PART I

ITEM 1. BUSINESS

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report include forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "pro forma," "estimates," or "anticipates" or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. The forward-looking statements relate to, among other things:demand for our products; the timing of new product releases and technology transitions; the growth and competitive landscape of the markets in which we participate; the nature and extent of our future payments to GLOBALFOUNDRIES Inc. (GF) under the wafer supply agreement (WSA) and the materiality of these payments; manufacturing yields at GF and constrained supply of products from GF; the 2011 restructuring plan, including the timing of actions in connection with the plan and anticipated restructuring charges, cash expenditures, operational savings, and our intention to use these savings to fund certain strategic initiatives; the level of international sales as compared to total sales; the availability of external financing; our ability to sell our auction rate securities in the next twelve months; that our cash, cash equivalents and marketable securities and anticipated cash flow from operations and available external financing will be sufficient to fund our operations over the next twelve months; our dependence on a small number of customers; our hedging strategy; the continued shortage of hard disk drives as a result of the floods in Thailand; and the adequacy of our existing facilities for our present purpose. Material factors and assumptions that were applied in making these forward-looking statements include, without limitation, the following: the expected rate of market growth and demand for our products and technologies (and the mix thereof); manufacturing yields and wafer volumes from our third-party wafer foundry suppliers; our expected market share; our expected product costs and average selling price; our overall competitive position and the competitiveness of our current and future products; our ability to introduce new products, consistent with our current roadmap; our ability to raise sufficient capital on favorable terms; our ability to make additional investment in research and development and that such opportunities will be available; our ability to realize the anticipated benefits of our fabless business model; the expected demand for computers; and the state of credit markets and macroeconomic conditions. Material factors that could cause actual results to differ materially from current expectations include, without limitation, the following: that Intel Corporation's pricing, marketing and rebating programs, product bundling, standard setting, new product introductions or other activities may negatively impact our plans; that we may be unable to develop, launch and ramp new products and technologies in the volumes that are required by the market at mature yields on a timely basis; that our third party wafer foundry suppliers will be unable to transition our products to advanced manufacturing process technologies in a timely and effective way or to manufacture our products on a timely basis in sufficient quantities and using competitive process technologies; that we will be unable to obtain sufficient manufacturing capacity or components to meet demand for our products or will not fully utilize our projected manufacturing capacity needs at GFs microprocessor manufacturing facilities in 2012 and beyond; that customers stop buying our products or materially reduce their operations or demand for our products; that we may be unable to maintain the level of investment in research and development that is required to remain competitive; that there may be unexpected variations in market growth and demand for our products and technologies in light of the product mix that we may have available at any particular time or a decline in demand; that we will require additional funding and may be unable to raise sufficient capital on favorable terms, or at all; that global business and economic conditions will not improve or will worsen; that demand for computers will be lower than currently expected; and the effect of political or economic instability, domestically or internationally, on our sales or supply chain.

For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see "Part I, Item 1A—Risk Factors" and the "Financial Condition" section set forth in "Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," or MD&A, beginning on page 30 below and such other risks and uncertainties as set forth below in this report or detailed in our other Securities and Exchange Commission (SEC) reports and filings. We assume no obligation to update forward-looking statements.

General

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 accelerated processing unit, for the commercial and consumer markets, embedded microprocessors for commercial, commercial client and consumer markets and chipsets for desktop and mobile devices, including mobile personal computers, or 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.

For financial information about geographic areas and for segment information with respect to revenues and operating results, refer to the information set forth in Note 13 of our consolidated financial statements, beginning on page 86 below.

Additional Information

We were incorporated under the laws of Delaware on May 1, 1969 and became a publicly held company in 1972. Since 1979 our common stock has been listed on the New York Stock Exchange under the symbol "AMD." Our mailing address and executive offices are located at One AMD Place, Sunnyvale, California 94088, and our telephone number is (408) 749-4000. References in this report to "AMD," "we," "us," "management," "our," or the "Company" mean Advanced Micro Devices, Inc. and our consolidated subsidiaries.

Website Access to Company Reports and Corporate Governance Documents

We post on the Investor Relations pages of our Web site, www.amd.com, a link to our filings with the SEC, our Principles of Corporate Governance, our Code of Ethics for our Executive Officers and all other senior finance executives, our "Worldwide Standards of Business Conduct," which applies to our Board of Directors and all of our employees, and the charters of our Audit and Finance, Compensation and Nominating and Corporate Governance committees of our Board of Directors. Our filings with the SEC are posted as soon as reasonably practical after they are electronically filed with, or furnished to, the SEC. You can also obtain copies of these documents by writing to us at: Corporate Secretary, AMD, 7171 Southwest Parkway, M/S 100, Austin, Texas 78735, or emailing us at: Corporate.Secretary@amd.com. All of these documents and filings are available free of charge.

If we make substantive amendments to our Code of Ethics, or grant any waiver, including any implicit waiver, to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, we intend to disclose the nature of such amendment or waiver on our Web site or in a Current Report on Form 8-K in accordance with applicable rules and regulations.

Please note that information contained on our Web site is not incorporated by reference in, or considered to be a part of, this report.

Our Industry

Semiconductors are components used in a variety of electronic products and systems. An integrated circuit, or IC, is a semiconductor device that consists of many interconnected transistors on a single chip. Since the invention of the transistor in 1948, improvements in IC process and design technologies have led to the development of smaller, more complex and more reliable ICs at a lower cost per function. In order to satisfy the demand for faster, smaller and lower-cost ICs, semiconductor companies have continually developed improvements in manufacturing and process technology and design. ICs are increasingly being manufactured using smaller geometries on larger silicon wafers. Use of smaller process geometries can result in products that are higher performing, use less power and cost less to manufacture on a per unit basis.

Computing Solutions

The x86 Microprocessor Market

Central Processing Unit (CPU)

A microprocessor is an IC that serves as the central processing unit, or CPU, of a computer. It generally consists of millions of transistors that process data and control other devices in the system, acting as the brain of the computer. The performance of a microprocessor is a critical factor impacting the performance of a computer and numerous other electronic systems. The principal indicators of CPU performance are work-per-cycle, or how many instructions are executed per cycle, clock speed, representing the rate at which a CPUs internal logic operates, measured in units of hertz, or cycles per second, and power consumption. Other factors impacting microprocessor performance include the number of CPUs, or cores, on a microprocessor, the bit rating of the microprocessor, memory size and data access speed.

Developments in circuit design and manufacturing process technologies have resulted in significant advances in microprocessor performance. Currently, microprocessors are designed to process 32-bits or 64-bits of information at one time. The bit rating of a microprocessor generally denotes the largest size of numerical data that a microprocessor can handle. Microprocessors with 64-bit processing capabilities enable systems to have greater performance by allowing software applications and operating systems to access more memory.

Moreover, as businesses and consumers require greater performance from their computer systems due to the growth of digital data and increasingly sophisticated software applications, semiconductor companies are designing and developing multi-core microprocessors, where multiple processor cores are placed on a single die or in a single processor. Multi-core microprocessors offer enhanced overall system performance and efficiency because computing tasks can be spread across two or more processing cores each of which can execute a task at full speed. Moreover, multiple processor cores packaged together can increase performance of a computer system without greatly increasing the total amount of power consumed and the total amount of heat emitted. This type of "symmetrical multiprocessing" is effective in both multi-tasking environments where multiple cores can enable operating systems to prioritize and manage tasks from multiple software applications simultaneously and also for "multi-threaded" software applications where multiple cores can process different parts of the software program, or "threads," simultaneously thereby enhancing performance of the application. Businesses and consumers also require computer systems with improved power management technology, which allows them to reduce the power consumption of their computer systems thereby reducing the total cost of ownership.

Accelerated Processing Unit (APU)

While general purpose computer architectures based on the x86 architecture are sufficient for many customers, we believe that an architecture that optimizes the use of a CPU and graphics processing unit, or GPU, for a given workload can provide a substantial improvement in user experience, performance and energy efficiency. As the volume of digital media increases, we believe many customers can benefit from an accelerated computing architecture. An accelerated computing architecture enables "offloading" of selected tasks, thereby optimizing the use of multiple computational units such as the CPU and GPU, depending on the application or workload. For example, serial workloads are better suited for CPUs, while highly parallel tasks may be better performed by a GPU. Our AMD Accelerated Processing Unit, or APU, combines our CPU and GPU onto a single piece of silicon. We believe that high performance computing workloads, workloads that are visual in nature and even traditional applications such as photo and video editing or other multi-media applications can benefit from our accelerated computing architecture.

Microprocessor Products (CPUs and APUs)

We currently design, develop and sell microprocessor products for servers, desktop PCs and mobile devices, including mobile PCs and tablets. Our microprocessors and chipsets are incorporated into computing platforms that also include GPUs and core software to enable and advance the computing components. A platform is a collection of technologies that are designed to work together to provide a more complete computing solution. We believe that integrated, balanced platforms consisting of microprocessors, chipsets and GPUs that work together at the system level bring end users improved system stability, increased performance and enhanced power efficiency. Furthermore, by combining all of these elements onto a single piece of silicon as an APU, we believe system performance and power efficiency is further improved. In addition to the enhancements at the end-user level, our customers also benefit from an all-AMD platform, as we are able to provide them with a single point of contact for the key platform components and enable them to bring the platforms to market faster in a variety of client and server system form factors.

