amortization of the production related grants and allowances were recorded as a credit to cost of sales. The credit to cost of sales totaled $46 million in 2009. The fluctuations in the recognition of these credits did not significantly impact our consolidated gross margins. With the deconsolidation of GF as of the beginning of 2010, our consolidated financial statements no longer directly reflected such credits to cost of sales. However, these credits had a favorable impact on the amounts that we paid GF pursuant to the WSA in 2010.

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Expenses

Research and Development Expenses

Research and development expenses of $1.5 billion in 2011, increased by $48 million, or 3%, compared to $1.4 billion in 2010. The increase was primarily due to a $45 million increase in research and development expenses attributable to our Computing Solutions segment as a result of a $79 million increase in product engineering and design costs for our future products, partially offset by a $27 million decrease in other employee compensation and benefit expense and a $7 million decrease in manufacturing process technology expenses related to GF for our future products.

Research and development expenses of $1.4 billion in 2010, decreased by $316 million, or 18%, compared to $1.7 billion in 2009. In 2009, research and development expenses included $524 million in research and development expenses related to the Foundry segment. Without taking into account the research and development expenses attributable to the Foundry segment, which are not indicative of our ongoing performance, research and development expenses would have increased by $208 million in 2010 as compared to 2009. This increase was due to a $224 million increase in research and development expenses attributable to our Computing Solutions segment and a $22 million increase in research and development expenses attributable to our Graphics segment, partially offset by a $38 million decrease in research and development expenses attributable to our All Other category. The increase in research and development expenses attributable to our Computing Solutions segment was primarily due to a $91 million increase in product engineering and design costs for our future products, a $68 million increase in employee compensation and benefit expense and a $64 million increase in manufacturing process technology expenses related to GF for our future products. The increase in research and development expenses attributable to our Graphics segment was primarily due to a $33 million increase in employee compensation and benefit expense, partially offset by a $13 million decrease in product engineering and design costs due to lower material costs used in 2010. The decrease in research and development expenses attributable to our All Other category was primarily due to lower research and development expenses related to handheld products because we no longer develop these products.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of $992 million in 2011, increased by $58 million, or 6%, compared to $934 million in 2010. The increase was primarily due to a $42 million increase in marketing, general and administrative expenses attributable to our Computing Solutions segment and a $20 million increase in marketing, general and administrative expenses attributable to our Graphics segment. The increase in marketing, general and administrative expenses attributable to our Computing Solutions segment was primarily due to a $41 million increase in sales and marketing activities resulting from an increase in regional marketing programs and labor expenses and a $14 million increase in general and administrative expenses, partially offset by a $12 million decrease in other employee compensation and benefit expense. The increase in marketing, general and administrative expenses in our Graphics segment was primarily due to a $22 million increase in sales and marketing activities resulting from an increase in regional marketing programs and labor expenses.

Marketing, general and administrative expenses of $934 million in 2010, decreased by $60 million, or 6%, compared to $994 million in 2009. Marketing, general and administrative expenses in 2009 included $116 million attributable to the Foundry segment. Without taking into account the marketing, general and administrative expenses attributable to the Foundry segment, which are not indicative of our ongoing performance, marketing, general and administrative expenses would have increased by $56 million. This increase was due to a $61 million increase in marketing, general and administrative expenses attributable to our Computing Solutions segment and a $15 million increase in marketing, general and administrative expenses attributable to our Graphics segment, partially offset by a $21 million decrease in marketing, general and administrative expenses attributable to our All Other category. The increase in marketing, general and administrative expenses in our Computing Solutions segment was primarily due to a $101 million increase in sales and marketing activities, a $26 million increase in employee compensation and benefit expenses, a $15 million increase in labor expenses and a $7 million increase in other general and administrative expenses. These increases were partially offset by an $88 million decrease in legal expenses following our settlement with Intel in 2009. The increase in marketing, general and administrative expenses attributable to our Graphics segment was primarily due to a $15 million increase in employee benefit and compensation expenses and other general and administrative expenses. The decrease in marketing, general and administrative expenses attributable to the All Other category was mainly due to the absence of $21 million of expenses incurred in connection with the formation of GF in the first quarter of 2009.

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Legal Settlements

Samsung Settlement

In the fourth quarter of 2010, we entered into a Patent License and Settlement Agreement with Samsung to end all outstanding legal disputes related to pending patent litigation between us and Samsung. Pursuant to this agreement, all claims between the parties were dismissed with prejudice and Samsung agreed to pay us $283 million less any withholding taxes. We received the first payment of $119 million (which represents $143 million less withholding taxes) in December 2010. The remaining amount of $117 million (which represents $140 million less withholding taxes) was paid in two equal installments in May 2011 and in November 2011. In addition, pursuant to the settlement agreement, Samsung granted us, and we granted to Samsung, non-exclusive, royalty-free licenses to all patents and patent applications for ten years after the effective date of the Agreement to make, have made, use, sell, offer to sell, import and otherwise dispose of certain semiconductor- and electronic-related products anywhere in the world.

This settlement encompassed all patent litigation and disputes between the parties. At the time we entered into the Agreement, we did not have any future obligations that we were required to perform in order to earn this settlement payment. Accordingly, we recognized the entire settlement amount in our operating results for the fourth quarter of 2010.

