ADVANCED MICRO DEVICES INC
Form 10-Q
November 04, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 26, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-07882

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-1692300**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

One AMD Place

Sunnyvale, California	**94088**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of the registrant s common stock, $0.01 par value, as of October 30, 2009: 670,299,623

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Advanced Micro Devices, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008*	September 26, 2009	September 27, 2008*
	(In millions, except per share amounts)			
Net revenue	$ 1,396	$ 1,797	$ 3,757	$ 4,646
Cost of sales	811	881	2,220	2,598
Gross margin	585	916	1,537	2,048
Research and development	420	438	1,289	1,383
Marketing, general and administrative	221	315	755	987
Amortization of acquired intangible assets	17	30	52	107
Impairment of goodwill and acquired intangible assets		2		405
Restructuring charges	4	9	65	40
Gain on sale of 200 millimeter equipment				(193)
Operating income (loss)	(77)	122	(624)	(681)
Interest income	4	7	13	32
Interest expense	(114)	(94)	(319)	(296)
Other income (expense), net	47	(13)	147	(48)
Income (loss) before income taxes	(140)	22	(783)	(993)
Provision (benefit) for income taxes	(5)	(1)	101	(1)
Income (loss) from continuing operations	(135)	23	(884)	(992)
Income (loss) from discontinued operations, net of tax		(150)		(674)
Net income (loss)	$ (135)	$ (127)	$ (884)	$ (1,666)
Net (income) loss attributable to noncontrolling interest	29	(7)	60	(27)
Class B preferred share accretion	(22)		(50)	
Net income (loss) attributable to AMD common stockholders	$ (128)	$ (134)	$ (874)	$ (1,693)
Net income (loss) attributable to AMD common stockholders per share				
Basic and diluted				
Continuing operations	$ (0.18)	$ 0.03	$ (1.32)	$ (1.68)
Discontinued operations		(0.25)		(1.11)
Basic and diluted net income (loss) attributable to AMD common stockholders per share	$ (0.18)	$ (0.22)	$ (1.32)	$ (2.79)
Shares used in per share calculation:				
Basic and diluted	694	608	662	607

See accompanying notes to condensed consolidated financial statements

* Includes retrospective adoption of FASB Staff Position Accounting Principles Board No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) now codified principally in Accounting Standards Codification (ASC) Topic 470, *Debt* (ASC 470) and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* (SFAS 160) now codified in ASC Topic 810, *Consolidation* (ASC 810) implemented in the first quarter of 2009.

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Advanced Micro Devices, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

	September 26, 2009	December 27, 2008*
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,847	$ 933
Marketable securities	664	163
Total cash and cash equivalents and marketable securities	2,511	1,096
Accounts receivable	578	328
Allowance for doubtful accounts	(6)	(8)
Accounts receivable, net	572	320
Inventories:		
Raw materials	30	41
Work-in-process	341	352
Finished goods	144	263
Total inventories	515	656
Deferred income taxes	41	28
Prepaid expenses and other current assets	279	279
Total current assets	3,918	2,379
Property, plant and equipment:		
Land and land improvements	58	50
Buildings and leasehold improvements	2,010	1,927
Equipment	4,961	4,896
Construction in progress	350	285
Total property, plant and equipment	7,379	7,158
Accumulated depreciation and amortization	(3,484)	(2,862)
Property, plant and equipment, net	3,895	4,296
Acquisition related intangible assets, net	116	168
Goodwill	323	323
Other assets	495	506
Total assets	$ 8,747	$ 7,672

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Advanced Micro Devices, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