Our CPUs and APUs are manufactured primarily using 45-nanometer (nm), 40nm, and 32nm process technology. We currently base our microprocessors and chipsets on the x86 instruction set architecture and AMD's Direct Connect Architecture, which connects an on-chip memory controller and input/output, or I/O, channels directly to one or more microprocessor cores. We typically integrate two or more processor cores onto a single die, and each core has its own dedicated cache, which is memory that is located on the semiconductor die, permitting quicker access to frequently used data and instructions. Some of our microprocessors have additional levels of cache such as L2, or second level cache, and L3, or third level cache, to enable faster data access and higher performance.

Energy efficiency and power consumption continue to be key design principles for our products. We focus on continually improving power management technology, or "performance-per-watt." To that end, we offer CPUs, APUs and chipsets with features that we have designed to reduce system level energy consumption, with multiple levels of lower clock speed and voltage states that reduce processor power consumption during idle times. We design our CPUs and APUs to be compatible with operating system software such as the Microsoft® Windows® family of operating systems, Linux®, NetWare®, Solaris and UNIX. Our CPUs and chipsets support multiple generations of HyperTransport™ technology, which is a high-bandwidth communications interface that enables higher levels of multi-processor performance and scalability over traditional front side bus-based microprocessor technology.

Our AMD family of APUs represents a new approach to processor design and software development, delivering serial, parallel and visual compute capabilities for HD video, 3D and data-intensive workloads in the APU. APUs combine high-performance serial and parallel processing cores with other special-purpose hardware accelerators. We design our APUs for improved visual computing, security, performance-per-watt and smaller device form factors. Having the CPU and GPU on the same chip reduces the system power and bill-of-materials, speeds the flow of data between the CPU and GPU through shared memory and allows the GPU to function as both a graphic engine and an application accelerator in high efficient compute platforms.

Building on the integration of our CPU and GPU onto a single piece of silicon, we are focused on evolving our accelerated computing architecture in such a manner so that software programmers see a single multi-purpose processing unit. Heterogeneous Systems Architecture describes our overarching design for having combinations of CPU and GPU processor cores operate as a unified engine that we intend to be both higher performance and lower power than our previous architectures.

Server. A server is a system that performs services for connected clients as part of a client-server architecture. Servers are designed to run an application or applications, often for extended periods of time with minimal human direction. Examples of servers include web servers, e-mail servers, print servers and cloud computing servers. These servers run a variety of applications including business intelligence, enterprise resource planning, customer relationship management and advanced scientific or engineering models commonly referred to as high performance computing, or HPC. HPC involves the use of supercomputers and computer clusters to solve advanced computational problems in disciplines ranging from financial modeling to weather forecasting to oil and gas exploration. Cloud computing is a computing model where data, applications and services are delivered over the internet or an intranet.

In November 2011, we launched the AMD Opteron™ 6200 series processor, codenamed "Interlagos," and AMD Opteron 4200 series processor, codenamed "Valencia," our latest generation of microprocessors for server platforms that consist of 8-, 12- and 16-core versions and are based on our x86 "Bulldozer" architecture. These new processors are designed to specifically enhance the scalability of enterprise applications while enabling Web and database center customers to better handle emerging cloud and virtualization workloads. Virtualization is the use of software to allow multiple discrete operating systems and application environments (i.e., multiple virtual servers) to share a single physical computer. By enabling multiple operating systems and applications to run on the same server, virtualization offers the benefit of consolidating workloads and reducing hardware requirements, which can also reduce power, cooling and system management costs. We designed the AMD Opteron 6200 series processor to handle multi-threaded workloads, such as cloud computing, virtualization, HPC, databases and business application. We designed the AMD Opteron 4200 series processor to handle demanding server workloads at the lowest possible energy consumption, which we believe is well suited for power-conscious cloud deployments and for IT infrastructure and collaboration.

In February 2011, we introduced five new members of the AMD Opteron 6100 Series platform designed to address the demand for low-power, balanced systems for small and medium businesses and increased performance-per-dollar-per-watt for enterprise and public sector environments.

Mobile Devices. Consumers continue to demand thinner and lighter mobile platforms with better entertainment performance and longer battery life. In response to this demand, we continue to invest in designing and developing higher performing and low power mobile platforms. Our APUs for mobile PC platforms consist of our performance, mainstream A-Series APU, codenamed "Llano," that we launched in July 2011, the E-Series APU for mainstream, everyday performance, codenamed "Zacate," that we launched in January 2011, the C-Series APU for HD internet experiences in small form factors, codenamed "Ontario," that we also launched in January 2011 and the Z–Series APU for Windows-based tablets, codenamed "Desna," that we launched in June 2011. Our APUs for mobile platforms combine discrete-level graphics, dedicated HD video processing and multi-core CPU processors on a single die for maximum performance and power efficiency in the smallest space.

Our CPUs for mobile PC platforms consist of the AMD Phenom™ II Dual-Core Mobile Processor, AMD Phenom II Triple-Core, AMD Phenom II Quad-Core Mobile Processor, AMD Turion™ X2 Mobile Processor, AMD Turion II Mobile Processor, AMD Turion II Ultra Mobile Processor, AMD Turion Neo X2 Mobile Processor, AMD Athlon™ II processor, AMD Athlon II Neo processor, AMD Athlon Neo X2 Dual-Core processor and the Mobile AMD Sempron™ processor.

Desktop. Our APUs for desktop PC platforms consist primarily of the AMD A Series "Llano" APU and the E-Series "Zacate" APU. The desktop A-Series APU was designed for mainstream desktop platforms and comes in quad-, triple- and dual-core versions. We designed the desktop E-Series APUs for all-in-ones, or desktop computers that combine the APU or CPU with the monitor, and small form factor desktop PCs. Our CPUs for desktop PC platforms consist of the following: AMD FX processors based on the "Bulldozer" x86 multi-core architecture, which are available with eight-, six- and quad- core versions, AMD Phenom II processors, which are available with six-, quad-, triple- and dual- core technology, AMD Athlon II processors, which are available in quad-, triple- and dual- core versions, and AMD Sempron processors. We designed the AMD FX processors for multitasking, high resolution gaming, and HD media processing.

Embedded Processor Products

Our embedded products address customer needs in PC-adjacent markets. Typically, our embedded products are used in applications that require high to moderate levels of performance where key features include low cost, mobility, low power and small form factor. High performance graphics are increasingly important in many embedded systems. Customers of our embedded products include vendors in industrial controls, digital signage, point of sale/self-service kiosks, medical imaging, set-top box and casino gaming machines as well as enterprise class telecommunications, networking, security, storage systems and thin-clients, or computers that serve as an access device on a network.

The embedded market has moved from developing proprietary, custom designs to leveraging the industry-standard x86 instruction set architecture as a way to reduce costs and speed time to market. Customer requirements for these systems include: very low power for small enclosures and 24x7 operation, support for Linux, Windows and other operating systems, and high-performance for increasingly sophisticated applications. Other requirements include advanced specifications for industrial temperatures, shock and vibration, and reliability.

Our embedded platforms include options from the AMD Opteron, AMD Athlon, AMD Turion, and AMD Sempron processor families; the AMD Embedded G-Series, which is the embedded version of our APUs; the AMD Radeon™ graphics processor family; and numerous AMD chipsets. These products are part of the AMD Longevity Program, which provides for an availability period of up to five years in some cases in order to support lengthy development and qualification cycles and long-term life of the system in the market.

In May 2011, we announced two additional AMD Embedded G-Series APUs. These low-power processors are designed for compact, fanless embedded systems like digital signage, kiosks, and mobile industrial devices. Also in May 2011, we introduced the AMD Radeon E6760 embedded discrete graphics processor, which offers embedded system designers the combination of OpenCL™, and AMD Eyefinity-enhanced support. OpenCL, or Open Computing Language, is the programming standard for general-purpose computations on systems that use more than one kind of processor, such as an APU. AMD Eyefinity is a technology that allows a game to be played across multiple screens in a panoramic view with minimal distortion by allowing up to six monitors to be connected to one graphics processor.

Chipset Market and Products

Chipsets send data between the microprocessor and input, display and storage devices, such as the keyboard, mouse, monitor, hard drive and CD or DVD drive. Chipsets perform essential logic functions, such as balancing the performance of the system and removing bottlenecks. Chipsets also extend the graphics, audio, video and other capabilities of computer systems. All desktop and mobile PCs as well as servers incorporate a chipset. In many PCs, the chipset is integrated with additional functions such as a GPU. An integrated chipset solution is commonly known as an integrated graphics processor, or IGP, chipset. Chipsets that do not integrate a graphics core are connected to what is known as a discrete GPU. IGP chipsets offer a lower cost solution and in some circumstances can offer reduced power consumption or smaller system form factors. A majority of PCs make use of IGP chipsets, while discrete GPUs are used in higher performance PCs and servers. Our APU architecture replaces an IGP-type chipset with an AMD Fusion Controller Hub chip which performs the input and output functions of the chipset. We believe that the combination of an APU and the AMD Fusion Controller Hub will eventually replace our market for IGP chipsets.