Intel Settlement

In the fourth quarter of 2009, we entered into an agreement with Intel to end all outstanding legal disputes between us and Intel, including antitrust litigation and patent cross license disputes. Under the terms of the agreement:

- AMD and Intel agreed to a new 5-year patent cross license agreement that gives AMD broad rights and the freedom to operate a business utilizing multiple foundries;
- Intel and AMD waived all claims of breach from the previous license agreement;
- Intel paid us $1.25 billion;
- Intel agreed to abide by a set of business practice provisions going forward;
- we dropped all pending litigation, including a case in U.S. District Court in Delaware and two cases pending in Japan; and
- we withdrew all of our regulatory complaints worldwide.

This settlement encompasses all past antitrust litigation and disputes between us and Intel. At the time we entered into the agreement, we did not have any future obligations that we were required to perform to earn this settlement payment. That is, the patent cross license agreement represented fully paid up licenses by both AMD and Intel for which no future payments or delivery was required. Accordingly, we recognized the entire settlement amount in our 2009 operating results.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets was $29 million in 2011, $61 million in 2010 and $70 million in 2009. The decrease from 2009 to 2010 and from 2010 to 2011 was due to the reduced amortization base amount of the acquired intangible assets.

Effects of Restructuring Plans

In the fourth quarter of 2011, we initiated a restructuring plan to strengthen our competitive positioning, implement a more competitive cost structure and conduct a workforce rebalancing to better address faster growing market segments. The plan primarily involved a reduction of our global workforce by approximately 10% and contract and program terminations. The plan also involved additional cost reduction actions that will take place in 2012. We expect that the 2011 restructuring plan will be substantially completed during 2012. We recorded a $100 million restructuring charge in the fourth quarter of 2011, which consisted of $54 million for severance and costs related to the continuation of certain employee benefits, $45 million for contract or program termination costs and $1 million for asset impairments. Of the $100 million restructuring charge recorded in the fourth quarter of 2011, we expect approximately $52 million in cash expenditures in 2012 and approximately $15 million in cash expenditures in 2013. In the fourth quarter of 2011, we also reversed approximately $2 million of costs associated with our 2008 restructuring plan because the actual restoration costs for vacated facilities were lower than previously estimated.

In addition, we currently estimate that we will record restructuring expense in 2012 of approximately $5 million. Of this amount, approximately $4 million is related to severance and costs of continuation of certain employee benefits and approximately $1 million is related to facility site closures, substantially all of which we expect to pay in 2012.

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The following table provides a summary of the fourth quarter of 2011 restructuring activities and the related liabilities recorded in “Other current liabilities” and “Other long-term liabilities” on our consolidated balance sheet remaining as of December 31, 2011:

	Severance and related benefits	Other exit Related Costs	Total
		(In millions)	
Balance December 25, 2010	$ —	$ —	$—
Charges	54	46	100
Cash payments	(32)	—	(32)
Non-cash charges	—	(1)	(1)
Balance December 31, 2011	$ 22	$ 45	$ 67

In the fourth quarter of 2008, we initiated a restructuring plan to reduce our cost structure, which was substantially completed in 2009. This plan primarily involved the termination of employees. The restructuring charges recorded in conjunction with this plan primarily represented severance and costs related to the continuation of certain employee benefits, contract or program termination costs, asset impairments and exit costs for facility consolidations and closures.

The following table provides a summary of each major type of cost associated with the 2011 and 2008 restructuring plans for the periods presented:

	2011	2010	2009
		(In millions)	
Severance and benefits	$54	$ (4)	$25
Contract or program terminations	45	—	12
Asset impairments	1	—	8
Facility consolidations and closures	(2)	—	20
Total	$98	$ (4)	$65

Interest Income

Interest income of $10 million in 2011 was relatively flat as compared to $11 million in 2010. The weighted-average interest rate decreased in 2011 compared to 2010. However, the impact of this was offset by an increase in average cash balance during 2011.

Interest income of $11 million in 2010 decreased by $5 million from $16 million in 2009, primarily due to the absence of $4 million of GF interest income. GF interest income is not reflected in our results of operations in 2010 as a result of the deconsolidation of GF.

Interest Expense

	2011	2010	2009
		(In millions)	
Total interest charges	$180	$199	$439
Less: interest capitalized	—	—	(1)
Interest expense	$180	$199	$438

Total interest charges of $180 million in 2011 decreased by $19 million from $199 million in 2010. Interest expense decreased primarily due to the net reduction in the principal amount of our outstanding debt.

Total interest charges of $199 million in 2010 decreased by $240 million from $439 million in 2009. Of this decrease, $153 million was attributable to the deconsolidation of GF and $77 million was attributable to a net reduction in the principal amount of our outstanding debt.

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Other Income (Expense), Net

Other expense, net in 2011 was $199 million compared to $311 million of other income, net in 2010 and $166 million of other income, net in 2009.

In 2011, we recognized an impairment charge on our investment in GF of approximately $209 million and a $6 million loss related to our repurchase of $200 million aggregate principal amount of our 6.00% Notes, partially offset by $8 million gain on foreign currency exchange rate fluctuations.