	September 26, 2009	December 27, 2008*
	(In millions, except par value amounts)	
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 589	$ 631
Accrued compensation and benefits	176	162
Accrued liabilities	605	785
Income taxes payable	14	23
Deferred income on shipments to distributors	127	50
Other short-term obligations	125	86
Current portion of long-term debt and capital lease obligations	295	286
Other current liabilities	145	203
Total current liabilities	2,076	2,226
Deferred income taxes	243	91
Long-term debt and capital lease obligations, less current portion	5,275	4,490
Other long-term liabilities	645	569
Noncontrolling interest	1,077	169
Commitments and contingencies (see Note 8)		
Stockholders equity (deficit):		
Capital stock:		
Common stock, par value $0.01; 1,500 shares authorized on September 26, 2009 and December 27, 2008; shares issued: 678 on September 26, 2009 and 616 on December 27, 2008; shares outstanding: 670 on September 26, 2009 and 609 on December 27, 2008.	7	6
Capital in excess of par value	6,510	6,361
Treasury stock, at cost (7 shares on September 26, 2009 and December 27, 2008)	(98)	(97)
Retained earnings (deficit)	(7,125)	(6,251)
Accumulated other comprehensive income	137	108
Total stockholders equity (deficit)	(569)	127
Total liabilities and stockholders equity (deficit)	$ 8,747	$ 7,672

See accompanying notes to condensed consolidated financial statements

* Amounts for the year ended December 27, 2008 were derived from the December 27, 2008 audited financial statements, including retrospective adoption of FSP APB 14-1 (now codified principally in ASC 470) and SFAS 160 (now codified in ASC 810) implemented in the first quarter of 2009.

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Advanced Micro Devices Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
	September 26, 2009	September 27, 2008
	(In millions)	
Cash flows from operating activities:		
Net income (loss)	$ (884)	$ (1,666)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	844	920
(Benefit) provision for deferred income taxes	142	(65)
Gain on debt redemption	(180)	
Gain on sale of certain Handheld assets	(28)	
Amortization of foreign grant and allowance income	(78)	(72)
Net loss (gain) on sale / disposal of property, plant and equipment	12	29
Non-cash interest expense	82	22
Gain on sale of 200 millimeter equipment		(193)
Compensation recognized under employee stock plans	57	62
Other than temporary impairment on marketable securities	3	45
Impairment of goodwill and acquired intangible assets		1,003
Other	28	(56)
Changes in operating assets and liabilities:		
Accounts receivable	(611)	(76)
Inventories	141	(43)
Prepaid expenses and other current assets	(29)	56
Other assets	(15)	(2)
Accounts payables and accrued liabilities	(142)	(456)
Income taxes payable	(19)	50
Net cash used in operating activities	(677)	(442)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(293)	(511)
Purchases of available-for-sale securities	(689)	(200)
Purchases of limited partner contribution		(95)
Proceeds from sale of property, plant and equipment	1	343
Proceeds on sale of certain Handheld assets	58	
Proceeds from sale and maturity of available-for-sale securities	203	379
Other	4	6
Net cash used in investing activities	(716)	(78)
Cash flows from financing activities:		
Proceeds from issuance of GLOBALFOUNDRIES preferred shares	1,091	
Proceeds from issuance of GLOBALFOUNDRIES convertible notes	1,269	
Proceeds from issuance of AMD common stock	125	
Proceeds from borrowings, net of issuance costs	399	182
Net proceeds from foreign grants and allowances	40	154
Repurchase of noncontrolling interest	(158)	
Repayments of debt and capital lease obligations	(359)	(98)
Payments on return of noncontrolling interest contributions	(67)	(19)

Payments under silent partnership obligation	(32)	(38)
Other	(1)	15
Net cash provided by financing activities	2,307	196
Net increase (decrease) in cash and cash equivalents	914	(324)
Cash and cash equivalents at beginning of period	933	1,432
Cash and cash equivalents at end of period	$ 1,847	$ 1,108

See accompanying notes to condensed consolidated financial statements

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements of Advanced Micro Devices, Inc. and subsidiaries and GLOBALFOUNDRIES Inc. (GF) and subsidiaries (the Company or AMD) have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the quarter and nine months ended September 26, 2009 shown in this report are not necessarily indicative of results to be expected for the full fiscal year ending December 26, 2009. In the opinion of the Company s management, the information contained herein reflects all adjustments necessary for a fair presentation of the Company s results of operations, financial position and cash flows. All such adjustments are of a normal, recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 27, 2008.