In June 2011, we launched our 9-Series Chipsets designed to help our customers develop next generation high performance desktop platforms.

Graphics

Graphics Market

The primary product of a semiconductor graphics supplier is the GPU. The GPU is specifically architected for high performance graphics processing, unlike the CPU. In this way, a dedicated GPU and CPU work in tandem to increase overall speed and performance of the system. A graphics solution can be in the form of either a discrete GPU, an integrated chipset, an embedded graphics processor or a combination of the discrete GPU and integrated/embedded solution working in tandem. The semiconductor graphics market addresses the need for visual or parallel processing in various computing and entertainment platforms such as desktop PCs, mobile PCs and workstations. Users of these products value a rich visual experience, particularly in the high-end enthusiast market where consumers often seek out the fastest and highest performing visual processing products to enable the most compelling and immersive gaming experiences. Moreover, for many consumers, the PC is evolving from a traditional data and communications processing machine to an entertainment platform. Visual realism and graphical display capabilities are key elements of product differentiation among various product platforms. This has led to the increasing creation and use of processing intensive multimedia content for PCs and to PC manufacturers designing PCs for playing games, displaying photos and capturing TV and other multimedia content, viewing online videos, photo editing and managing digital content. In turn, the trend has contributed to the development of higher performance graphics solutions.

Graphics Products

Our customers generally use our graphics solutions to increase the speed of rendering images and to improve image resolution and color definition. We develop our products for use in desktop and mobile PCs, professional workstations, servers and gaming consoles. With each of our graphics products, we provide drivers and supporting software packages that enable the effective use of these products under a variety of operating systems and applications. In addition, our recent generation graphics products have Linux® driver support.

Heavy computational workloads have traditionally been processed on a CPU, but we believe that the industry is shifting to a new computing paradigm that increasingly relies more on the GPU or a combination of GPU and CPU. AMD Accelerated Parallel Processing or GPGPU (General Purpose GPU) refers to a set of advanced hardware and software technologies that enable AMD GPUs, working in concert with the computer system's CPUs, to accelerate applications beyond traditional graphics and video processing by allowing the CPUs and GPUs to process information cooperatively. Heterogeneous computing enables PCs and servers to run computationally-intensive tasks more efficiently, providing a superior application experience to the end user.

Our APU is a heterogeneous system that incorporates Microsoft® DirectX® 11 (DirectX 11) discrete level GPU capabilities for graphics processing and other mathematically intensive computations on very large data sets, to handle visual tasks such as 3D rendering as well as certain fixed functions. The APU continues to utilize a CPU to run the operating system and most traditional PC applications. With our APUs, we offer discrete level GPU performance at value and mainstream price points with the added benefit of long battery life in mobile PCs and lower power computing devices. Additionally, a mainstream APU, when paired with an AMD discrete GPU, in multi-GPU configuration will enable greater graphics performance and parallel processing. We believe that high performance computing workloads, workloads that are visual in nature and even traditional applications such as photo and video editing or other multi-media applications can benefit from our accelerated computing architecture.

Discrete Desktop Graphics. We believe that discrete graphic solutions will continue to be popular across desktop PC configurations and platforms designed for gaming, multimedia, photo and video editing as well as other graphic-intensive applications. Our discrete GPUs for desktop PCs include the AMD Radeon™ HD 7000 series, AMD Radeon HD 6000 series, ATI Radeon HD 5000 series, ATI Radeon HD 4000 series and ATI Radeon HD 3000 series. In December 2011, we introduced the AMD Radeon HD 7970, and in January 2012, we launched AMD Radeon HD 7950, our first graphics processors based on 28 nm process technology and on our Graphics Core Next, or GCN, architecture. GCN is our new architecture for consumer GPUs. In April 2011, we added the AMD Radeon HD 6670, Radeon HD 6570 and Radeon HD 6450 graphic cards to our AMD Radeon HD 6000 family of graphics cards. These graphics cards are designed for budget conscious gamers and are intended to provide affordable solutions that are ideal for HD game play, video playback and productivity applications.

Discrete Mobile Graphics. When selecting a graphics solution, key considerations for mobile PC manufacturers are graphics performance, visual experience, power efficiency, dedicated memory support and ease of design integration. Our discrete GPUs for mobile PCs include the following: AMD Radeon HD 6000M series, ATI Mobility Radeon HD 5000 series and ATI Mobility Radeon HD 4000 series. In July 2011, we launched our AMD Radeon HD 6990M, designed to expand gaming enthusiasts' computing experience with AMD CrossFire Technology, AMD Eyefinity multiple display technology, DirectX 11 support and AMD HD3D Technology. AMD CrossFire Technology combines the output of two GPUs and is designed to improve gaming performance and enhance image resolution and quality. We designed AMD HD3D Technology to enable stereoscopic 3D display capabilities in games, movies and/or photos. In January 2012, we launched the AMD Radeon HD 7000M series, which features AMD Dynamic Switchable Graphics Technology, AMD Vari-Bright™ technology and AMD PowerPlay™ technology. We designed AMD Dynamic Switchable Graphics Technology to engage discrete GPUs only when needed and use energy efficient built-in graphics capabilities the rest of the time. With AMD Vari-Bright technology, battery life can be enhanced by optimizing the brightness of the display to save power. AMD PowerPlay technology is a combination of hardware and software power management components designed to configure the GPU for minimal power consumption.

Professional Graphics. Our AMD FirePro™ family of professional graphics products consist of 3D and 2D multi-view graphics cards and GPUs that we designed for integration in mobile and desktop workstations, as well as business PCs. We designed our AMD FirePro 3D graphics cards for demanding applications such as those found in the CAD and digital content creation (DCC) markets, with drivers specifically tuned for maximum performance, stability and reliability across a wide range of software packages. Our AMD FirePro 2D graphics cards with dual and quad display outputs are designed for financial, corporate, and command and control environments.

We also provide graphics products for the server market, such as the AMD FirePro V7800P and the AMD Fire Pro V9800P, where we leverage our graphics expertise and align our offerings to provide the stability, video quality and bus architectures desired by our customers. Through our ATI CrossFire Pro, we enable CAD and DCC professionals to connect two identical AMD FirePro 3D graphics cards with a flex cable connection that can enhance performance of geometry-limited applications.

In January 2011, we introduced AMD FirePro 2270 and ATI FirePro V5800 DVI, and in May 2011, we introduced AMD FirePro V5900 and AMD FirePro V7900, designed for professionals in the medical, financial, design and engineering fields who require the ability to view and interact with multiple applications simultaneously. Also in May 2011, we launched AMD FirePro V7800P for server and data center environments. In November 2011, we introduced AMD FirePro V4900 designed for DCC and CAD professionals at an entry-level price point.

FireStream Processors. We designed our AMD FireStream™ series of products to utilize the parallel stream processing power of the GPU for heavy floating-point computations and to meet the requirements of various industries, such as the high-performance computing and the scientific and financial sectors.

Game Consoles. Semiconductor graphics suppliers have leveraged their core visual and graphics processing technologies developed for the PC market by providing graphic solutions to game console manufacturers. In this market, semiconductor graphics suppliers work alongside game console manufacturers to enhance the visual experience for users of sophisticated video games. We leverage our core visual processing technology into the game console market by licensing customized GPUs for graphics in videogame consoles such as the Microsoft® Xbox 360™ and Nintendo Wii.

Marketing and Sales

We sell our products through our direct sales force and through independent distributors and sales representatives in both domestic and international markets pursuant to non-exclusive agreements. Our sales arrangements generally operate on the basis of product forecasts provided by the particular customer, but do not typically include any commitment or requirement for minimum product purchases. We primarily use purchase orders, sales order acknowledgments and contractual agreements as evidence of our sales arrangements. Our agreements typically contain standard terms and conditions covering matters such as payment terms, warranties and indemnities for issues specific to our products.

We generally warrant that our products sold to our customers will conform to our approved specifications and be free from defects in material and workmanship under normal use and service for one year. Subject to certain exceptions, we also offer a three-year limited warranty to end users for only those CPU and AMD A-Series APU products that are commonly referred to as "processors in a box" and for PC workstation products. We have also offered extended limited warranties to certain customers of "tray" microprocessor products and/or workstation graphics products who have written agreements with us and target their computer systems at the commercial and/or embedded markets.

We market and sell our products under the AMD trademark. Our desktop PC product brands for microprocessors are AMD A-Series APU, AMD E-Series APU, AMD FX, AMD Phenom, AMD Athlon and AMD Sempron. Our mobile PC brands for microprocessors are AMD A-Series APU, AMD E-Series APU, AMD C-Series APU, AMD Z-Series APU, AMD Phenom, AMD Turion, AMD Athlon and AMD Sempron. AMD Athlon processors and AMD Turion processors are sometimes marketed using the "Neo" model designator for low power products targeted at the thin-and-light mobile segment. Our server brand for microprocessors is AMD Opteron. We also sell low-power versions of our AMD Opteron, AMD Athlon, AMD Turion , AMD Sempron and AMD Embedded A-Series processors as embedded processor solutions. Our product brand for the consumer graphics market is AMD Radeon. Our product brand for professional graphics products is AMD FirePro. We also market and sell our chipsets under the AMD trademark.