In 2010, we recognized a one-time, non-cash gain related to the deconsolidation of GF of approximately $325 million, a $17 million gain from the sale of our marketable securities and an $8 million gain related to an earn-out payment that we received in connection with the acquisition of a company that we had invested in, partially offset by a $24 million loss related to our repurchase of $1,016 million principal amount of our 6.00% Notes and $14 million loss due to foreign currency exchange rate fluctuations.

In 2009, we repurchased $344 million principal amount of our 6.00% Notes, resulting in a gain of $174 million, and we repurchased $1,015 million principal amount of our 5.75% Notes, resulting in a gain of $6 million. In addition, we recognized a gain of $15 million on settlement of a liability related to certain foreign currency exchange contracts, a gain of $28 million on the sale of certain Handheld assets, and a $25 million gain from a class action legal settlement with DRAM manufacturers. These gains were partially offset by a $27 million foreign exchange loss, a $17 million charge for real estate transfer taxes in connection with the GF manufacturing joint venture transaction and a $10 million charge related to the AMTC joint venture. During 2009, we also redeemed the remaining outstanding principal amount of our 7.75% Notes resulting in a net loss of $11 million and recorded other than temporary impairment charge of $3 million relating to our investment in Spansion Inc.

Income Taxes

We recorded an income tax benefit of $4 million in 2011 and an income tax provision of $38 million and $112 million in 2010 and 2009, respectively.

The income tax benefit in 2011 was primarily due to tax benefits of $4 million from the monetization of U.S. and Canadian tax credits, a $4 million reversal of unrecognized tax benefits in foreign jurisdictions, primarily due to a favorable audit resolution in a foreign jurisdiction, net of $4 million of taxes in profitable foreign locations.

The income tax provision in 2010 was primarily due to withholding taxes paid to the Korean tax authorities in connection with the payment we received from Samsung in December 2010 pursuant to the Patent License and Settlement Agreement as well as foreign taxes in profitable locations offset by benefits, including the monetization of U.S. research and development credits, an alternative minimum tax refund on net operating loss carryback in the United States and the reversal of unrecognized tax benefits in foreign jurisdictions.

The income tax provision in 2009 was primarily due to a one-time loss of deferred tax assets for German net operating loss carryovers upon transfer of our ownership interests in our Dresden subsidiaries to GF plus foreign taxes in profitable locations offset by discrete tax benefits, including the monetization of U.S. research and development credits.

As of December 31, 2011, substantially all of our U.S. and foreign deferred tax assets, net of deferred tax liabilities, continued to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which, at December 31, 2011, in management's estimate, is not more likely than not to be achieved.

Equity Income (Loss) and Dilution Gain in Investee, Net

During the time that we applied the equity method of accounting for our ownership interest in GF, our equity in net loss of investee primarily consisted of our proportionate share of GF's losses for the period based on our ownership percentage of GF's Class A Preferred Shares, our portion of the non-cash accretion on GF's Class B Preferred Shares, the elimination of intercompany profit, reflecting the mark-up on inventory that remained on our consolidated balance sheet at the end of the period, the amortization of basis differences identified from the purchase price allocation process, based on the fair value of GF upon deconsolidation and, to the extent applicable, the gain or loss on dilution of our ownership interest as a result of the capital infusion into GF by ATIC.

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Stock-Based Compensation Expense

Stock-based compensation expense related to employee stock options, restricted stock and restricted stock units for the years ended December 31, 2011, December 25, 2010 and December 26, 2009 was allocated in our consolidated statements of operations as follows:

	2011	2010	2009
		(In millions)	
Cost of sales	$ 6	$ 4	$ 3
Research and development	46	46	40
Marketing, general and administrative	38	37	32
Total stock-based compensation expense, net of tax of $0	$90	$87	$75

During 2011, 2010 and 2009, we did not realize any excess tax benefits related to stock-based compensation and therefore we did not record any related financing cash flows.

Stock-based compensation expenses of $90 million in 2011 increased $3 million compared to $87 million in 2010. This increase was primarily due to the acceleration of vesting of all unvested equity awards held by our former Chief Executive Officer in the first quarter of 2011 as a result of his resignation from AMD, effective January 10, 2011, and a higher number of employee stock options and restricted stock units granted in 2011 compared to 2010, partially offset by a lower average grant date fair value in 2011 as compared to 2010.

Stock-based compensation expenses of $87 million in 2010 increased $12 million compared to $75 million in 2009. This increase was primarily due to a higher average grant date fair value in 2010 as compared to 2009.

As of December 31, 2011, we had $21 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock options that will be recognized over the weighted average period of 2.08 years. Also, as of December 31, 2011, we had $103 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock and restricted stock units that will be recognized over the weighted average period of 1.79 years.

International Sales

International sales as a percentage of net revenue were 93% in 2011, 88% in 2010 and 87% in 2009. 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.

FINANCIAL CONDITION

Liquidity

As of December 31, 2011, our cash, cash equivalents and marketable securities balances remained relatively flat at $1.8 billion when compared to cash, cash equivalents and marketable securities as of December 25, 2010.

During 2011, we invested $149 million in long-term marketable securities, which we intend to hold for more than one year, and do not intend to use in current operations. Our long-term marketable securities are invested in corporate bonds and money market funds that have maximum stated maturities of 2 years. As of December 31, 2011, the fair value of these long-term marketable securities was $149 million.

