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As part of our strategy to respond to the macroeconomic issues and the changes occurring in our industry, during 2012, we made key strategic investments to align our business to a changing computing landscape and to position ourselves to take advantage of new opportunities in adjacent high-growth markets. In March 2012, we acquired SeaMicro, Inc. (SeaMicro), an energy-efficient, high-bandwidth micro-server company, to accelerate our strategy to deliver differentiated micro-server solutions to cloud data centers. In June 2012, we, along with ARM, Imagination Technologies, Media Tek, Qualcomm, Samsung and Texas Instruments established the Heterogeneous System Architecture (HSA) Foundation, a non-profit consortium established to define and promote an open standards-based approach to heterogeneous computing. In October 2012, we announced that we will design 64-bit ARM® technology-based processors in addition to our x86 processors for multiple markets, starting with cloud and data center servers. We expect our first ARM technology-based processor will be a highly-integrated, 64-bit multicore system-on-a-chip optimized for the dense, energy-efficient servers. The first ARM technology-based AMD Opteron processor for servers is targeted for production in 2014 and is expected to integrate our AMD SeaMicro Freedom supercompute fabric.

In addition, in the fourth quarter of 2012, we announced a restructuring plan to improve our cost structure and enhance our competitiveness in core growth areas. This restructuring plan primarily involves a reduction of our global workforce of approximately 14% as well as asset impairments and facility consolidations. We expect the restructuring action will result in operational savings, primarily in operating expenses, of approximately $190 million in 2013.

Further, to better align with today's PC market dynamics, we entered into a third amendment to the WSA with GF. Pursuant to the third amendment, we modified our wafer purchase commitments for the fourth quarter of 2012 under the second amendment to the WSA. In addition, we agreed to certain pricing and other terms applicable to wafers for our microprocessor and APU products to be delivered by GF to us during 2013 and through December 31, 2013. Pursuant to the third amendment, we committed to purchase a fixed number of production wafers at negotiated prices in the fourth quarter of 2012 and through December 31, 2013. GF agreed to waive a portion of our wafer purchase commitments for the fourth quarter of 2012. In consideration of this waiver, we agreed to pay GF a fee of $320 million. As a result, we recorded a $273 million LCM charge in the fourth quarter of 2012. The cash impact of this $320 million fee will be spread over several quarters, with $80 million that was paid by December 28, 2012 and $40 million payable by April 1, 2013. For the remainder of the fee, on the same date we entered into the third amendment, we issued a $200 million promissory note to GF that matures on December 31, 2013. Under the third amendment to the WSA, we committed to purchase from GF wafers for approximately $1.15 billion in 2013 and $250 million during the first quarter of 2014. We expect to negotiate the remainder of our 2014 purchase commitments from GF in 2013.

Despite the challenging macroeconomic environment, we continued to focus on executing our engineering milestones. We launched our next AMD A-Series APU, codenamed "Trinity," and our next generation AMD E-Series APU, codenamed "Brazos 2.0." We also announced our AMD Z-60 APU, codenamed "Hondo," our lowest powered APU designed for the performance tablet and small form factor PC market. We launched our AMD Opteron™ 3200, 4300 and 3300 Series server processor platforms based on our next-generation "Piledriver" core architecture. We announced AMD's SeaMicro SM15000 server chassis, which extends fabric-based computing across racks and aisles of the data center to connect directly to large data storage systems. With respect to our graphics products, we launched our AMD Radeon™ HD 7950 graphics processor, and our AMD Radeon HD 7700 and 7800 series graphics processors, all based on 28nm process technology and designed for enthusiast desktop gamers.

GLOBALFOUNDRIES

Formation and Accounting in 2009

On March 2, 2009, we consummated the transactions contemplated by the Master Transaction Agreement among us, Advanced Technology Investment Company LLC (ATIC), and West Coast Hitech L.P. (WCH), pursuant to which we formed GF. Based on the structure of the transaction and the guidance on accounting for

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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 consolidated the accounts of GF from March 2, 2009 through December 26, 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).

Shareholders' Agreement. The Shareholders' Agreement set 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. We were no longer a party to the Shareholders' Agreement as of March 4, 2012.

Funding Agreement. The Funding Agreement provided for the funding of GF and governed the terms and conditions under which ATIC was obligated to provide such funding. We were no longer a party to the Funding Agreement as of March 4, 2012.

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.

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. This agreement has been subsequently modified, as disclosed below.

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.

In June 2009, the FASB issued an amendment to improve financial reporting by enterprises involved with variable interest entities. Based on the results of our evaluation and in light of the governance changes whereby we believed we only had protective rights relative to the operations of GF, we concluded that the other investor in GF, ATIC, was the party who had the power to direct the activities of GF that most significantly impact GF's performance and was, therefore, the primary beneficiary of GF. Accordingly, effective as of December 27, 2009, we deconsolidated GF, and during 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

During 2010, ATIC contributed $930 million of cash to GF. We did not participate in the funding. These contributions resulted in an aggregate gain on our ownership interest 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

GLOBALFOUNDRIES Singapore Pte. Ltd. (GFS, formerly Chartered) Contribution in 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. As the result of dilution of our ownership in GF, 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.