The Company uses a 52 to 53 week fiscal year ending on the last Saturday in December. The quarters and nine months ended for both September 26, 2009 and September 27, 2008 consisted of 13 and 39 weeks, respectively.

Principles of Consolidation. The condensed consolidated financial statements include the Company s accounts and those of its majority-owned subsidiaries, as well as GF and its majority-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated, and amounts pertaining to the noncontrolling ownership interests held by third parties in the operating results and financial position of the Company s majority-owned subsidiaries and GF are reported as noncontrolling interest.

The Company consolidates the accounts of GF and its majority-owned subsidiaries pursuant to the guidance on accounting for interests in variable interest entities.

Recently Adopted Accounting Standards

Noncontrolling Interest. In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160) now codified in Accounting Standards Codification (ASC) Topic 810, *Consolidation* (ASC 810). This guidance requires that noncontrolling interests in subsidiaries be reported as a component of stockholders equity in the controlling interest s balance sheet. However, securities of an issuer that are redeemable at the option of the holder or outside the control of the issuer continue to be classified outside stockholders equity. This guidance also requires that earnings or losses attributed to the noncontrolling interests be reported as part of consolidated earnings and not as a separate component of income or expense, and requires disclosure of the attribution of consolidated earnings to the controlling and noncontrolling interests on the face of the condensed consolidated statement of operations. The Company adopted this guidance at the beginning of its fiscal year 2009. Upon the formation of GF during the first quarter of 2009, the Company accounts for the noncontrolling interest held by Advanced Technology Investment Company LLC (ATIC) in GF in accordance with this new accounting standard. Since the preferred securities issued by GF to ATIC can be put to AMD in limited circumstances, ATIC s noncontrolling interest is, accordingly, not reported as a component of stockholders equity in the condensed consolidated balance sheet. (See Note 2, GLOBALFOUNDRIES).

Business Combinations. In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (SFAS 141(r)) now codified in ASC Topic 805, *Business Combinations* (ASC 805). Under this guidance, an entity is required to recognize assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. It further requires: that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period, including changes related to acquired tax assets and income tax uncertainties from acquisitions that occurred prior to the date of adoption, be recognized as a component of the provision for taxes. In addition, acquired in-process research and development is measured at fair value, capitalized as an indefinite-life intangible asset and tested for impairment during the development period. Subsequent to the development period the carrying value, if any, of acquired in-process development will be considered a definite-life intangible asset and amortized over its estimated useful life. The Company adopted this guidance in the first quarter of 2009 and will apply this guidance for future business combinations and changes in acquired tax assets and liabilities.

Derivative Instruments and Hedging Activities. In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133* (SFAS 161) now codified in ASC Topic 815, *Derivatives and Hedging* (ASC 815). This guidance requires enhanced disclosures about an entity s derivative and hedging activities. The Company adopted this guidance in the first quarter of 2009. (See Note 16, Hedging Transactions and Derivative Financial Instruments).

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Life of Intangible Assets. In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3) now codified principally in ASC Topic 350, *Intangibles Goodwill and Other* (ASC 350), which amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance requires a consistent approach between the useful life established for a recognized intangible asset and the period of expected cash flows used to measure the fair value of an asset used in accounting for business combinations. This guidance also requires enhanced disclosures when an intangible asset s expected future cash flows are affected by an entity s intent and/or ability to renew or extend the arrangement. The Company adopted this guidance in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated results of operations or financial condition.