As of December 31, 2011, our debt and capital lease obligations were $2 billion, which reflects a debt discount adjustment of $75 million on our 6.00% Notes and 8.125% Notes. The principal amount outstanding of our 5.75% Notes of $485 million matures in August 2012. We have classified this amount as current portion of long term debt on our balance sheet. We may elect to refinance the outstanding amount of our 5.75% Notes, or to purchase or otherwise retire the outstanding amount of our 5.75% Notes in open market or privately negotiated transactions, either directly or through intermediaries. Otherwise, we will pay off the outstanding amount of our 5.75% Notes at maturity.

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For 2011, our adjusted free cash flow was $528 million. Adjusted free cash flow is a non-GAAP measure, which we calculated by taking GAAP net cash provided by operating activities of $382 million and adding an amount of $396 million, which represents payments made by certain of our distributor customers during 2011 to IBM Credit LLC and certain of its subsidiaries (collectively, the IBM Parties) pursuant to our former accounts receivable financing arrangement among AMD, certain AMD subsidiaries and the IBM Parties, which we describe in further detail below. We adjusted the resulting amount of $778 million by subtracting capital expenditures, which were $250 million for 2011. When compared to adjusted free cash flow of $355 million in 2010, the increase was attributable to a higher GAAP net cash provided by operating activities, which increased by $794 million, partially offset by an increase of $102 million in capital expenditures, and a decrease of $519 million in payments made by our distributor customers to the IBM Parties in 2011 as compared to 2010. Our capital expenditures increased in 2011 compared to 2010 primarily due to the implementation of a financial transformation project to improve operational efficiency and also due to the acquisition of a new data center. We terminated our financing arrangement with the IBM Parties in February 2011. We did not make any adjustments to GAAP net cash provided by operating activities related to this financing arrangement in the third or fourth quarters of 2011 because there were no outstanding invoices, and we do not intend to do so in future periods.

We had various supplier agreements with the IBM Parties pursuant to which we sold invoices of selected distributor customers. Under this financing arrangement, we did not recognize revenue until our distributors sold our products to their customers. Under GAAP, we classified funds received from the IBM Parties as debt on the balance sheet. Moreover, for cash flow purposes, we classified these funds as cash flows from financing activities. When a distributor paid the applicable IBM Party, we reduced the distributor’s accounts receivable and the corresponding debt, resulting in a non-cash accounting entry. Because we did not receive the cash from the distributor to reduce the accounts receivable, the distributor’s payment was never reflected in our cash flows from operating activities.

Generally, under GAAP, the reduction in accounts receivable is assumed to be a source of operating cash flow. Therefore, we believe that treating the payments from our distributor customers to the IBM Parties as if we actually received the cash from the distributor and then used that cash to pay down the debt to the IBM Parties was more reflective of the economic substance of the financing arrangement with the IBM Parties. We calculate and communicate adjusted free cash flow because our management believes it is important for investors to understand the nature of these cash flows. Our calculation of adjusted free cash flow may or may not be consistent with the calculation of this measure by other companies in the same industry. Investors should not view adjusted free cash flow as an alternative to GAAP liquidity measures of cash flows from operating or financing activities.

We believe that cash, cash equivalents and marketable securities balances as of December 31, 2011, anticipated cash flow from operations and available external financing will be sufficient to fund operations, including capital expenditures over the next twelve months.

We believe that in the event we require additional funding, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, we cannot be certain that such funding will be available on terms favorable to us or at all.

Over the longer term, should additional funding be required, such as to meet payment obligations of our long-term debt when due, we may need to raise the required funds through borrowings or public or private sales of debt or equity securities, which may be issued from time to time under an effective registration statement, through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933, or a combination of one or more of the foregoing. Uncertain global economic conditions have in the past and may in the future adversely impact our business. We cannot assure you that conditions will improve, and they could worsen. If market conditions do not improve or 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.

Auction Rate Securities

As a result of the uncertainties in the credit markets as mentioned above, all of our auction rate securities (ARS) were negatively affected and auctions for these securities failed to settle on their respective settlement dates since February 2008. However, there have been no defaults, and we have received all interest payments as they became due.

During 2011, we received proceeds of $21 million upon the redemption of ARS that had a carrying value of $19 million.

As of December 31, 2011, the par value of our ARS was $45 million, with an estimated fair value of $38 million. Total ARS, at fair value, represented 2% of our total investment portfolio as of December 31, 2011.

Based on the recent tender and redemption activities and the fact that the secondary market for these securities has become more liquid, with pricing generally similar to our carrying value, we classified these securities as marketable securities as of December 31, 2011. We have the intent and believe we have the ability to sell these securities within the next 12 months.

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Operating Activities

Net cash provided by operating activities was $382 million in 2011. Net income of $491 million was adjusted for non-cash charges consisting primarily of $317 million of depreciation and amortization expense, a $209 million impairment charge on our investment in GF, $90 million of stock based compensation expense, and $21 million of interest expense related to our 6.00% Notes and our 8.125% Notes. These charges were partially offset by recognition of a one-time, non-cash gain of $492 million due to the dilution of our equity interest in GF. The net changes in operating assets at December 31, 2011 compared to December 25, 2010 included an increase in accounts receivable of $347 million, which included the non-cash impact of our previous financing arrangements with the IBM Parties. During 2011, the IBM Parties collected approximately $396 million from our distributor customers pursuant to these arrangements. Without considering the collection by the IBM Parties of the accounts receivables that we sold to them, our accounts receivable decreased $49 million. This decrease was primarily due to timing of sales and collections during 2011. There was also a decrease in prepaid expenses and other assets of $115 million primarily due to the receipt of the final settlement payment from Samsung of $117 million.