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 recognized any share of GF's net income or loss in our consolidated statement of operations. In addition, we reviewed 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.

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 was 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 entered into a first amendment to the WSA. The primary effect of the first amendment was to change the pricing methodology applicable to wafers delivered in 2011 for our microprocessors, including APU products. The first amendment also modified our existing commitments regarding the production of certain GPU and chipset products at GF. Pursuant to the first 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 the continued availability of 32nm capacity as of the beginning of 2012. As part of the second amendment described below, GF agreed to waive these quarterly payments, and therefore we are no longer required to pay them.

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Amendments to Wafer Supply Agreement and Accounting in 2012

Second Amendment to Wafer Supply Agreement

On March 4, 2012, we entered into a second amendment to the WSA with GF. The primary effect of this second amendment was to modify certain pricing and other terms of the WSA applicable to wafers for our microprocessor and APU products to be delivered by GF to us during 2012. Pursuant to the second amendment, GF committed to provide us with, and we committed to purchase, a fixed number of production wafers in 2012. We paid GF fixed prices for production wafers delivered in 2012.

The second amendment also granted us certain rights to contract with another wafer foundry supplier with respect to specified 28 nm products for a specified period of time. In consideration for these rights, we agreed to pay GF $425 million and transfer to GF all of the capital stock of GF that we owned. As a result of us receiving these rights in the first quarter of 2012, we recorded a charge related to this limited waiver of exclusivity from GF of $703 million consisting of the $425 million cash payment and a $278 million non-cash charge representing the carrying and fair value of the capital stock that we transferred to GF. Pursuant to the second amendment, $150 million of the $425 million was paid on March 5, 2012, $50 million was paid on June 29, 2012 and $50 million was paid on October 1, 2012 with the remaining $175 million paid by December 31, 2012. In addition, as security for the final two payments, we issued a $225 million promissory note to GF.

As a result of the transfer of our shares of GF capital stock, we no longer owned any GF capital stock. Also, we are no longer entitled to designate a director to GF's board, and our designated director resigned effective as of the date of the second amendment. As of March 4, 2012, we were no longer a party to either the Shareholders' Agreement or the Funding Agreement.

Third Amendment to Wafer Supply Agreement

On December 6, 2012, we entered into a third amendment to the WSA with GF. Pursuant to the third amendment, we modified our wafer purchase commitments for the fourth quarter of 2012 under the second amendment to the WSA. In addition, we agreed to certain pricing and other terms of the WSA applicable to wafers for our microprocessor and APU products to be delivered by GF to us during 2013 and through December 31, 2013. Pursuant to the third amendment, we committed to purchase a fixed number of production wafers at negotiated prices in the fourth quarter of 2012 and through December 31, 2013. GF agreed to waive a portion of our wafer purchase commitments for the fourth quarter of 2012. In consideration of this waiver, we agreed to pay GF a fee of $320 million. As a result, we recorded an LCM charge of $273 million for the write-down of inventory to its market value in the fourth quarter of 2012. The cash impact of this $320 million fee will be spread over several quarters, with $80 million paid by December 28, 2012 and $40 million by April 1, 2013. For the remainder of the fee, we issued a $200 million promissory note to GF that matures on December 31, 2013.

GF continues to be a related party of AMD. Our expenses related to GF's wafer manufacturing were $1.2 billion, $904 million and $1.2 billion in 2012, 2011 and 2010. Our expenses related to GF's research and development activities were $49 million, $79 million and $114 million for 2012, 2011 and 2010.

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 GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our revenue, inventories, asset impairments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been reasonably consistent with management's expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

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Management believes 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. 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 market 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 a reporting unit 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 2012 and 2011, each reporting unit's fair values exceeded their carrying values, indicating that there was no goodwill impairment.

For the annual goodwill impairment analysis in 2012, each reporting unit's estimated fair value exceeded its carrying value ranging from approximately 6% to approximately 170%. The estimated fair value of our Computing Solutions reporting unit exceeded its carrying value by approximately 6%. Total goodwill relating to our Computing Solutions reporting unit was $230 million as of December 29, 2012. The reasons for the small excess of fair value over carrying value of the Computing Solutions reporting unit are primarily due to the recent global economic downturn, the changes in our industry, specifically related to the decline in PC sales, and the decline in our market capitalization. Estimates of fair value for all of our reporting units can be affected by a

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variety of external and internal factors. Potential events or circumstances that could reasonably be expected to negatively affect the key assumptions we used in estimating the fair value of our Computing Solutions reporting unit include adverse changes in our industry, increased competition, an inability to successfully introduce new products in the marketplace or to achieve internal forecasts, and further decline in our stock price. If the estimated fair value of our Computing Solutions reporting unit declines due to any of these factors, we may be required to record future goodwill impairment charges.