Convertible Debt Instruments. In May 2008, the FASB issued FSP Accounting Principles Board (APB) No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) now codified principally in ASC Topic 470, *Debt* (ASC 470). This guidance requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The effective date of this guidance is for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years, and it does not permit earlier application. However, the transition guidance requires retrospective application to all periods presented in the Company s financial statements. In the first quarter of 2009, the Company adopted this guidance and modified its accounting for its 6.00% Convertible Senior Notes due 2015 (6.00% Notes). To retrospectively apply this guidance, the proceeds from the issuance of the Company s 6.00% Notes were allocated between a liability (issued at a discount) and equity in a manner that reflects interest expense at the market interest rate for similar nonconvertible debt as of the original issuance date. The debt discount is being accreted from issuance through April 2015, the period the 6.00% Notes are expected to be outstanding, and is recorded as additional non-cash interest expense. The equity component is included in the paid-in-capital portion of stockholders equity on the Company s condensed consolidated balance sheet. The initial value of the equity component, which reflects the equity conversion feature of the 6.00% Notes, is equal to the initial debt discount. (See Note 15, Accounting Change - Convertible Debt Instruments).

Fair Value of Financial Instruments. In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1 and APB 28-1) now codified in ASC Topic 825, *Financial Instruments* (ASC 825), which requires disclosure in the body or in the accompanying notes of the Company s summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, of the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not in the statement of financial position. The Company adopted this guidance in the second quarter of 2009. The adoption had no financial impact on the Company s consolidated results of operations or financial condition. (See Note 10, Financial Instruments).

Other Than Temporary Impairment. In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other Than Temporary Impairments* (FSP 115-2 and 124-2) now codified in ASC Topic 320 *Investments*, which clarifies the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired. The Company adopted this guidance in the second quarter of 2009. The adoption did not have a material effect on the Company s consolidated results of operations or financial condition.

Fair Value Considering Volume and Level of Activity. In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4) now codified in ASC Topic 820 *Fair Value Measurements and Disclosures* (ASC 820), which clarifies the interaction of the factors that should be considered when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities). If there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the transactions or quoted prices is required, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value. The Company adopted this guidance in the second quarter of 2009. The adoption did not have a material effect on the Company s consolidated results of operations or financial condition. (See Note 10, Financial Instruments).

Subsequent Events. In May 2009, the FASB issued Statement No. 165, *Subsequent Events* (SFAS 165) now codified in ASC Topic 855 *Subsequent Events* (ASC 855), which provides authoritative accounting literature for a topic that was previously addressed only in the auditing literature. This guidance largely is similar to the current guidance in the auditing literature with some exceptions that are not intended to result in significant changes in practice. The Company adopted this guidance in the second quarter of 2009. The Company has evaluated subsequent events through the date and time of the filing of this Quarterly Report on Form 10-Q for the quarter ended September 26, 2009 on November 4, 2009.

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Accounting Standards Codification. In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168), which became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The Company adopted this guidance in the third quarter of 2009.

Recently Issued Accounting Standards

Transfer of Financial Assets. In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166), which removes the concept of a qualifying special-purpose entity from the guidance related to the accounting for transfers and servicing of financial instruments and removes the exception from applying the guidance for accounting for interests in variable interest entities to qualifying special-purpose entities. This guidance clarifies that the objective of paragraph 9 of SFAS 140 is to determine whether a transferor and all of the entities included in the transferor s financial statements being presented have surrendered control over the transferred financial assets. That determination must consider the transferor s continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. This guidance will be effective for interim and annual reporting periods beginning after November 15, 2009. The Company is currently evaluating the future impact this guidance may have on its consolidated results of operations or financial condition.

Variable Interest Entities. In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). This guidance amends the evaluation criteria to identify the primary beneficiary of a variable interest entity. Additionally, this guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. This guidance will be effective for interim and annual reporting periods beginning after November 15, 2009. The Company is currently evaluating the future impact this guidance may have on its consolidated results of operations or financial condition.