We launch or update new platforms for consumers in the desktop and mobile markets under our VISION Technology from AMD brand. We designed VISION Technology to simplify the buying process for consumers by more clearly connecting our brand to the level of activities that consumers want to perform on the PC. VISION Technology contains multiple levels of increasingly rich PC system capabilities to address the diverse needs of today's PC users**.** VISION Technology initially was comprised of four levels of PC system capabilities: VISION, VISION Premium, VISION Ultimate and VISION Black. In January 2011, we introduced our VISION Technology brand for our low-power APU products, consisting of VISION E1 and VISION E2 for our entry level PCs. In June 2011, we launched our VISION Technology brand for performance series APUs consisting of four levels of PC system capabilities: VISION A4, VISION A6, VISION A8, and VISION FX. These VISION tiers are for 2011 and later systems powered by our APUs and provide increasingly higher PC capabilities. VISION E1, E2, and A4 based desktops and notebooks are targeted at PC users who require basic digital media consumption such as watching DVDs, photo viewing, casual gaming, listening to music, and Internet browsing. VISION A6 and A8 based desktops and notebooks are designed to allow a greater computing performance for digital consumption and creation. These activities include watching HD movies, photo editing, DirectX 11 gaming, multi-tasking, and video editing. VISION FX desktops are based on the AMD FX processor and an AMD Radeon HD 6000 or HD 7000 series graphics card. These VISION FX systems are designed to enable the highest capabilities sought by enthusiasts and are only available on desktop PCs. There is also VISION Pro Technology, which is designed for business users and extends the approach of VISION Technology to commercial PC platforms.

We market our products through our direct marketing and co-marketing programs. In addition, we have cooperative advertising and marketing programs with customers or third parties, including market development programs, pursuant to which we may provide product information, training, marketing materials and funds. Under our co-marketing development programs, eligible customers can use market development funds as partial reimbursement for advertisements and marketing programs related to our products, subject to meeting defined criteria. Original Equipment Manufacturers, or OEMs, customers may qualify for market development funds based on purchases of eligible products.

Customers

Our microprocessor customers consist primarily of OEMs, original design manufacturers, or ODMs, system builders and independent distributors in both domestic and international markets. ODMs provide design and/or manufacturing services to branded and unbranded private label resellers, OEMs and system builders. Our graphics products customers include the foregoing as well as AIBs, or add-in-board manufacturers.

Customers of our chipset products consist primarily of PC and server OEMs, often through ODMs or other contract manufacturers who build the OEM motherboards, as well as desktop and server motherboard manufacturers who incorporate chipsets into their channel motherboards.

Our sales and marketing teams work closely with our customers to define product features, performance and timing of new products so that the products we are developing meet our customers' needs. We also employ application engineers to assist our customers in designing, testing and qualifying system designs that incorporate our products in order to assist in optimizing product compatibility. We believe that our commitment to customer service and design support improves our customers' time-to-market and fosters relationships that encourage customers to use the next generation of our products.

Original Equipment Manufacturers

We focus on three types of OEMs: multi-nationals, selected regional accounts and target market customers. Large multi-nationals and regional accounts are our core OEM customers. Our OEM customers include numerous foreign and domestic manufacturers of servers and workstations, desktop and mobile PCs, and PC motherboards.

In 2011, Hewlett-Packard Company accounted for more than 10% of our consolidated net revenues. Sales to Hewlett-Packard consisted primarily of products from our Computing Solutions segment. Five customers, including Hewlett-Packard, accounted for approximately 56% of the net revenue attributable to our Computing Solutions segment. In addition, five customers accounted for approximately 55% of the net revenue attributable to our Graphics segment. A loss of any of these customers could have a material adverse effect on our business.

Third-Party Distributors

Our authorized distributors resell to sub-distributors and mid-sized and smaller OEMs and ODMs. Typically, distributors handle a wide variety of products, including those that compete with our products. Distributors typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions and provide return rights with respect to any product that we have removed from our price book that is not more than twelve months older than the manufacturing code date. In addition, some agreements with our distributors may contain standard stock rotation provisions permitting limited levels of product returns.

AIB Manufacturers and System Integrators

We strive to establish and broaden our relationships with AIB manufacturers. We offer component-level graphics and chipset products to AIB manufacturers who in turn build and sell board-level products using our technology to system integrators, or SIs, and at retail. Our agreements with AIBs protect their inventory of our products against price reductions. We also sell directly to our SI customers. SIs typically sell from positions of regional or product-based strength in the market. They usually operate on short design cycles and can respond quickly with new technologies. SIs often use discrete graphics solutions as a means to differentiate their products and add value to their customers.

Competition

Generally, the IC industry is intensely competitive. Products typically compete on product quality, power consumption (including battery life), reliability, speed, performance, size (or form factor), cost, selling price, adherence to industry standards (and the creation of open industry standards), software and hardware compatibility and stability, brand recognition, timely product introductions and availability. Technological advances in the industry result in frequent product introductions, regular price reductions, short product life cycles and increased product capabilities that may result in significant performance improvements. Our ability to compete depends on our ability to develop, introduce and sell new products or enhanced versions of existing products on a timely basis and at competitive prices, while reducing our costs.

Competition in the Microprocessor Market

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

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

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

Intel also leverages its dominance in the microprocessor market to sell its integrated chipsets. Intel manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor with respect to this portion of our business. The continued improvement of the quality of Intel's integrated graphics, along with higher unit shipments of our APU products, may drive computer manufacturers to reduce the number of systems they build paired with discrete graphics components, particularly for mobile PCs, because they may offer satisfactory graphics performance for most mainstream PC users, at a lower cost. Intel could also take actions that place our discrete GPUs at a competitive disadvantage, including giving one or more of our competitors in the graphics market, such as Nvidia Corporation, preferential access to its proprietary graphics interface or other useful information.

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

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

Intel's dominant position in the microprocessor market and integrated graphics chipset market, its existing relationships with top-tier OEMs and its aggressive marketing and pricing strategies could result in lower unit sales and a lower average selling price for our products, which could have a material adverse effect on us.

Other competitors include companies providing ARM-based designs used in the mobile and embedded electronics market as relatively low cost and small microprocessors and also in form factors that offer an alternative to mainstream PCs such as netbooks and tablets. ARM Limited designs and licenses its ARM architecture and offers supporting software and services. Our ability to compete with companies who use ARM-based solutions depends on our ability to design energy-efficient, high-performing products at an attractive price point. In addition, Nvidia has begun to build custom CPU cores based on ARM architecture to support future products ranging from PCs and servers to workstations and super computers.

Competition in the Chipset Market

In the chipset market, our competitors include suppliers of integrated graphics chipsets. PC manufacturers use integrated chipsets because they cost less than traditional discrete GPUs while offering acceptable graphics performance for most mainstream PC users. Intel manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor in this market.

Competition in the Graphics Market

In the graphics market, our competitors include suppliers of discrete graphics, embedded graphics processors and integrated graphics chipsets. Intel manufactures and sells embedded graphics processors and integrated graphics (IGP) chipsets, and is a dominant competitor with respect to this portion of our business.

The continued improvement of the quality of Intel's integrated graphics, along with higher unit shipments of our APUs, may drive computer manufacturers to reduce the number of systems they build paired with discrete graphics components, particularly for mobile PCs, because they may offer satisfactory graphics performance for most mainstream PC users, at a lower cost. Intel could take actions that place our discrete GPUs and integrated chipsets at a competitive disadvantage such as giving one or more of our competitors in the graphics market, such as Nvidia, preferential access to its proprietary graphics interface or other useful information.

Other than Intel, our principal competitor in the graphics market is Nvidia. AMD and Nvidia are the two principal players offering discrete graphics solutions. Other competitors include a number of smaller companies, which may have greater flexibility to address specific market needs, but less financial resources to do so, especially as we believe that the growing complexity of visual processors and the associated research and development costs represent an increasingly higher barrier to entry in this market.

In the game console category, we compete primarily against Nvidia. Other competitors include Intel and ARM.

Research and Development

We focus our research and development activities on improving and enhancing product design. One main area of focus is on delivering the next generation of products with greater system level integration of the CPU and GPU, improved system performance and performance-per-watt characteristics. For example, we are focusing on improving the battery life of our microprocessors and APU products for mobile PCs and the power efficiency of our microprocessors for servers. We are also focusing on delivering a range of low power integrated platforms to serve key markets, including commercial clients, mobile computing, and gaming and media computing, as well as developing a Heterogeneous System Architecture, which is designed for software developers to easily program APUs by combining scalar processing on the CPU with parallel processing on the GPU, all while providing high bandwidth access to memory at low power. We believe that these integrated platforms will bring customers better time-to-market and increased performance and energy efficiency. We also work with industry leaders on process technology, software and other functional intellectual property and we work with others in the industry, public foundations, universities and industry consortia to conduct early stage research and development.

Our research and development expenses for 2011, 2010 and 2009 were approximately $1.5 billion, $1.4 billion and $1.7 billion, respectively. For more information, see Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations," or MD&A.

We conduct product and system research and development activities for our products in the United States with additional design and development engineering teams located in Canada, India, China, Singapore, Taiwan, Germany, United Kingdom, Israel and Japan.