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 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.

Results of Operations

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

We use the following two reportable operating segments:

- the Computing Solutions segment, which includes microprocessors, as standalone devices or as incorporated as an APU, chipsets and embedded processors; and
- the Graphics segment, which includes graphics, video and multimedia products developed for use in desktop and notebook computers, including home media PCs, professional workstations and servers as well as revenue received in connection with the development and sale of game console systems that incorporate our graphics technology.

In addition to these reportable segments, we have an All Other category, which is not a reportable segment. This category includes certain expenses and credits that were not allocated to any of the operating segments because management does not consider these expenses and credits in evaluating the performance of the operating segments. Also included in this category are amortization of acquired intangible assets, stock-based compensation expense, restructuring charges and a charge related to the limited waiver of exclusivity from GF.

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.

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We use a 52 or 53 week fiscal year ending last Saturday in December. The years ended December 29, 2012, December 31, 2011 and December 25, 2010 included 52 weeks, 53 weeks and 52 weeks. The extra week in 2011 did not have a material impact on our results of operations. References in this report to 2012, 2011 and 2010 refer to the fiscal year unless explicitly stated otherwise.

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 2012, 2011 and 2010.

	2012	2011	2010
		(In millions)	
Net revenue:			
Computing Solutions	$ 4,005	$5,002	$4,817
Graphics	1,417	1,565	1,663
All Other	—	1	14
Total net revenue	$ 5,422	$6,568	$6,494
Operating income (loss):			
Computing Solutions	$ (231)	$ 556	$ 529
Graphics	105	51	149
All Other	(930)	(239)	170
Total operating income (loss)	$(1,056)	$ 368	$ 848
Interest income	8	10	11
Interest expense	(175)	(180)	(199)
Other income (expense), net	6	(199)	311
Equity income (loss) and dilution gain in investee, net	—	492	(462)
Income (loss) from continuing operations before income taxes	$(1,217)	$ 491	$ 509

Computing Solutions

Computing Solutions net revenue of $4.0 billion in 2012 decreased by 20% compared to $5.0 billion in 2011 as a result of a 14% decrease in unit shipments and a 7% decrease in average selling price. Unit shipments of all categories of products decreased. The decrease in the average selling price was primarily attributable to a decrease in average selling price of our microprocessors for desktop PCs and servers. Unit shipments and average selling price of our microprocessors for desktop PCs decreased due to challenging market conditions and the increasing popularity of tablets as a consumer device of choice, which resulted in decreased demand for our products. Unit shipments and average selling price of our microprocessors for servers decreased primarily due to challenging market conditions.

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 operating loss was $231 million in 2012 compared to operating income of $556 million in 2011. The decline in operating results was primarily due to the decrease in revenue referenced above, partially offset by a $136 million decrease in marketing, general and administrative expenses, a $45 million decrease in research and development expenses and a $29 million decrease in cost of sales. Cost of sales decreased primarily due to lower unit shipments, partially offset by the $273 million LCM charge related to the fee for GF's waiver of a portion of our obligations and an inventory write-down of $100 million during the third quarter of 2012 as a result of lower than anticipated future demand for certain products, mainly first generation A-Series APU products, codenamed "Llano". Marketing, general and administrative expenses and research and development expenses decreased for the reasons set forth under "Expenses," below.

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.

Graphics

Graphics net revenue of $1.4 billion in 2012 decreased by 9% compared to net revenue of $1.6 billion in 2011. The decrease was primarily due to a 16% decrease in net revenue from sales of GPU products, partially offset by an increase in net revenue received in connection with the development and sale of game console systems that incorporate our graphics technology. Net revenue from sales of GPU products decreased due to lower unit shipments, partially offset by increased average selling price. GPU unit shipments decreased due to challenging market conditions. GPU average selling price increased primarily due to improved product mix.

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 primarily 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 operating income was $105 million in 2012 compared to $51 million in 2011. The improvement in operating results was primarily due to a $101 million decrease in cost of sales, a $60 million decrease in research and development expenses and a $41 million decrease in marketing, general and administrative expenses partially offset by the decrease in net revenue referenced above. Cost of sales decreased primarily due to lower GPU shipments and correspondingly lower manufacturing costs. Marketing, general and administrative expenses and research and development expenses decreased for the reasons set forth under "Expenses" below.

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.

All Other

All Other revenue was immaterial in 2012 and 2011 and $14 million in 2010. 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.

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All Other operating loss of $930 million in 2012 included a $703 million charge related to the limited waiver of exclusivity from GF, $100 million of net restructuring charges, stock-based compensation expense of $97 million and $14 million related to amortization of acquired intangible assets.

All Other operating loss of $239 million in 2011 included $98 million of net restructuring charges, $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.

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 2012, 2011 and 2010.