2. GLOBALFOUNDRIES

On March 2, 2009, the Company consummated the transactions contemplated by the Master Transaction Agreement among the Company, Advanced Technology Investment Company LLC (ATIC), a limited liability company established under the laws of the Emirate of Abu Dhabi and wholly owned by the Government of the Emirate of Abu Dhabi, and West Coast Hitech L.P., an exempted limited partnership organized under the laws of the Cayman Islands (WCH), acting through its general partner, West Coast Hitech G.P., Ltd., a corporation organized under the laws of the Cayman Islands, pursuant to which the Company formed GF. At the closing of this transaction (Closing), the Company contributed certain assets and liabilities to GF, including, among other things, shares of the groups of German subsidiaries owning Fab 1 Module 1 (formerly Fab 36) and Fab 1 Module 2 (formerly Fab 30/38) (Dresden Subsidiaries), certain manufacturing assets, real property, tangible personal property, employees, inventories, books and records, a portion of the Company s patent portfolio, intellectual property and technology, rights under certain material contracts and authorizations necessary for GF to carry on its business. In exchange the Company received GF securities consisting of one Class A Ordinary Share, 1,090,950 Class A Preferred Shares and 700,000 Class B Preferred Shares, and the assumption of certain liabilities by GF. ATIC contributed $1.4 billion of cash to GF in exchange for GF securities consisting of one Class A Ordinary Share, 218,190 Class A Preferred Shares, 172,760 Class B Preferred Shares, $202 million aggregate principal amount of 4% Class A Subordinated Convertible Notes (the Class A Notes) and $807 million aggregate principal amount of 11% Class B Subordinated Convertible Notes (the Class B Notes), and transferred $700 million of cash to the Company in exchange for the transfer by the Company of 700,000 GF Class B Preferred Shares.

At the Closing, the Company also issued to WCH, for an aggregate purchase price of $125 million, 58 million shares of its common stock and warrants to purchase 35 million shares of its common stock at an exercise price of $0.01 per share (the Warrants). The Warrants are exercisable after the earlier of (i) public ground-breaking of GF s planned manufacturing facility in New York and (ii) March 2, 2011. The Warrants expire on March 2, 2019. On July 24, 2009, GF held a public ground-breaking for its planned manufacturing facility in New York. As a result, the

Warrants issued by the Company to WCH on March 2, 2009 to purchase 35 million shares of the Company s common stock at an exercise price of $0.01 per share became exercisable by WCH on July 24, 2009. These Warrants are included in the Company s basic earnings per share (EPS) calculation in the third quarter of 2009.

In connection with the Closing, AMD Fab 36 Holding GmbH and AMD Fab 36 Admin GmbH, repurchased the limited and silent partnership interests in AMD Fab 36 Limited Liability Company & Co KG (AMD Fab 36 KG) held by the remaining unaffiliated limited partner, Leipziger Messe Gesellschaft GmbH (Leipziger Messe).

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

Cash paid by WCH to AMD for the purchase of 58 million shares of AMD common stock and Warrants: $125 million;

Cash paid by ATIC to GF for the aggregate principal amount of Class A Notes, which are convertible into 201,810 Class A Preferred Shares: $202 million;

Cash paid by ATIC to GF for the aggregate principal amount of Class B Notes, which are convertible into 807,240 Class B Preferred Shares: $807 million;

Cash paid by ATIC to GF for 218,190 Class A Preferred Shares: $218 million;

Cash paid by ATIC to GF for 172,760 Class B Preferred Shares: $173 million; and

Cash paid by ATIC to AMD for 700,000 Class B Preferred Shares: $700 million.

As of the Closing, the Company and ATIC owned 1,090,950, or 83.3%, and 218,190, or 16.7%, respectively, of Class A Preferred Shares, and ATIC owned 100% of the Class B Preferred Shares and 100% of the Class A Notes and Class B Notes.