Net cash used in operating activities was $412 million in 2010. Net income of $471 million was adjusted for non-cash charges consisting primarily of a $462 million loss from the application of the equity method of accounting for our investment in GF, $383 million of depreciation and amortization expense, $87 million of stock-based compensation expense, $30 million of interest expense related to our 6.00% Notes and our 8.125% Notes and a $24 million net loss related to our repurchase of an aggregate of $1,016 million principal amount of our 6.00% Notes for $1,011 million in cash. These charges were partially offset by a one-time, non-cash gain of $325 million related to the deconsolidation of GF, amortization of foreign grants of $16 million and a net gain of $17 million from the sale of marketable securities. The net changes in operating assets at December 25, 2010 compared to December 26, 2009 included an increase in accounts receivable of $1,138 million, which included the non-cash impact of our financing arrangement with the IBM Parties. During 2010, the IBM Parties collected approximately $915 million from our distributor customers pursuant to these arrangements. Without considering the collection by the IBM Parties of the accounts receivables that we sold to them, our accounts receivable increased $223 million. This increase was primarily due to the introduction and sale of new products towards the end of 2010 and the timing of the related collections. Excluding the effects of the deconsolidation of GF, there was also a decrease in accounts payable, accrued liabilities and other of $184 million, primarily due to the timing of payments. Accounts payable to GF increased by $55 million due to the timing of payments during 2010.

Net cash provided by operating activities was $473 million in 2009, which included $1.2 billion from the settlement of our litigation with Intel. Net income of $293 million was adjusted for non-cash charges consisting primarily of $1.1 billion of depreciation and amortization expense, $121 million of interest expense primarily related to GF’s Class A Notes and Class B Notes and our 6.00% Notes, $75 million of stock-based compensation expense, a $28 million net loss from the sale and disposal of property, plant and equipment and an $11 million net loss primarily related to the redemption of all of our 7.75% Senior Notes due 2012. These charges were offset by a net gain of $180 million related to our repurchase of an aggregate of $344 million principal amount of our 6.00% Notes for $161 million in cash and $1,015 million principal amount of our 5.75% Notes for $1,002 million in cash, amortization of foreign grants and allowances of $110 million and a gain of $28 million from the sale of certain Handheld assets. The net changes in operating assets at December 26, 2009 compared to December 27, 2008 included an increase in accounts receivable of $960 million. During 2009, the IBM Parties collected approximately $535 million from our distributor customers pursuant to the financial arrangement described above. Without considering the collections by the IBM Parties of the accounts receivables that we sold to them, the increase in accounts receivable was $425 million. This increase was primarily due to timing of sales and collections during 2009. There was also a decrease in accounts payable and accrued liabilities of $105 million, primarily due to lower purchases reflecting the effect of our cost cutting efforts and timing of payments.

Investing Activities

Net cash used in investing activities was $113 million in 2011. We had a net cash outflow of $234 million for the purchase and sale of property, plant and equipment, and payments of $17 million for professional services related to the contribution of GFS to GF. The net cash outflows were partially offset by a net cash inflow of $140 million for purchase, sale, and maturity of available-for-sale securities.

Net cash used in investing activities was $1.1 billion in 2010. The cash flow effect of the deconsolidation of GF was an outflow of $904 million, which consisted of GF’s cash and cash equivalents. In addition, we had a net cash outflow of $147 million for purchases of property, plant and equipment and of $160 million for purchases of available-for-sale securities. The net cash outflows were partially offset by a net cash inflow of $69 million from the sale of trading securities.

Net cash used in investing activities was $1.3 billion in 2009 primarily as a result of a net cash outflow of $883 million for the purchase of available-for-sale securities and $466 million for purchases of property, plant and equipment, of which $394 million related to property, plant and equipment attributable to the Foundry segment. This was partially offset by $58 million of proceeds from sale of certain Handheld assets and $14 million of proceeds from the maturity of trading securities.

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Financing Activities

Net cash used in financing activities was $6 million in 2011 as a result of payments of $202 million to repurchase $200 million aggregate principal amount of our 6.00% Notes. This amount was partially offset by $170 million of proceeds from our former financing arrangement with the IBM parties, $20 million in proceeds from foreign grants from the Canadian government for research and development activities related to our AMD Fusion products and from the Malaysian and Chinese governments for our local microprocessor assembly, test and packaging facilities, and $18 million from the exercise of employee stock options. During 2011, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any related financing cash flows.

Net cash provided by financing activities was $484 million in 2010 primarily as a result of proceeds of $988 million from our former financing arrangement with the IBM Parties, $490 million from the sale and issuance of $500 million aggregate principal amount of the 7.75% Notes, $19 million in proceeds from foreign grants from the Canadian government for research and development activities related to our Fusion products and from the Malaysian and Chinese governments for our local microprocessor assembly, test and packaging facilities and $15 million from the exercise of employee stock options. These amounts were partially offset by payments of $1,011 million to repurchase $1,016 million aggregate principal amount of our 6.00% Notes. During 2010, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any related financing cash flows.