	2012	2011	2010
	(In millions, except for percentages)		
Cost of sales	$ 4,187	$ 3,628	$ 3,533
Gross margin	1,235	2,940	2,961
Gross margin percentage	23%	45%	46%
Research and development	1,354	1,453	1,405
Marketing, general and administrative	823	992	934
Legal settlement	—	—	(283)
Amortization of acquired intangible assets	14	29	61
Restructuring charges (reversals), net	100	98	(4)
Interest income	8	10	11
Interest expense	(175)	(180)	(199)
Other income (expense), net	6	(199)	311
Provision (benefit) for income taxes	(34)	(4)	38
Equity income (loss) and dilution gain in investee, net	$ —	$ 492	$ (462)

Gross Margin

Gross margin as a percentage of net revenue was 23% in 2012 compared to 45% in 2011. Gross margin in 2012 included a $703 million charge related to the limited waiver of exclusivity from GF, a LCM charge of $273 million and a $5 million charge recorded to cost of sales related to a legal settlement. 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 recorded to cost of sales related to a legal settlement. Absent the effects of the charges as described above, which we believe are not indicative of our ongoing operating performance, our gross margin would have been 41% in 2012 compared to 45% in 2011. Gross margin in 2012 was also adversely impacted by the $100 million inventory write-down in the third quarter of 2012 referenced above as well as lower average selling price for microprocessor products.

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

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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.

Expenses

Research and Development Expenses

Research and development expenses of $1.4 billion in 2012, decreased by $99 million, or 7%, compared to $1.5 billion in 2011. The decrease was due to a $60 million decrease in research and development expenses attributable to our Graphics segment and a $45 million decrease in research and development expenses attributable to our Computing Solutions segment, partially offset by a $6 million increase in stock-based compensation expense recorded in the All Other category. Research and development expenses attributable to our Graphics segment decreased as a result of a $36 million decrease in product engineering and design costs, a $16 million decrease in other employee compensation and benefit expense and a $9 million decrease in manufacturing process technology expenses. The decrease in research and development expenses attributable to our Computing Solutions segment was primarily due to a $26 million decrease in other employee compensation and benefit expense, an $11 million decrease in manufacturing process technology expenses related to GF for our future products and a $9 million decrease in product engineering and design costs.

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.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of $823 million in 2012 decreased by $169 million, or 17%, compared to $992 million in 2011, reflecting the effect of the 2011 restructuring plan and our efforts to reduce operating expenses. The decrease was primarily due to a $136 million decrease in marketing, general and administrative expenses attributable to our Computing Solutions segment and a $41 million decrease in marketing, general and administrative expenses attributable to our Graphics segment, partially offset by a $6 million increase in corporate general and administrative expenses attributable to our acquisition of SeaMicro, which we recorded in the All Other category. Marketing, general and administrative expenses attributable to our Computing Solutions segment decreased primarily due to an $111 million decrease in sales and marketing activities and a $22 million decrease in other general and administrative expenses. The decrease in marketing, general and administrative expenses attributable to our Graphics segment was a result of a $24 million decrease in other general and administrative expenses and a $16 million decrease in sales and marketing activities.

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.

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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.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets was $14 million in 2012, $29 million in 2011 and $61 million in 2010. The decrease from 2011 to 2012 was due to the reduced amortization base amount of the acquired intangible assets, offset by the acquisition of SeaMicro intangible assets in 2012. The decrease from 2010 to 2011 was due to the reduced amortization base amount of acquired intangible assets.

Effects of Restructuring Plans

2012 Restructuring Plan

In the fourth quarter of 2012, we implemented a restructuring plan designed to improve our cost structure and to strengthen our competitiveness in core growth areas. The plan primarily involves a workforce reduction of approximately 14% as well as asset impairments and facility consolidations. We recorded restructuring expense in the fourth quarter of 2012 of approximately $90 million. Substantially all of the restructuring expense is related to severance. Of the total restructuring expense, approximately $46 million related to cash payments in the fourth quarter of 2012, with the remaining $41 million related to anticipated cash payments in 2013. The non-cash portion of the restructuring expense included approximately $4 million of asset impairments. We plan to substantially complete the plan by the end of the first quarter of 2013. We are currently evaluating further facility consolidations, and depending on the outcome of such evaluation, we may incur additional restructuring charges, which may be material.

2011 Restructuring Plan

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 included a workforce reduction of approximately 13% and contract and program terminations. We recorded a $100 million restructuring charge in the fourth quarter of 2011 and an additional $8 million restructuring charge in 2012, which consisted of $62 million for severance and costs related to the continuation of certain employee benefits, $46 million for contract or program termination costs and $1 million for asset impairments. The plan was substantially completed as of the end of the first quarter of 2012.