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

Class B Preferred Shares. The Class B Preferred Shares rank senior in right of payment to all other classes or series of equity securities of GF for purposes of dividends, distributions and upon a Liquidation Event. Each Class B Preferred Share is deemed to accrete in value at a rate of 12% per year, compounded semiannually, of the initial purchase price per such share. The accreted value accrues daily from the Closing and is taken into account upon certain distributions to the holders of Class B Preferred Shares or upon conversion of the Class B Preferred Shares. In the event of a Liquidation Event, each Class B Preferred Share will be entitled to receive, prior to any distribution to the holders of any other classes or series of equity securities, an amount equal to its accreted value. Upon completion of the above distribution to the holders of Class B Preferred Shares, each Class A Preferred Share will be entitled to receive its liquidation preference amount out of any remaining assets of GF. Upon completion of the above distributions to the holders of Preferred Shares, all of the remaining assets of GF, if any, will be distributed pro

rata among the holders of Ordinary Shares. Each Class B Preferred Share is convertible, at the option of the holder thereof, into Class B Ordinary Shares at the then applicable Class B Conversion Rate (as hereinafter defined) upon a Liquidation Event. Each Class B Preferred Share automatically converts into Class B Ordinary Shares at the then applicable Class B Conversion Rate upon the earlier of (i) an IPO or (ii) a change of control transaction of GF. The Class B Conversion Rate is 100 Class B Ordinary Shares for each Class B Preferred Share converted, subject to customary anti-dilution adjustments. The Class B Preferred Shares are non-voting until the Reconciliation Event (defined below). Following the Reconciliation Event, each Class B Preferred Share will vote on an as-converted basis with the Ordinary Shares, voting together as a single class, with respect to any question upon which holders of Ordinary Shares have the right to vote.

Class A Subordinated Convertible Notes. The Class A Notes accrue interest at a rate of 4% per annum, compounded semiannually, and mature upon the later of (i) 10 years from the date of issuance or (ii) the date of the earlier of (i) such time when the Company has secured for GF certain rights under its existing cross license agreement with Intel Corporation (Intel Patent Cross License Agreement), or (ii) such time when GF s Board of Directors determines that GF no longer needs to be a Subsidiary under the Intel Patent Cross License Agreement (the Reconciliation Event). Interest on the Class A Notes is payable semiannually in additional Class A Notes. The Class A Notes are the unsecured obligations of GF and rank subordinated in right of payment to any current or future senior indebtedness of GF. The Class A Notes are not redeemable by GF without the note holder s consent. The

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Class A Notes are convertible, in whole or in part, in multiples of $1,000, into GF Class A Preferred Shares at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date based on the conversion ratio in effect on the date of conversion, if (i) such conversion would not cause GF to fail to constitute its Subsidiary under the Intel Patent Cross License Agreement or (ii) the Reconciliation Event has occurred. On or after the Reconciliation Event, the Class A Notes will automatically convert into Class A Preferred Shares upon the earlier of (i) an IPO, (ii) certain change of control transactions of GF or (iii) the close of business on the business day immediately preceding the maturity date.

Class B Subordinated Convertible Notes. The Class B Notes accrue interest at a rate of 11% per annum, compounded semiannually, and mature upon the later of (i) 10 years from the date of issuance or (ii) the date of the Reconciliation Event. Interest on the Class B Notes is payable semiannually in additional Class B Notes. The Class B Notes are the unsecured obligations of GF and rank subordinated in right of payment to any current or future senior indebtedness of GF. The Class B Notes are not redeemable by GF without the note holder s consent. The Class B Notes are convertible, in whole or in part, in multiples of $1,000, into GF Class B Preferred Shares at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date at the conversion ratio in effect on the date of conversion, if (i) such conversion would not cause GF to fail to constitute its Subsidiary under the Intel Patent Cross License Agreement or (ii) the Reconciliation Event has occurred. On or after the Reconciliation Event, the Class B Notes will automatically convert into GF Class B Preferred Shares upon the earlier of (i) an IPO, (ii) certain change of control transactions of GF or (iii) the close of business on the business day immediately preceding the maturity date.