Net cash provided by financing activities was $1.5 billion in 2009 primarily as a result of proceeds of $2.3 billion from the issuance of GF's Class A Notes, Class B Notes, Class A Preferred Shares and Class B Preferred Shares, of which $1.6 billion constituted cash proceeds to GF, proceeds of $605 million from our former financing arrangement with the IBM Parties, proceeds of $440 million from the issuance of $500 million aggregate principle of 8.125% Notes, proceeds of $15 million from a revolving credit line between our subsidiary in China and China Merchant Bank, proceeds of $125 million from the sale of 58 million shares of AMD common stock and warrants to purchase 35 million shares of AMD common stock at an exercise price of $0.01 per share to WCH in connection with the formation of the GF manufacturing joint venture, and proceeds from grants and allowances from the Federal Republic of Germany and the State of Saxony of $55 million for GF's Dresden manufacturing facilities. These amounts were partially offset by payments to Leipziger Messe of $180 million to repurchase its partnership interests in our former subsidiary in Dresden, Germany, AMD Fab 36 KG, $67 million related to the guaranteed rate of return on these partnership interests and $10 million related to a call option premium to Leipziger Messe for the early repurchase of these partnership interests. Net cash provided by financing activities was also partially offset by $1.8 billion of payments on certain debt and capital lease obligations, primarily consisting of $1,002 million to repurchase $1,015 million aggregate principal amount of our 5.75% Notes, $398 million to redeem $390 million aggregate principal amount of our 7.75% Senior Notes due 2012 and $161 million to repurchase $344 million aggregate principal amount of our 6.00% Notes. During 2009, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any related financing cash flows.

Contractual Obligations

The following table summarizes our consolidated principal contractual cash obligations, as of December 31, 2011, and is supplemented by the discussion following the table:

		Payment due by period					
(In millions)	Total	2012	2013	2014	2015	2016	2017 and beyond
5.75% Convertible Senior Notes due 2012	$ 485	$485	$—	$—	$—	$—	$ —
6.00% Convertible Senior Notes due 2015[(1)]	580	—	—	—	580	—	—
8.125% Senior Notes due 2017[(1)]	500	—	—	—	—	—	500
7.75% Senior Notes due 2020	500	—	—	—	—	—	500
Other long-term liabilities	21	—	19	1	—	—	1
Aggregate interest obligation[(2)]	714	133	114	114	94	79	180
Capital lease obligations[(3)]	31	6	6	6	6	6	1
Operating leases	175	36	32	29	24	17	37
Purchase obligations[(4)]	374	302	38	21	13	—	—
Total contractual obligations	$3,380	$962	$209	$171	$717	$102	$ 1,219

(1) Represents aggregate principal amount of the notes, without the effect of associated discounts.

(2) Represents estimated aggregate interest obligations for our outstanding debt obligations that are payable in cash, excluding capital lease obligations. Also excludes non-cash amortization of debt discounts on the 8.125% Notes and the 6.00% Notes.

(3)

(3) Includes principal and imputed interest.

(4) We have purchase obligations for goods and services where payments are based, in part, on the volume or type of services we require. In those cases, we only included the minimum volume of purchase obligations in the table above. Also, purchase orders for goods and services that are cancelable upon notice and without significant penalties are not included in the amounts above. This amount does not include estimates of future purchase obligations to GF under the Wafer Supply Agreement, which we expect will continue to be material. See "Purchase Obligations," below.

5.75% Convertible Senior Notes due 2012

On August 14, 2007, we issued $1.5 billion aggregate principal amount of 5.75% Convertible Senior Notes due 2012 (the 5.75% Notes). The 5.75% Notes are our general unsecured senior obligations. Interest is payable in arrears on February 15 and August 15 of each year beginning February 15, 2008 until the maturity date of August 15, 2012. The terms of the 5.75% Notes are governed by an Indenture (the 5.75% Indenture), dated as of August 14, 2007, by and between us and Wells Fargo Bank, National Association, as Trustee.

As of December 31, 2011, the remaining outstanding aggregate principal amount of our 5.75% Notes was $485 million.

We may elect to refinance the outstanding amount of our 5.75% Notes, or to purchase or otherwise retire the outstanding amount of our 5.75% Notes in open market or privately negotiated transactions, either directly or through intermediaries. Otherwise, we will pay off the outstanding amount of our 5.75% Notes at maturity.

See Note 10 of "Notes to Consolidated Financial Statements," below, for additional information regarding the 5.75% Notes.

6.00% Convertible Senior Notes due 2015

On April 27, 2007, we issued $2.2 billion aggregate principal amount of 6.00% Convertible Senior Notes due 2015. The 6.00% Notes are our general unsecured senior obligations. Interest is payable on May 1 and November 1 of each year beginning November 1, 2007 until the maturity date of May 1, 2015. The terms of the 6.00% Notes are governed by an Indenture (the 6.00% Indenture) dated April 27, 2007, by and between us and Wells Fargo Bank, National Association, as Trustee.