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The following table provides a summary of the activity related to the 2012 and 2011 restructuring plans and the remaining related liabilities recorded in "Other current liabilities" on our consolidated balance sheet as of December 29, 2012:

	Severance and related benefits	Other exit Related Costs	Total
		(In millions)	
Balance at December 25, 2010	$ —	$ —	$ —
Charges	54	46	100
Cash payments	(32)	—	(32)
Non-cash charges	—	(1)	(1)
Balance at December 31, 2011	22	45	67
Charges	95	5	100
Cash payments	(76)	(29)	(105)
Non-cash charges	—	(4)	(4)
Balance at December 29, 2012	$ 41	$ 17	$ 58

2008 Restructuring Plan

In the fourth quarter of 2008, we initiated a restructuring plan to reduce our cost structure, which was substantially completed in 2009. In 2011, we reversed approximately $2 million of costs associated with the 2008 restructuring plan because the actual restoration costs for vacated facilities were lower than previously estimated. In 2010, we reversed approximately $4 million of costs associated with the 2008 restructuring plan because the actual severance and costs related to the continuation of certain employee benefits were lower than previously estimated.

The following table provides a summary of each major type of cost associated with the 2012, 2011 and 2008 restructuring plans for the periods presented:

	2012	2011	2010
		(In millions)	
Severance and benefits	$ 95	$54	$ (4)
Contract or program terminations	—	45	—
Asset impairments	4	1	—
Facility consolidations and closures	1	(2)	—
Total	$100	$98	$ (4)

Interest Income

Interest income was $8 million in 2012 compared to $10 million in 2011. The decrease was primarily due to a decrease in cash, cash equivalents and marketable securities and a decrease in the weighted-average interest rate during 2012.

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, cash equivalents and marketable securities balance during 2011.

Interest Expense

Interest expense was $175 million in 2012 compared to $180 million in 2011 and $199 million in 2010. Interest expense decreased primarily due to the net reduction in the principal amount of our outstanding debt.

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Other Income (Expense), Net

Other income, net in 2012 was $6 million compared to $199 million of other expense, net in 2011 and $311 million of other income, net in 2010.

In 2012, we recognized $6 million of other income, net primarily due to other income recorded in the third quarter of 2012, partially offset by a $5 million loss from foreign currency exchange rate fluctuations and a $4 million other-than-temporary impairment charge related to one of our auction rate securities (ARS) investments.

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% Convertible Senior Notes due 2015 (6.00% Notes), partially offset by $8 million gain on foreign currency exchange rate fluctuations.

In 2010, we recognized a 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.

Income Taxes

We recorded an income tax benefit of $34 million and $4 million in 2012 and 2011 and an income tax provision of $38 million in 2010.

The income tax benefit in 2012 was primarily due to a tax benefit of $36 million relating to the SeaMicro acquisition, a $1 million tax benefit for the tax effects of items credited directly to other comprehensive income, a $2 million tax benefit for Canadian co-op tax credits and a $9 million tax benefit associated with the successful negotiation of a tax holiday in a foreign jurisdiction net of $14 million of foreign taxes in profitable locations.

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 foreign taxes in profitable 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.

As of December 29, 2012, 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 29, 2012, in management’s estimate, is not more likely than not to be achieved.

On January 2, 2013 the American Taxpayer Relief Act of 2012 (Act) was passed into law. The Act included a retroactive extension of the U.S. research credit for 2012. Since the effects of tax law changes are recognized in the first period which includes the date of enactment, the Act had no impact on our 2012 tax provision. The impact on our 2013 tax provision will be immaterial due to the valuation allowance.

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

From December 27, 2009 to December 25, 2010, the period during which 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 contributions into GF by ATIC.

Stock-Based Compensation Expense

Stock-based compensation expense related to employee stock options, restricted stock and restricted stock units for the years ended December 29, 2012, December 31, 2011 and December 25, 2010 was allocated in our consolidated statements of operations as follows:

	2012	2011	2010
		(In millions)	
Cost of sales	$ 8	$ 6	$ 4
Research and development	52	46	46
Marketing, general and administrative	37	38	37
Total stock-based compensation expense, net of tax of $0	$97	$90	$87

During 2012, 2011 and 2010, 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 expense of $97 million in 2012 increased by $7 million as compared to $90 million in 2011. The increase was primarily due to the additional expense related to the equity grants made in connection with our acquisition of SeaMicro and an increase in the number of employee stock options and restricted stock units that we granted, partially offset by the absence of a charge related to the acceleration of vesting of all unvested equity incentive 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 lower weighted-average estimated grant date fair value in 2012 as compared to 2011.

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 an increase in the number of employee stock options and restricted stock units that we granted in 2011 compared to 2010, partially offset by a lower weighted-average estimated grant date fair value in 2011 as compared to 2010.

As of December 29, 2012, we had $44 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock options that will be recognized over the weighted-average period of 2.20 years. Also, as of December 29, 2012, we had $97 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 1.97 years.

International Sales

International sales as a percentage of net revenue were 92% in 2012, 93% in 2011, and 88% in 2010. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future. Substantially all of our sales transactions were denominated in U.S. dollars.