Manufacturing Arrangements and Assembly and Test Facilities

Third-Party Wafer Foundry Facilities

GLOBALFOUNDRIES, Inc. On March 2, 2009, together with Advanced Technology Investment Company LLC (ATIC) and West Coast Hitech L.P., (WCH), acting through its general partner, West Coast Hitech G.P., Ltd., we formed GLOBALFOUNDRIES, Inc. (GF), a manufacturing joint venture that manufactures semiconductor products and provides certain foundry services to us.

Wafer Supply Agreement. At the closing of the transactions, we entered into a Wafer Supply Agreement (WSA), which governs the terms by which we purchase products manufactured by GF. Pursuant to the WSA, we are required to purchase all of our microprocessor unit and APU product requirements from GF with limited exceptions. 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 our APU products. However, we are currently in the process of negotiating a second amendment to the WSA, including the pricing methodology. If we do not successfully conclude our negotiations, it could have a material adverse impact on our gross margins and our results of operations.

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.

GF manufactures our microprocessors on 300 millimeter wafers using primarily 45nm and 32nm process technology.

Taiwan Semiconductor Manufacturing Company. We also have foundry arrangements with Taiwan Semiconductor Manufacturing Company (TSMC) for the production of certain graphics processors and chipsets, embedded processors, and APU products.

We are in production in TSMC's 300 millimeter and 200 millimeter fabrication facilities in technologies ranging from 65nm to 28nm. Smaller process geometries can lead to gains in performance, lower power consumption and lower per unit manufacturing costs. We continue to have our products manufactured on more advanced process technology because using more advanced process technology can contribute to lower product manufacturing costs and improve a product's performance and power efficiency.

Other Third-Party Manufacturers. We outsource board-level graphics product manufacturing to third-party manufacturers.

Assembly, Test, Mark and Packaging Facilities

We own and operate three assembly, test, mark and packaging facilities. Some wafers for our microprocessor, graphics processor and embedded processor products are delivered from third-party foundries to our assembly, test, mark and packaging facilities. Our assembly, test, mark and packaging facilities are described in the chart set forth below:

Facility Location	Approximate Manufacturing Area Square Footage	Activity
Penang, Malaysia	206,000	Assembly, Test, Mark & Packaging
Singapore	215,000	Test, Mark & Packaging
Suzhou, China	100,000	Assembly, Test, Mark & Packaging

The remaining wafers for our graphics products are delivered from third party foundries to our test, assembly and packaging partners located in Asia-Pacific region who package and test the final semiconductor products.

Intellectual Property and Licensing

We rely on contracts and intellectual property rights to protect our products and technologies from unauthorized third-party copying and use. Intellectual property rights include copyrights, patents, patent applications, trademarks, trade secrets and maskwork rights. As of December 31, 2011 we had approximately 4,500 patents in the United States and approximately 1,500 patent applications pending in the United States. In certain cases, we have filed corresponding applications in foreign jurisdictions. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. We do not believe that any individual patent, or the expiration thereof, is or would be material to our business.

As is typical in the semiconductor industry, we have numerous cross-licensing and technology exchange agreements with other companies under which we both transfer and receive technology and intellectual property rights. One such agreement is the cross-license agreement that we entered into with Intel on November 11, 2009, in connection with the settlement of our litigation. Under the cross license agreement, Intel has granted to us and our subsidiaries, and we have granted Intel and its subsidiaries, non-exclusive, royalty-free licenses to all patents that are either owned or controlled by the parties at any time that have a first effective filing date or priority date prior to the five-year anniversary of the effective date of the cross license agreement, referred to as the "Capture Period," to make, have made, use, sell, offer to sell, import and otherwise dispose of certain semiconductor- and electronic-related products anywhere in the world. Under the cross license agreement, Intel has rights to make semiconductor products for third parties, but the third party product designs are not licensed as a result of such manufacture. We have rights to perform assembly and testing for third parties but not rights to make semiconductor products for third parties. The term of the cross license agreement continues until the expiration of the last to expire of the licensed patents, unless earlier terminated. A party can terminate the cross license agreement or the rights and licenses of the other party if the other party materially breaches the cross license agreement and does not correct the noticed material breach within 60 days. Upon such termination, the terminated party's license rights terminate but the terminating party's license rights continue, subject to that party's continued compliance with the terms of the cross license agreement. The cross license agreement and the Capture Period will automatically terminate if a party undergoes a change of control (as defined in the cross license agreement) and both parties' licenses will terminate. Upon the bankruptcy of a party, that party may assume, but may not assign, the cross license agreement, and in the event that the cross license agreement cannot be assumed, the cross license agreement and the licenses granted will terminate.

We also have a patent cross license agreement with GF pursuant to which each party granted to the other a non-exclusive license under patents filed by a party (or are otherwise acquired by a party) within a certain number of years following the effective date of the agreement. In 2009, under the agreements with GF, we assigned approximately 3,000 patents and approximately 1,000 patent applications to GF. GF owns its allocation of patents and applications subject to pre-existing rights, licenses or immunities granted to third parties relating to such patents and applications. The patents and patent applications to be owned by each party after the division were licensed to the other party pursuant to the agreement.

In addition, we entered into a Non-Patent Intellectual Property and Technology Transfer Agreement with GF pursuant to which we assigned to GF all of our right, title and interest in technology and non-patent intellectual property rights used exclusively in the manufacture, sorting and/or intermediate testing of semiconductor products. We retained technology and non-patent intellectual property rights used exclusively in the design and/or post-fabrication delivery testing of semiconductors. Technology and non-patent intellectual property rights used both in the manufacture, sorting and/or intermediate testing of semiconductor products and in the design and/or post-fabrication delivery testing of semiconductor products is owned jointly by us and GF.

Backlog

We sell standard lines of products. Sales are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time. Some of these orders or agreements may be revised or cancelled without penalty. Generally, in light of current industry practice, we do not believe that such orders or agreements provide meaningful backlog figures or are necessarily indicative of actual sales for any succeeding period.

Employees

As of December 31, 2011, we had approximately 11,100 employees.

Environmental Regulations

Many aspects of our business operations and products are regulated by domestic and international environmental laws and regulations. These regulations include limitations on discharge of pollutants to air, water, and soil; remediation requirements; product chemical content limitations; manufacturing chemical use and handling restrictions; pollution control requirements; waste minimization considerations; and requirements with respect to treatment, transport, storage and disposal of solid and hazardous wastes. If we fail to comply with any of the applicable environmental regulations we may be subject to fines, suspension of production, alteration of our manufacturing processes, import/export restrictions, sales limitations, and/or criminal and civil liabilities. Existing or future regulations could require us to procure expensive pollution abatement or remediation equipment; to modify product designs; or to incur other expenses to comply with environmental regulations. Any failure to adequately control the use, disposal or storage, or discharge of hazardous substances could expose us to future liabilities that could have a material adverse effect on our business. We believe we are in material compliance with applicable environmental requirements and do not expect those requirements to result in material expenditures in the foreseeable future.

Environmental laws are complex, change frequently and have tended to become more stringent over time. We face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and material composition of our products. For example, the European Union (EU) and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products with other countries implementing similar restrictions. These regulations affect semiconductor devices and packaging. There is a risk that the cost, quality and manufacturing yields of products that are required to be lead-free, as defined by these regulations, or that are subject to other chemical restrictions, may be less favorable compared to products that are not subject to chemical restrictions, or that the transition to products subject to lead-free or other chemical restrictions may produce sudden changes in demand, which may result in excess inventory.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the SEC to establish new disclosure and reporting requirements for those companies who use “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in their products, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices, and there will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflicting minerals used in our products. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins for all metals used in our products through the due diligence procedures that we implement. Moreover, we may encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free.

Other regulatory requirements potentially affecting our back-end manufacturing processes and the design and marketing of our products are in development throughout the world. In addition, a number of jurisdictions including the EU, Australia and China are developing or finalizing market entry requirements or public procurement for computers and servers based on ENERGY STAR specification as well as additional energy consumption limits. Some of these regulations are expected to be approved and implemented by the end of 2012. If such requirements are implemented in the proposed time frame and do not contain recommended modifications as proposed by industry associations, there is the potential for certain of our microprocessor, chipset and GPU products, as incorporated in desktop and mobile PCs, workstations, servers and other information and communications technology products being excluded from these markets which could materially adversely affect us. While we have budgeted for foreseeable associated expenditures, we cannot assure you that future environmental legal requirements will not become more stringent or costly in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past and future releases of, or exposure to, hazardous substances will not have a material adverse effect on us.

ITEM 1A. RISK FACTORS

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

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

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

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

Intel has substantially greater financial resources than we do and accordingly spends substantially greater amounts on research and development than we do. We expect Intel to maintain its dominant position and to continue to invest heavily in marketing, research and development, new manufacturing facilities and other technology companies. To the extent Intel manufactures a significantly larger portion of its microprocessor products using more advanced process technologies, or introduces competitive new products into the market before we do, we may be more vulnerable to Intel's aggressive marketing and pricing strategies for microprocessor products. Intel also leverages its dominance in the microprocessor market to sell its integrated chipsets. Intel manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor with respect to this portion of our business. The continued improvement of the quality of Intel's integrated graphics, along with higher unit shipments of our APU products, may drive computer manufacturers to reduce the number of systems they build paired with discrete graphics components, particularly for mobile PCs, because they may offer satisfactory graphics performance for most mainstream PC users, at a lower cost. Intel could also take actions that place our discrete GPUs at a competitive disadvantage, including giving one or more of our competitors in the graphics market, such as Nvidia Corporation, preferential access to its proprietary graphics interface or other useful information.