In 2011, we repurchased $200 million in aggregate principal amount of our 6.00% Notes in open market transactions for $202 million. As of December 31, 2011, the outstanding aggregate principal amount of our 6.00% Notes was $580 million and the remaining carrying value was approximately $546 million, net of debt discount of $34 million.

We may elect to purchase or otherwise retire the balance of the 6.00% 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.

See Note 10 of "Notes to Consolidated Financial Statements," below, for additional information regarding the 6.00% Notes.

8.125% Senior Notes Due 2017

On November 30, 2009, we issued $500 million of the 8.125% Notes at a discount of 10.204%. The 8.125% Notes are our general unsecured senior obligations. Interest is payable on June 15 and December 15 of each year beginning June 15, 2010 until the maturity date of December 15, 2017. The discount of $51 million is recorded as contra debt and is amortized to interest expense over the life of the 8.125% Notes using the effective interest method. The 8.125% Notes are governed by the terms of an indenture (the 8.125% Indenture) dated November 30, 2009 between us and Wells Fargo Bank, National Association, as Trustee.

From December 15, 2013, we may redeem the 8.125% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	Price as Percentage of Principal Amount
Beginning on December 15, 2013 through December 14, 2014	104.063%
Beginning on December 15, 2014 through December 14, 2015	102.031%
On December 15, 2015 and thereafter	100.000%

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As of December 31, 2011, the outstanding aggregate principal amount of our 8.125% Notes was $500 million and the remaining carrying value was approximately $459 million, net of debt discount of $41 million.

We may elect to purchase or otherwise retire the 8.125% Notes with cash, stock or other assets from time to time in open market or private negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so.

See Note 10 of “Notes to Consolidated Financial Statements” below, for additional information regarding the 8.125% Notes.

7.75% Senior Notes Due 2020

On August 4, 2010, we issued $500 million of the 7.75% Notes. The 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. The 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, National Association, as Trustee.

From August 1, 2015, we may redeem the 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%
and on August 1, 2018 and thereafter	100.000%

As of December 31, 2011, the outstanding aggregate principal amount of our 7.75% Notes was $500 million.

We may elect to purchase or otherwise retire the 7.75% Notes with cash, stock or other assets from time to time in open market or private negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so.

See Note 10 of “Notes to Consolidated Financial Statements,” below, for additional information regarding the 7.75% Notes.

The agreements governing its 5.75% Notes, 6.00% Notes, 8.125% Notes and 7.75% Notes 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 to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable.

Other Long-Term Liabilities

Other long-term liabilities in the contractual obligations table above include $5 million related to employee benefit obligations and $16 million of payments due under certain software and technology licenses that will be paid through 2014.

Other long-term liabilities excludes amounts recorded on our consolidated balance sheet that do not require us to make cash payments, which, as of December 31, 2011, primarily consisted of $17 million of deferred gains resulting from the sale and leaseback of certain of our facilities. Also excluded from other long-term liabilities was $4 million of non-current unrecognized tax benefits, which are included in the caption “Other long-term liabilities” on our consolidated balance sheet at December 31, 2011. This amount represents a potential cash payment that could be payable by us upon settlement with a taxing authority. We have not included this amount in the contractual obligations table above because we cannot make a reasonably reliable estimate regarding the timing of any settlement with the taxing authority, if any.

Capital Lease Obligations

As of December 31, 2011, we had aggregate outstanding capital lease obligations of $26 million for one of our facilities in Canada, which is payable in monthly installments through 2017.

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Operating Leases

We lease certain of our facilities and in some jurisdictions, we lease the land on which these facilities are built, under non-cancelable lease agreements that expire at various dates through 2022. We lease certain manufacturing and office equipment for terms ranging from 1 to 5 years. Total future non-cancelable lease obligations as of December 31, 2011 were $175 million.

Purchase Obligations

Our purchase obligations primarily include our obligations to purchase wafers and substrates from third parties. Total non-cancelable purchase obligations, other than those to GF under the WSA, as of December 31, 2011 were $374 million.

We currently estimate that we will pay GF approximately $1.5 billion in 2012 for wafer purchases. These 2012 estimated costs are based in part on our current expectations regarding GF's manufacturing yields and wafer volumes, and the successful conclusion of our negotiations with GF and ATIC related to a second amendment to the WSA, including the pricing methodology. Costs are also impacted by variations in yields and several other factors including our current expectations regarding demand for our products. In addition, we estimate that additional purchase obligations in connection with research and development related to GF wafer production will be approximately $71 million in 2012. We are not currently able to meaningfully quantify or estimate our purchase obligations to GF beyond 2012, but we expect that our future purchases from GF will continue to be material.

Receivable Financing Arrangement

In 2011, we received proceeds of approximately $170 million from the sale of accounts receivable under the receivable financing arrangement with the IBM Parties. The IBM Parties collected approximately $396 million from our distributor customers participating in the financing arrangement. We terminated our financing arrangement with the IBM Parties in February 2011 and did not make any adjustments to GAAP net cash provided by operating activities related to this financing arrangement in the third or fourth quarters of 2011 because there were no outstanding invoices, and we do not intend to do so in future periods.