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FINANCIAL CONDITION

Liquidity

As of December 29, 2012, our cash, cash equivalents and marketable securities of $1.0 billion decreased by $763 million compared to cash, cash equivalents and marketable securities of $1.8 billion as of December 31, 2011. During 2012, we made net cash payments of $281 million to acquire SeaMicro, $250 million related to the limited waiver of exclusively from GF, $105 million related to restructuring activities and $80 million related to GF's waiver of a portion of our wafer purchase commitments for the fourth quarter of 2012. The percentage of our cash, cash equivalents and marketable securities held in the United States was 94% as of December 29, 2012.

During 2012, we invested an additional $32 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 29, 2012, the fair value of these long-term marketable securities was $181 million. All of the long-term marketable securities were held in the United States.

As of December 29, 2012, our debt and capital lease obligations were $2.04 billion, which reflects a debt discount adjustment of $60 million on our 6.00% Notes and 8.125% Senior Notes due 2017 (8.125% Notes). In the third quarter of 2012, we repaid in full the outstanding principal and accrued interest on our 5.75% Convertible Senior Notes due 2012 (5.75% Notes), of approximately $499 million, and issued $500 million aggregate principal amount of 7.50% Senior Notes due 2022 (7.50% Notes).

For 2012, our net cash used in operating activities was $338 million and our non-GAAP adjusted free cash flow was negative $471 million. Adjusted free cash flow is a non-GAAP measure, which we calculated in 2012 by taking GAAP net cash used in operating activities of $338 million for 2012 and subtracting capital expenditures, which were $133 million for 2012. For 2011, net cash provided by operating activities was $382 million and our non-GAAP adjusted free cash flow was $528 million. For 2011, we calculated non-GAAP adjusted free cash flow by taking GAAP net cash provided by operating activities of $382 million for 2011 and adding $396 million, which represented 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, which we describe in further detail below. Then we adjusted the resulting amount of $778 million by subtracting capital expenditures, which were $250 million for 2011. Compared to our non-GAAP adjusted free cash flow of $528 million for 2011, the decrease in our non-GAAP adjusted free cash flow for 2012 was primarily due to the fact that we did not generate cash flow from operating activities in 2012; instead we used $338 million of net cash for operating activities. The decrease was partially offset by a $117 million decrease in capital expenditures.

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 resulted 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 not 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 terminated our financing arrangement with the IBM Parties in February 2011. Commencing in the third quarter of 2011, we no longer make the adjustment for distributors' payments to the IBM Parties to our GAAP net cash provided by (used in) operating activities when calculating our non-GAAP adjusted free cash flow.

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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 the challenging macroeconomic conditions that we experienced in the second half of 2012 will continue during the first half of 2013. In light of the macroeconomic environment, in the fourth quarter of 2012, we implemented a restructuring plan to reduce our operating expenses and better position us competitively. With our restructuring and available external financing, we believe our cash, cash equivalents and marketable securities balance will be sufficient to fund operations, including capital expenditures over the next twelve months.

We believe that in the event we decide to obtain external 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. We cannot assure you that macroeconomic 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, all of our auction rate securities (ARS) were negatively affected, and since February 2008, auctions for these securities failed to settle on their respective settlement dates. However, there have been no defaults, and we have received all interest payments as they became due.

During 2012, we did not realize any gain or loss on sales of available-for-sale securities of approximately $6 million, and we recorded an other-than-temporary impairment charge of $4 million during the fourth quarter.

As of December 29, 2012, the par value of our ARS was $37 million, with an estimated fair value of $28 million. Total ARS, at fair value, represented 3% of our total investment portfolio as of December 29, 2012.

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 29, 2012. We have the intent and believe we have the ability to sell these securities within the next 12 months. During the first quarter to date, we sold $13 million of our ARS for an insignificant loss.

Operating Activities

Net cash used in operating activities was $338 million in 2012. A net loss of $1,183 million was adjusted for non-cash charges consisting primarily of a $278 million charge related to the limited waiver of exclusivity from GF, $260 million of depreciation and amortization expense, $97 million of stock-based compensation expense and $23 million of non-cash interest expense related to our 6.00% Notes and 8.125% Notes. These charges were partially offset by a benefit of $40 million for deferred income taxes. The net changes in operating assets as of

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December 29, 2012 compared to December 31, 2011 included a decrease in accounts receivable of $290 million and an increase in inventories of $83 million, which were primarily due to lower sales during 2012. During 2012, our payable to GF, which included all amounts that we owe to GF, increased by $277 million. The increase was due to cash obligations of $240 million related to the third amendment to the WSA and $175 million related to the limited waiver of exclusivity from GF, offset by a decrease of $138 million in the amount of billings related to wafer purchases. Accounts payable, accrued liabilities and other decreased by $232 million primarily due to a $94 million decrease in accrued liabilities, a $92 million decrease in accounts payable and other current liabilities, a $23 million decrease in other liabilities, a $15 million decrease in deferred income on shipments to distributors and a $6 million decrease in accrued compensation and benefits.