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

- business practices, including rebating and allocation strategies and pricing actions, designed to limit our market share and margins;
- product mix and introduction schedules;
- product bundling, marketing and merchandising strategies;
- exclusivity payments to its current and potential customers and channel partners;

- control over industry standards, PC manufacturers and other PC industry participants, including motherboard, memory, chipset and basic input/output system, or BIOS, suppliers and software companies as well as the graphics interface for Intel platforms; and
- marketing and advertising expenditures in support of positioning the Intel brand over the brand of its OEM customers.

Intel's dominant position in the microprocessor market and integrated graphics chipset market, its existing relationships with top-tier OEMs and its aggressive marketing and pricing strategies could result in lower unit sales and a lower average selling price for our products, which could have a material adverse effect on us.

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

Our success depends to a significant extent on the development, qualification, implementation and acceptance of new product designs and improvements that provide value to our customers. Our ability to develop, qualify and distribute new products and related technologies to meet evolving industry requirements, at prices acceptable to our customers and on a timely basis are significant factors in determining our competitiveness in our target markets. If we fail to or are delayed in developing, qualifying or shipping new products or technologies, we may lose competitive positioning, which could cause us to lose market share and require us to discount the selling prices of our products.

Delays in developing, qualifying or shipping new products can also cause us to miss our customers' product design windows. If our customers do not include our products in the initial design of their computer systems, they will typically not use our products in their systems until at least the next design configuration. The process of being qualified for inclusion in a customer's system can be lengthy and could cause us to further miss a cycle in the demand of end-users, which also could result in a loss of market share and harm our business.

Moreover, market demand requires that products incorporate new features and performance standards on an industry-wide basis. Over the life of a specific product, the average selling price undergoes regular price reductions. The introduction of new products and enhancements to existing products is necessary to maintain an overall corporate average selling price. If we are unable to introduce new products with sufficient increases in average selling price or increased unit sales volumes capable of offsetting the reductions in the average selling price of existing products, our business could be materially adversely affected.

With the introduction of our APU products, computer manufacturers have increasingly selected APUs for their AMD product-based solutions, particularly for mobile PCs, because the APU platforms cost less than the combined cost of a legacy microprocessor, discrete graphics card and chipset, while offering comparable performance to mainstream discrete graphics cards, which we believe is sufficient for most mainstream PC users. We believe that demand for additional discrete graphic cards may decrease in the future due to both the continued improvement of the quality of Intel's integrated graphics and the discrete level graphics performance of our APUs.

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

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

We cannot assure you that these manufacturers or our other third party manufacturing suppliers will be able to meet our near-term or long-term manufacturing requirements. For example, during the fourth quarter of 2011, we experienced reduced supply of 45nm products from GF because of a manufacturing disruption that reduced the number of 45nm wafers available for production. If we experience future supply constraints, such as was the case with GF in the second half of 2011, we may be required to allocate the affected products amongst our customers, which could have a material adverse effect on our relationships with these customers and on our financial condition. In addition, depending on the timing of supply of products during any given quarter, customer demand may fluctuate.

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

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

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

We rely on GF to manufacture most of our microprocessor products. If GF is not able to satisfy our manufacturing requirements, our business could be adversely impacted.

The WSA governs the terms by which we purchase products manufactured by GF. Pursuant to the WSA, we are required to purchase all of our microprocessor unit and APU product requirements from GF with limited exceptions. If GF is unable to remain competitive using advanced process technologies or is unable to manufacture our products on a timely basis, at competitive prices, or meet our capacity requirements, our business could be materially adversely affected.

For example, during the third quarter of 2011, GF experienced yield and other manufacturing difficulties related to 32nm wafer fabrication, resulting in lower than expected supply of 32nm products to us. Also in the third quarter, we experienced supply constraints for our 45nm microprocessor products from GF due to complexities related to the use of common tools across both 32nm and 45nm technology nodes and because we made the decision to shift volume away from products manufactured using the 45nm technology node in order to obtain additional 32nm products. Because we were supply constrained with respect to 32nm and 45nm wafers, our revenues and gross margin in the third quarter of 2011 were adversely impacted. Also, during the fourth quarter of 2011, we experienced reduced supply of 45nm product from GF because of a manufacturing disruption that reduced the number of 45nm wafers available for production. If GF is unable to achieve anticipated manufacturing yields for 45nm or 32nm wafers or future technology nodes, then we may experience supply shortages for certain products which may have a material adverse impact on our revenue and gross margins and our ability to effectively manage our business.

In addition, GF relies on ATIC for its funding needs. If ATIC failed to adequately fund GF on a timely basis, or at all, GF's ability to manufacture products for us would be materially adversely effected.

We are currently in the process of negotiating a second amendment to the WSA, including the pricing methodology. If we do not successfully conclude our negotiations, it could have a material adverse impact on our gross margins and our results of operations.

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

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

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

Uncertain global economic conditions have in the past and may in the future adversely impact our business. During challenging economic times, our current or potential future customers may experience cash flow problems and as a result may modify, delay or cancel plans to purchase our products. Additionally, if our customers are not successful in generating sufficient revenue or are unable to secure financing, they may not be able to pay, or may delay payment of, accounts receivable that they owe us. Any inability of our current or potential future customers to pay us for our products may adversely affect our earnings and cash flow. Moreover, our key suppliers may reduce their output or become insolvent, thereby adversely impacting our ability to manufacture our products. In addition, uncertain economic conditions may make it more difficult for us to raise funds through borrowings or private or public sales of debt or equity securities.

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

In the design and development of new products and product enhancements, we rely on third-party intellectual property such as software development tools and hardware testing tools. Furthermore, certain product features may rely on intellectual property acquired from third parties. The design requirements necessary to meet consumer demands for more features and greater functionality from semiconductor products in the future may exceed the capabilities of the third-party intellectual property or development tools available to us. If the third-party intellectual property that we use becomes unavailable or fails to produce designs that meet consumer demands, our business could be materially adversely affected.

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

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

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

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

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

Collectively, our top five customers accounted for approximately 51% of our net revenue in 2011. On a segment basis, during 2011, five customers accounted for approximately 56% of the net revenue of our Computing Solutions segment and five customers accounted for approximately 55% of the net revenue of our Graphics segment. We expect that a small number of customers will continue to account for a substantial part of revenues of our microprocessor and graphics businesses in the future. If one of our top microprocessor or graphics business customers decided to stop buying our products, or if one of these customers were to materially reduce its operations or its demand for our products, our business would be materially adversely affected.

Our inability to continue to attract and retain qualified personnel may hinder our product development programs.

Much of our future success depends upon the continued service of numerous qualified engineering, marketing, sales and executive personnel. If we are not able to continue to attract, train, and retain qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be materially adversely affected.

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

Although we make substantial investments in research and development, we cannot be certain that we will be able to develop, obtain or successfully implement new products and technologies on a timely basis. Our ability to fund research and development expenditures depends on generating sufficient cash flow from operations and the availability of external financing, if necessary. Our research and development expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and may decrease our cash balances. If new competitors, technological advances by existing competitors or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. If we are required to invest significantly greater resources than anticipated in research and development efforts without an increase in revenue, our operating results could decline.

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

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

The markets in which our products are sold are very competitive, and delivering the latest and best products to market on a timely basis is critical to achieving revenue growth. We believe that the main factors that determine our product competitiveness are timely product introductions, product quality, power consumption (including battery life), reliability, selling price, speed, size (or form factor), cost, adherence to industry standards (and the creation of open industry standards), software and hardware compatibility and stability and brand awareness.

We expect that competition will continue to be intense due to rapid technological changes, frequent product introductions by our competitors of products that provide better performance or include additional features that render our products uncompetitive and aggressive pricing by competitors, especially during challenging economic times. For example, ARM-based processors are used in mobile and embedded electronics products as relatively low cost and small microprocessors and also in form factors such as tablets and smartphones. To the extent consumers adopt new form factors and have different requirements than those consumers in the PC market, it could negatively impact PC sales, which could negatively impact our business. Also, Intel announced plans to implement 3-D tri-gate transistor architecture on 22nm process technology, which, Intel expects, can improve power consumption and performance of its products. Using a more advanced process technology can contribute to lower product manufacturing costs and improve a product's performance and power efficiency. If competitors introduce competitive new products into the market before us, our business could be adversely affected. Some competitors may have greater access or rights to companion technologies, including interface, processor and memory technical information. Competitive pressures could adversely impact the demand for our products, which could harm our business.

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

Our debt and capital lease obligations as of December 31, 2011 were $2.0 billion, which reflects the debt discount adjustment on our 6.00% Convertible Senior Notes due 2015 (6.00% Notes) and 8.125% Senior Notes due 2017 (8.125% Notes).

Our substantial indebtedness may:

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

We may not be able to generate sufficient cash to service our debt obligations.