Guarantees of Indebtedness Not Recorded on our Consolidated Balance Sheet

Fab 36 Guarantee

In connection with the consummation of the GF manufacturing joint venture transaction on March 2, 2009, the terms of the 700 million euro Term Loan Facility Agreement among AMD Fab 36 Limited Liability Company & Co. KG, as borrower, and a consortium of banks led by Dresdner Bank AG, as lenders (the Fab 36 Term Loan), and other related agreements (collectively, the Fab 36 Loan Agreements) were amended to allow for the transfer of our former 300-millimeter wafer fabrication facility and its affiliated companies to GF. In addition, we also amended the terms of the related guarantee agreement such that we and GF were joint guarantors of the borrower's obligations to the lenders under the Fab 36 Loan Agreements. On March 31, 2011, GF fully repaid the amounts outstanding under the Fab 36 Term Loan. We were not required to make any payments under the related guarantee agreement.

AMTC and BAC Guarantees

The Advanced Mask Technology Center GmbH & Co. KG (AMTC) and Maskhouse Building Administration GmbH & Co. KG (BAC) are joint ventures initially formed for the purpose of constructing and operating an advanced photomask facility in Dresden, Germany. In 2010, our limited partnership interests in AMTC and BAC were transferred to an affiliate of GF.

AMD, GF and Toppan Photomasks Germany GmbH guaranteed AMTC's rental obligations relating to a portion of the BAC facility. Our portion of the guarantee was made on a joint and several basis with GF. GF separately agreed to indemnify us under certain circumstances if we were called upon to make any payments under the guarantee granted by us.

The BAC term loan was fully repaid in December 2011, and as a result the AMTC rental contract guarantee terminated. We were not required to make any payments under the guarantee.

In addition, AMD and GF were joint and several guarantors of 50% of AMTC's obligations under a revolving credit facility. In December 2011, we were released from the guarantee. We were not required to make any payments under the guarantee.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt. We usually invest our cash in investments with short maturities or with frequent interest reset terms. Accordingly, our interest income fluctuates with short-term market conditions. As of December 31, 2011, our investment portfolio consisted primarily of time deposits, money market funds, commercial paper, ARS, and corporate bonds. With the exception of our ARS, these investments were highly liquid. Due to the relatively short, weighted-average maturity of our investment portfolio and the current low interest rate environment, our exposure to interest rate risk is minimal.

As of December 31, 2011, all of our outstanding debt has fixed interest rates. Consequently, our exposure to market risk for changes in interest rates on reported interest expense and corresponding cash flows is minimal.

We will continue to monitor our exposure to interest rate risk.

Default Risk. We mitigate default risk in our investment portfolio by investing in only high credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. Our portfolio includes investments in debt and marketable equity securities with active secondary or resale markets to ensure portfolio liquidity. We are averse to principal loss and strive to preserve our invested funds by limiting default risk and market risk.

We actively monitor market conditions and developments specific to the securities and security classes in which we invest. We believe that we take a conservative approach to investing our funds in that we invest only in highly-rated debt securities with relatively short maturities and do not invest in securities we believe involve a higher degree of risk. As of December 31, 2011, substantially all of our investments in debt securities were A rated by at least one of the rating agencies. While we believe we take prudent measures to mitigate investment related risks, such risks cannot be fully eliminated as there are circumstances outside of our control. We believe the current credit market difficulties do not have a material impact on our financial position. However, a future degradation in credit market conditions could have a material adverse effect on our financial position.

As a result of the uncertainties in the credit markets, all of our ARS were negatively affected and auctions for these securities failed to settle on their respective settlement dates since February 2008. As of December 31, 2011, we had approximately $38 million of investments in ARS. See "Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report for further information.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 31, 2011:

	2012	2013	2014	2015	2016	Thereafter	Total	2011 Fair Value
	(In millions, except for percentages)							
Investment Portfolio								
Cash equivalents:								
Fixed rate amounts	$ 1	$ —	$—	$ —	$—	$ —	$ 1	$ 1
Weighted-average rate	0.51%	—	—	—	—	—	0.51%	
Variable rate amounts	$ 738	$ —	$—	$ —	$—	$ —	$ 738	$ 738
Weighted-average rate	0.09%	—	—	—	—	—	0.09%	
Marketable securities								
Fixed rate amounts	$ 858	$ —	$—	$ —	$—	$ —	$ 858	$ 858
Weighted-average rate	0.49%	—	—	—	—	—	0.49%	
Variable rate amounts	$ —	$ —	$—	$ —	$—	$ 45	$ 45	$ 38
Weighted-average rate	—	—	—	—	—	1.88%	1.88%	
Long-term investments:								
Fixed rate amounts	$ 7	$ 133	$—	$ —	$—	$ —	$ 140	$ 140
Weighted-average rate	0.85%	1.08%	—	—	—	—	1.02%	
Variable rate amounts	$ 19	$ —	$—	$ —	$—	$ —	$ 19	$ 19
Weighted-average rate	0.13%	—	—	—	—	—	0.13%	
Total Investment Portfolio	$1,623	$ 133	$—	$ —	$—	$ 45	$1,801	$ 1,794
Debt Obligations								
Fixed rate amounts	$ 485	$ —	$—	$ 546	$—	$ 959	$1,990	$ 2,109
Weighted-average rate	5.75%	—	—	8.00%	—	8.82%	7.86%	7.30%
Total Debt Obligations	**$ 485**	**$ —**	**$—**	**$ 546**	**$—**	**$ 959**	**$1,990**	**$ 2,109**