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 non-cash interest expense related to our 6.00% Notes and our 8.125% Notes. These charges were partially offset by recognition of a 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 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.

Investing Activities

Net cash used in investing activities was $19 million in 2012. We had a net cash inflow of $404 million from purchase, sale and maturity of available-for-sale securities, partially offset by a net cash outflow of $281 million related to the acquisition of SeaMicro, a cash outflow of $133 million for purchases of property, plant and equipment and a cash outflow of $9 million related to other 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 from purchase, sale, and maturity of available-for-sale securities.

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Net cash used in investing activities was $1,123 million 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.

Financing Activities

Net cash provided by financing activities was $37 million in 2012 primarily due to net proceeds from the issuance of our 7.50% Notes of $491 million, $23 million from foreign grants from the Canadian government for research and development activities related to our AMD APU products and from the Malaysian and Chinese governments for our local microprocessor assembly, test and packaging facilities and $14 million from the issuance of common stock under our stock-based compensation plan, partially offset by our repayment of outstanding principal and accrued interest on our 5.75% Notes and repayment of capital lease obligations of $489 million.

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 APU products and from the Malaysian and Chinese governments for our local microprocessor assembly, test and packaging facilities, and $18 million from the issuance of common stock under our stock-based compensation plan.

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 issuance of common stock under our stock-based compensation plan. 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 2012, 2011 and 2010, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any related financing cash flows for these periods.

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Contractual Obligations

The following table summarizes our consolidated principal contractual cash obligations, as of December 29, 2012, and is supplemented by the discussion following the table:

		Payment due by period					
(In millions)	Total	2013	2014	2015	2016	2017	2018 and thereafter
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
7.50% Senior Notes due 2022	500						500
Other long-term liabilities	13	—	12	—	—	—	1
Aggregate interest obligation(2)	937	152	152	128	117	115	273
Capital lease obligations(3)	25	6	6	6	6	1	—
Operating leases	160	37	34	28	21	18	22
Purchase obligations(4)	299	266	21	12	—	—	—
Obligations to GF(5)	1,815	1,565	250	—	—	—	—
Total contractual obligations	$5,329	$2,026	$475	$754	$144	$634	$ 1,296

(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) 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 acquire. In those cases, we only included the minimum volume of purchase obligations in the table above. Purchase orders for goods and services that are cancelable upon notice and without significant penalties are not included in the amounts above.

(5) This amount includes all our contractual obligations to GF.

6.00% Convertible Senior Notes due 2015

On April 27, 2007, we issued $2.2 billion aggregate principal amount of 6.00% Notes. 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.

As of December 29, 2012, the outstanding aggregate principal amount of our 6.00% Notes was $580 million and the remaining carrying value was approximately $555 million, net of debt discount of $25 million.

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.

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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%

As of December 29, 2012, the outstanding aggregate principal amount of our 8.125% Notes was $500 million and the remaining carrying value was approximately $464 million, net of debt discount of $36 million.

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%
On August 1, 2018 and thereafter	100.000%

As of December 29, 2012, the outstanding aggregate principal amount of our 7.75% Notes was $500 million.

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

7.50% Senior Notes Due 2022

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

As of December 29, 2012, the outstanding aggregate principal amount of our 7.50% Notes was $500 million.

See Note 10 of "Notes to Consolidated Financial Statements" below, for additional information regarding the 7.50% Notes.

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We may elect to purchase or otherwise retire the balance of the 6.00% Notes, 8.125% Notes, 7.75% Notes and 7.50% 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.

The agreements governing our 6.00% Notes, 8.125% Notes, 7.75% Notes and 7.50% 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 primarily $9 million of payments due under certain software and technology licenses that will be paid through 2014. Other long-term liabilities in the contractual obligations table above exclude amounts recorded on our consolidated balance sheet that do not require us to make cash payments, which, as of December 29, 2012, primarily consisted of $13 million of deferred gains resulting from the sale and leaseback of certain of our facilities. Also excluded from other long-term liabilities in the contractual obligations table above was $2 million of non-current unrecognized tax benefits, which are included in the caption “Other long-term liabilities” on our consolidated balance sheet at December 29, 2012. 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 29, 2012, we had aggregate outstanding capital lease obligations of $23 million for one of our facilities in Canada, which is payable in monthly installments through 2017.

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 29, 2012 were $160 million.

Purchase Obligations

Our purchase obligations primarily include our obligations to purchase wafers and substrates from third parties, excluding our wafer purchase commitments to GF under the WSA. As of December 29, 2012, total non-cancelable purchase obligations were $299 million.

Obligations to GF

Obligations to GF represents all our contractual obligations to GF, including approximately $1.15 billion of our wafer purchase commitments for 2013 and $250 million for the first quarter of 2014 and other payables under the WSA as described below.