Our ability to make payments on and to refinance our debt will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter, and is subject to prevailing economic conditions and financial, business and other factors, many of which are beyond our control. In August 2012, the remaining outstanding aggregate principal amount of our 5.75% Convertible Senior Notes due 2012 (5.75% Notes) of $485 million will mature. We cannot assure you that we will be able to generate sufficient cash flow or that we will be able to borrow funds in amounts sufficient to enable us to service our debt or to meet our working capital requirements. If we are not able to generate sufficient cash flow from operations or to borrow sufficient funds to service our debt, we may be required to sell assets or equity, reduce expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or equity or borrow more funds on terms acceptable to us, if at all.

Our debt instruments impose restrictions on us that may adversely affect our ability to operate our business.

The indentures governing our 8.125% Notes and 7.75% Senior Notes due 2020 (7.75% Notes) contain various covenants which limit our ability to:

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

The agreements governing our borrowing arrangements contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness or any failure to repay debt when due in an amount in excess of $50 million would cause a cross default under the indentures governing our 7.75% Notes, 8.125% Notes, 5.75% Notes and 6.00% Notes. 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. If the note holders or the trustee under the indentures governing our 7.75% Notes, 8.125% Notes, 5.75% Notes or 6.00% Notes accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

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

Upon a change of control, we will be required to offer to repurchase all of the 7.75% Notes and 8.125% Notes then outstanding at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the repurchase date. Moreover, the indentures governing our 5.75% Notes and 6.00% Notes require us to offer to repurchase these securities upon certain change of control events. As of December 31, 2011, the aggregate outstanding principal amount of the outstanding 8.125% Notes, 5.75% Notes, 7.75% Notes and 6.00% Notes was $2.1 billion. Future debt agreements may contain similar provisions. We may not have the financial resources to repurchase our indebtedness.

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

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

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

Global economic uncertainty and weakness have also impacted the semiconductor market as consumers and businesses have deferred purchases, which negatively impacted demand for our products. Recent flooding in Thailand is disrupting the supply of hard disk drives. If our customers are unable to obtain sufficient quantities of hard disk drives they need for their systems that include our products and the supply of their products is substantially reduced, then they may postpone or cancel their orders for our products, which could also have a material adverse impact on our business. For example, during the fourth quarter of 2011, we believe the results of our Graphics segment were adversely impacted because some of our customers were impacted by the flooding in Thailand and the disruption in the supply of hard disk drives. We expect the hard disk drive shortage to continue through at least the first quarter of 2012, which could have a material adverse impact on our business. Our financial performance has been, and may in the future be, negatively affected by these downturns.

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

Our business is dependent upon the market for desktop and mobile PCs and servers. Over the past three years, form factors have steadily shifted from desktop PCs to mobile PCs, and we expect that this trajectory will continue and extend to include additional form factors like tablets and slates. Historically, a significant portion of our Computing Solutions revenue has been related to desktop PCs. Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. As a result of ongoing macroeconomic challenges affecting the global economy, end-user demand for PCs and servers remains unpredictable.

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

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

A substantial portion of our quarterly sales have historically been made in the last month of the quarter. This uneven sales pattern makes prediction of revenues for each financial period difficult and increases the risk of unanticipated variations in quarterly results and financial condition. In addition, our operating results tend to vary seasonally. For example, historically, demand in the retail sector of the PC market is often stronger during the fourth quarter as a result of the winter holiday season and weaker in the first quarter. European sales have also been historically weaker during the summer months. Many of the factors that create and affect seasonal trends are beyond our control.

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

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

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

Our issuance to West Coast Hitech L.P. (WCH) of warrants to purchase 35,000,000 shares of our common stock, if and when exercised by WCH, will dilute the ownership interests of our existing stockholders, and the conversion of the remainder of our 5.75% Notes and 6.00% Notes may dilute the ownership interest of our existing stockholders.

The warrants issued to WCH became exercisable in July 2009. Any issuance by us of additional shares to WCH upon exercise of the warrants will dilute the ownership interests of our existing stockholders. Any sales in the public market by WCH of any shares owned by WCH could adversely affect prevailing market prices of our common stock, and the anticipated exercise by WCH of the warrants could depress the price of our common stock.

Moreover, the conversion of our remaining 5.75% Notes and 6.00% Notes may dilute the ownership interests of our existing stockholders. The conversion of the 5.75% Notes and the 6.00% Notes could have a dilutive effect on our earnings per share to the extent that the price of our common stock exceeds the conversion price of the 5.75% Notes and 6.00% Notes. Any sales in the public market of our common stock issuable upon conversion of the 5.75% Notes or 6.00% Notes could adversely affect prevailing market prices of our common stock. In addition, the conversion of the 5.75% Notes into shares of our common stock and 6.00% Notes into cash and shares of our common stock could depress the price of our common stock.

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

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

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

Products as complex as those we offer may contain defects or failures when first introduced or when new versions or enhancements to existing products are released. We cannot assure you that, despite our testing procedures, errors will not be found in new products or releases after commencement of commercial shipments in the future, which could result in loss of or delay in market acceptance of our products, material recall and replacement costs, delay in recognition or loss of revenues, writing down the inventory of defective products, the diversion of the attention of our engineering personnel from product development efforts, defending against litigation related to defective products or related property damage or personal injury, and damage to our reputation in the industry and could adversely affect our relationships with our customers. In addition, we may have difficulty identifying the end customers of the defective products in the field. As a result, we could incur substantial costs to implement modifications to correct defects. Any of these problems could materially adversely affect our business.

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

Our receipt of royalty revenues is dependent upon our technology being designed into third-party products and the success of those products.

Our graphics technology is used in game consoles, including the Nintendo Wii and Microsoft Xbox 360. The revenues that we receive from these products are in the form of non-recurring engineering fees charged for design and development services, as well as royalties paid to us by these third parties. Our royalty revenues are directly related to the sales of these products and reflective of their success in the market. If these third parties do not include our graphics technology in future generations of their game consoles, our revenues from royalties would decline significantly. Moreover, we have no control over the marketing efforts of these third parties and we cannot make any assurances that sales of those products will achieve expected levels in the current or future fiscal years. Consequently, the revenues from royalties expected by us from these products may not be fully realized, and our operating results may be adversely affected.

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

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

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

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

We may be subject to disruptions or failures in our information technology systems and network infrastructures that could have a material adverse effect on us.

We maintain and rely extensively on information technology systems and network infrastructures for the effective operation of our business. We also hold large amounts of data in various data center facilities around the world which our business depends upon. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, computer viruses, cyber attacks, employee theft or misuse, power disruptions, natural disasters or accidents could cause breaches of data security and loss of critical data, which in turn could materially adversely affect our business. Our security procedures, such as virus protection software and our business continuity planning, such as our disaster recovery policies and back-up systems, may not be adequate or implemented properly to fully address the adverse effect of such events, which could adversely impact our operations. In addition, our business could be adversely affected to the extent we do not make the appropriate level of investment in our technology systems as our technology systems become out-of-date or obsolete and are not able to deliver the type of data integrity and reporting we need to run our business. Furthermore, when we implement new systems and or upgrade existing systems, we could be faced with temporary or prolonged disruptions that could adversely affect our business.

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

We typically sell our products pursuant to individual purchase orders. We generally do not have long-term supply arrangements with our customers or minimum purchase requirements except that orders generally must be for standard pack quantities. Generally, our customers may cancel orders more than 30 days prior to shipment without incurring significant fees. We base our inventory levels on customers' estimates of demand for their products, which may not accurately predict the quantity or type of our products that our customers will want in the future or ultimately end up purchasing. Our ability to forecast demand is even further complicated when we sell indirectly through distributors, as our forecasts for demand are then based on estimates provided by multiple parties. Moreover, PC and consumer markets are characterized by short product lifecycles, which can lead to rapid obsolescence and price erosion. In addition, our customers may change their inventory practices on short notice for any reason. We may build inventories during periods of anticipated growth, and the cancellation or deferral of product orders or overproduction due to failure of anticipated orders to materialize, could result in excess or obsolete inventory, which could result in write-downs of inventory and an adverse effect on gross margins. Factors that may result in excess or obsolete inventory, which could result in write-downs of the value of our inventory, a reduction in the average selling price, and/or a reduction in our gross margin include:

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

Because market conditions are uncertain, these and other factors could materially adversely affect our business.

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

We market and sell our products directly and through third-party distributors and AIBs pursuant to agreements that can generally be terminated for convenience by either party upon prior notice to the other party. These agreements are non-exclusive and permit both our distributors and AIBs to offer our competitors' products. We are dependent on our distributors and AIBs to supplement our direct marketing and sales efforts. If any significant distributor or AIB or a substantial number of our distributors or AIBs terminated their relationship with us or decided to market our competitors' products over our products, our ability to bring our products to market would be impacted and we would be materially adversely affected.

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

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

We maintain operations around the world, including in the United States, Canada, Europe and Asia. We rely on third party wafer foundries in Europe and Asia. Nearly all product assembly and final testing of our products is performed at manufacturing facilities, operated by us as well as third party manufacturing facilities, in China, Malaysia, Singapore and Taiwan. We also have international sales operations. International sales, as a percent of net revenue were 93% in 2011. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future.