Under the second amendment to the WSA, GF granted us certain rights to contract with another wafer foundry supplier with respect to specified products for a specified period. In consideration for these rights, we agreed to pay GF $425 million and transfer to GF all of the capital stock of GF that we owned, directly or indirectly. Of the $425 million, we paid $250 million as of December 29, 2012. The remaining payment of $175 million was paid on December 31, 2012. As security for a portion of the payment, we issued a $225 million promissory note to GF. As of December 29, 2012, the outstanding balance under this promissory note was $175 million. We paid all the amounts due for the partial waiver of exclusivity. Accordingly, this promissory note is no longer outstanding.

Under the third amendment to the WSA, GF agreed to waive a portion of our wafer purchase commitments for the fourth quarter of 2012. In consideration of this waiver, we agreed to pay GF a fee of $320 million. Of the $320 million fee, we paid $80 million as of December 29, 2012. The remaining payments are $40 million by April 1, 2013 and $200 million by December 31, 2013. As security for the final payment, we issued a $200 million promissory note to GF. As of December 29, 2012, the outstanding balance under this promissory note was $200 million.

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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 29, 2012, 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 29, 2012, all of our outstanding debt had 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 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 29, 2012, 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.

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 29, 2012, the par value of our ARS was $37 million, with an estimated fair value of $28 million. See “Part II, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report for further information.

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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 29, 2012:

	2013	2014	2015	2016	2017	2018 and thereafter	Total	2012 Fair Value
	(In millions, except for percentages)							
Investment Portfolio								
Cash equivalents:								
Fixed rate amounts	$ 75	$ —	$ —	$—	$ —	$ —	$ 75	$ 75
Weighted-average rate	0.30%	—	—	—	—	—	0.30%	
Variable rate amounts	$ 402	$ —	$ —	$—	$ —	$ —	$ 402	$ 402
Weighted-average rate	0.15%	—	—	—	—	—	0.15%	
Marketable securities								
Fixed rate amounts	$ 424	$ —	$ —	$—	$ —	$ —	$ 424	$ 424
Weighted-average rate	0.53%	—	—	—	—	—	0.53%	
Variable rate amounts	$ —	$ —	$ —	$—	$ —	$ 37	$ 37	$ 28
Weighted-average rate	—	—	—	—	—	1.71%	1.71%	
Long-term investments:								
Fixed rate amounts	$ 144	$ 24	$ —	$—	$ —	$ —	$ 168	$ 168
Weighted-average rate	1.03%	0.47%	—	—	—	—	0.95%	
Variable rate amounts	$ 23	$ —	$ —	$—	$ —	$ —	$ 23	$ 23
Weighted-average rate	0.12%	—	—	—	—	—	0.12%	
Total Investment Portfolio	$1,068	$ 24	$ —	$—	$ —	$ 37	$1,129	$ 1,120
Debt Obligations								
Fixed rate amounts	$ —	$ —	$ 555	$—	$ 464	$ 1,000	$2,019	$ 1,837
Weighted-average effective interest rate	—	—	8.00%	—	10.00%	7.63%	8.27%	9.09%
Total Debt Obligations	**$ —**	**$ —**	**$ 555**	**$—**	**$ 464**	**$ 1,000**	**$2,019**	**$ 1,837**

Foreign Exchange Risk. As a result of our foreign operations, we incur costs and we carry assets and liabilities that are denominated in foreign currencies, primarily the Canadian dollar, while sales of products are primarily denominated in U.S. dollars.

We maintain a foreign currency hedging strategy, which uses derivative financial instruments to mitigate the risks associated with changes in foreign currency exchange rates. This strategy takes into consideration all of our exposures. We do not use derivative financial instruments for trading or speculative purposes.

In applying our strategy, from time to time, we use foreign currency forward contracts to hedge certain forecasted expenses denominated in foreign currencies, primarily the Canadian dollar. We designate these contracts as cash flow hedges of forecasted expenses, to the extent eligible under the accounting rules, and evaluate hedge effectiveness prospectively and retrospectively. As such, the effective portion of the gain or loss on these contracts is reported as a component of accumulated other comprehensive income (loss) and reclassified to earnings in the same line item as the associated forecasted transaction and in the same period during which the hedged transaction affects earnings. Any ineffective portion is immediately recorded in earnings.

During the first quarter of 2011, we reassessed our hedging needs related to our Euro foreign exchange contracts and liquidated our Euro currency forward contracts. As a result, during 2011, we recorded a gain of $6 million in other income (expense), net, in our consolidated statement of operations. We may economically hedge any material Euro exposure by entering into Euro currency forward contracts we identify in the future.

We also use, from time to time, foreign currency forward contracts to economically hedge recognized foreign currency exposures on the balance sheets of various subsidiaries, primarily those denominated in Canadian dollars. We do not designate these forward contracts as hedging instruments. Accordingly, the gain or loss associated with these contracts is immediately recorded in earnings.