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

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

In addition, our worldwide operations could be subject to natural disasters such as earthquakes, tsunamis, flooding, typhoons and volcanic eruptions that disrupt manufacturing or other operations. For example, our Sunnyvale operations are located near major earthquake fault lines in California. Any conflict or uncertainty in the countries in which we operate, including public health or safety, natural disasters, fire, disruptions of service from utilities, nuclear power plant accidents, or general economic or political factors, could have a material adverse effect on our business. For example, flooding in Thailand is disrupting the supply of hard disk drives. Some of our customers have been unable to obtain sufficient quantities of hard disk drives. As a result, we believe during the fourth quarter of 2011, they postponed or canceled their orders for our GPU products. We expect the hard disk drive shortage to continue through at least the first quarter of 2012, which could have a material adverse impact on our business. Any of the above risks, should they occur, could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, potentially longer payment cycles, potentially increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business.

Worldwide economic and political conditions may adversely affect demand for our products.

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

Unfavorable currency exchange rate fluctuations could continue to adversely affect us.

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

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

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

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

We rely on a combination of protections provided by contracts, including confidentiality and nondisclosure agreements, copyrights, patents, trademarks and common law rights, such as trade secrets, to protect our intellectual property. However, we cannot assure you that we will be able to adequately protect our technology or other intellectual property from third-party infringement or from misappropriation in the United States and abroad. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted there under may not provide a competitive advantage to us. Furthermore, patent applications that we file may not result in issuance of a patent or, if a patent is issued, the patent may not be issued in a form that is advantageous to us. Despite our efforts to protect our intellectual property rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to monitor compliance with, and enforce, our intellectual property on a worldwide basis in a cost-effective manner. In jurisdictions where foreign laws provide less intellectual property protection than afforded in the United States and abroad, our technology or other intellectual property may be compromised, and our business would be materially adversely affected.

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

From time to time, we are a defendant or plaintiff in various legal actions. We also sell products to consumers, which could increase our exposure to consumer actions such as product liability claims. On occasion, we receive claims that individuals were allegedly exposed to substances used in our former semiconductor wafer manufacturing facilities and that this alleged exposure caused harm. Litigation can involve complex factual and legal questions, and its outcome is uncertain. Any claim that is successfully asserted against us may result in the payment of damages that could be material to our business.

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

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

Certain individuals have been charged by federal authorities with illegally trading in our stock using certain AMD confidential information.

Several individuals have pled guilty to conspiracy and securities fraud charges and, among other things, providing confidential information about us to a person who has been charged by federal authorities with illegally trading in our stock on the basis of that confidential information. In addition, one former employee pled guilty to conspiracy to commit securities fraud and wire fraud. At this time, we cannot give any assurances as to whether any facts that may be discovered during the proceedings relating to this matter or other similar matters will be damaging to our business, results of operations or reputation.

Failures in the global credit markets have impacted and may continue to impact the liquidity of our auction rate securities.

As of December 31, 2011, the par value of all our auction rate securities, or ARS, was $45 million with an estimated fair value of $38 million. As of December 31, 2011, our investments in ARS included estimated fair values of approximately $13 million of student loan ARS and $25 million of municipal and corporate ARS. The uncertainties in the credit markets have affected all of our ARS and auctions for these securities have failed to settle on their respective settlement dates since February 2008. The auctions failed because there was insufficient demand for these securities. A failed auction does not represent a default by the issuer of the ARS. For each unsuccessful auction, the interest rate is reset based on a formula set forth in each security, which is generally higher than the current market unless subject to an interest rate cap. When auctions for these securities fail, the investments may not be readily convertible to cash until a future auction of these investments is successful, a buyer is found outside of the auction process, the issuers of the ARS establish a different form of financing to replace these securities or redeem them, or final payment is due according to contractual maturities (currently, ranging from 2030 to 2050 for our ARS). Although we have had redemptions since the failed auctions began, the liquidity of these investments continues to be adversely impacted.

If market illiquidity worsens, we may be required to record additional impairment charges with respect to these investments in the future, which could adversely impact our results of operations.

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

Our operations and properties have in the past and continue to be subject to various United States and foreign environmental laws and regulations, including those relating to materials used in our products and manufacturing processes, discharge of pollutants into the environment, the treatment, transport, storage and disposal of solid and hazardous wastes, and remediation of contamination. These laws and regulations require us to obtain permits for our operations, including the discharge of air pollutants and wastewater. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with any of them, a range of consequences could result, including fines, suspension of production, alteration of manufacturing processes, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.

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

Environmental laws are complex, change frequently and have tended to become more stringent over time. We face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and material composition of our products. For example, the European Union (EU) and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products with other countries implementing similar restrictions. These regulations affect semiconductor devices and packaging. There is a risk that the cost, quality and manufacturing yields of products that are required to be lead-free, as defined by these regulations, or that are subject to other chemical restrictions, may be less favorable compared to products that are not subject to chemical restrictions, or that the transition to products subject to lead-free or other chemical restrictions may produce sudden changes in demand, which may result in excess inventory.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the SEC to establish new disclosure and reporting requirements for those companies who use “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in their products, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices, and there will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflicting minerals used in our products. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins for all metals used in our products through the due diligence procedures that we implement. Moreover, we may encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free.

Other regulatory requirements potentially affecting our back-end manufacturing processes and the design and marketing of our products are in development throughout the world. In addition, a number of jurisdictions including the EU, Australia and China are developing or finalizing market entry requirements or public procurement for computers and servers based on ENERGY STAR specification as well as additional energy consumption limits. Some of these regulations are expected to be approved and implemented by the end of 2012. If such requirements are implemented in the proposed time frame and do not contain recommended modifications as proposed by industry associations, there is the potential for certain of our microprocessor, chipset and GPU products, as incorporated in desktop and mobile PCs, workstations, servers and other information and communications technology products being excluded from these markets which could materially adversely affect us. While we have budgeted for foreseeable associated expenditures, we cannot assure you that future environmental legal requirements will not become more stringent or costly in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past and future releases of, or exposure to, hazardous substances will not have a material adverse effect on us.

Our business is subject to potential tax liabilities.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received any written comments that were issued not less than 180 days before December 31, 2011, the end of the fiscal year covered by this report, from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934 that remain unresolved.

ITEM 2. PROPERTIES

At December 31, 2011, we owned principal research and development, engineering, manufacturing, warehouse and administrative facilities located in the United States, Canada, Taiwan, China, Singapore and Malaysia. These facilities totaled approximately 2.5 million square feet.

Our main facility with respect to our graphics and chipset products is located in Markham, Ontario, Canada. This facility consists of approximately 240,000 square feet of office and research and development space. We occupy two other facilities in Markham, Ontario that comprise over 215,000 square feet, including approximately 65,000 square-feet of manufacturing and warehouse space. We also currently own and operate three microprocessor assembly and test facilities comprising an aggregate of 521,000 square feet. Our current microprocessor assembly and test facilities are located in Malaysia, Singapore and China and are described in further detail in the section entitled "Assembly, Test, Mark and Packaging Facilities," above.

In some cases, we lease all or a portion of the land on which our facilities are located. We lease approximately 115,000 square feet of land in Singapore and 422,000 square feet of land in Suzhou, China for our microprocessor assembly and test facilities.

As of December 31, 2011, we also leased approximately 2.6 million square feet of space for engineering, manufacturing, warehouse and administrative use, including a number of smaller regional sales offices located in commercial centers near customers, principally in the United States, Latin America, Europe and Asia. These leases expire at varying dates through 2022.

We also have approximately 100,000 square feet of building space that is currently vacant. We continue to have lease obligations with respect to this space that expire at various dates through 2012. We are actively marketing this space for sublease.

We currently do not anticipate difficulty in either retaining occupancy of any of our facilities through lease renewals prior to expiration or through month-to-month occupancy, or replacing them with equivalent facilities.

We believe that our existing facilities are suitable and adequate for our present purposes, and that, except as discussed above, the productive capacity of such facilities is substantially being utilized or we have plans to utilize it.

ITEM 3. LEGAL PROCEEDINGS

Environmental Matters

We are named as a responsible party on Superfund clean-up orders for three sites in Sunnyvale, California that are on the National Priorities List. Since 1981, we have discovered hazardous material releases to the groundwater from former underground tanks and proceeded to investigate and conduct remediation at these three sites. The chemicals released into the groundwater were commonly used in the semiconductor industry in the United States in the wafer fabrication process prior to 1979.

In 1991, the Company received Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board relating to the three sites. We have entered into settlement agreements with other responsible parties on two of the orders. During the term of such agreements other parties have agreed to assume most of the foreseeable costs as well as the primary role in conducting remediation activities under the orders. We remain responsible for additional costs beyond the scope of the agreements as well as all remaining costs in the event that the other parties do not fulfill their obligations under the settlement agreements.

To address anticipated future remediation costs under the orders, we have computed and recorded an estimated environmental liability of approximately $5.4 million and have not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The progress of future remediation efforts cannot be predicted with certainty and these costs may change. We believe that the potential liability, if any, in excess of amounts already accrued, will not have a material adverse effect on our financial condition or results of operations.

Other Matters

We are a defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the aggregate liability, if any, with respect to these matters will not have a material adverse effect on our financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.