Based on the structure of the transaction, pursuant to the guidance on accounting for interests in variable interest entities, GF is a variable-interest entity, and the Company is deemed to be the primary beneficiary and is, therefore, required to consolidate the accounts of GF. ATIC s noncontrolling interest, represented by its equity interests in GF, is presented outside of stockholders equity in its condensed consolidated balance sheet due to ATIC s right to put those securities back to the Company in the event of a change of control of AMD during the two years following the Closing. The Company s net income (loss) attributable to its common stockholders per share consists of its consolidated net income (loss), as adjusted for (i) the portion of GF s earnings or losses attributable to ATIC, which is based on ATIC s proportional ownership interest in GF s Class A Preferred Shares (16.7% as of September 26, 2009), and (ii) the non-cash accretion on GF s Class B Preferred Shares attributable to the Company, based on its proportional ownership interest of GF s Class A Preferred Shares (83.3% as of September 26, 2009).

The table below reflects the changes in noncontrolling interest during the quarter and nine months ended September 26, 2009.

	Quarter Ended	Nine Months Ended
	(in millions)	
Balance, beginning of the period	$ 1,085	$ 169
Income attributable to Leipziger Messe		4
Redemption of unaffiliated limited partnership interest, Leipziger Messe		(173)
ATIC Contribution		
Class A Preferred Shares		218
Class B Preferred Shares		873
GF net loss attributed to noncontrolling interest	(30)	(64)
Class B preferred share accretion	22	50
Balance at September 26, 2009	$ 1,077	$ 1,077

For the quarter and nine months ended September 27, 2008, the noncontrolling interest recorded in the Company s condensed consolidated statement of operations was $7 million and $27 million, respectively. This noncontrolling interest related to the guaranteed rate of return of between 11 and 13 percent for the unaffiliated partner contributions in AMD Fab 36 Limited Liability Company & Co. KG.

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

Shareholders Agreement. The Shareholders Agreement sets forth the rights and obligations of AMD and ATIC as shareholders of GF. The initial GF board of directors (GF Board) consists of eight directors, and AMD and ATIC each designated four directors. After the Reconciliation Event, the number of directors a GF shareholder may designate may decrease according to the percentage of GF s shares it owns on a fully diluted basis.

Pursuant to the Shareholders Agreement, GF is not allowed to take certain corporate actions without unanimous GF Board approval. The Shareholders Agreement sets forth procedures by which any deadlock with respect to matters requiring GF Board approval is to be resolved.

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Pursuant to the Shareholders Agreement, if a change of control of AMD occurs within two years of Closing, ATIC will have the right to put any or all GF securities (valued at their fair market value) held by ATIC and its permitted transferees to the Company in exchange for cash, or if a change of control of AMD occurs after a specified event, ATIC will have the option to purchase in cash any or all of GF securities (valued at their fair market value) held by the Company and its permitted transferees.

Funding Agreement. The Funding Agreement provides for the future funding of GF and governs the terms and conditions under which ATIC is obligated to provide such funding. Pursuant to the Funding Agreement, ATIC has committed to additional equity funding of a minimum of $3.6 billion and up to $6.0 billion to be provided in phases over the next five years. The Company has the right, but not the obligation, to provide additional future capital to GF in an amount pro rata to its interest in the fully converted ordinary shares of GF.

At each equity funding, the equity securities to be issued by GF will consist of 20% of Class A Preferred Shares and 80% of Class B Preferred Shares. Rather than issuing Preferred Shares, GF may, in certain circumstances, issue additional Class A Notes and Class B Notes to ATIC in those same proportions in connection with future funding. The aggregate amount of equity funding to be provided by the shareholders in any fiscal year depends on the time period of such funding and the amounts set forth in the five-year capital plan of GF. In addition, GF is required to obtain specified third-party debt in any given fiscal year, as set forth in its five-year capital plan. To the extent that GF obtains more than the specified amount of third-party debt, ATIC is able to reduce its funding commitment accordingly. To the extent that GF is not able to obtain the full amount of third-party debt, ATIC is not obligated to make up the difference. To the extent the Company chooses not to participate in an equity financing of GF, ATIC is obligated to purchase its share of GF securities, subject to ATIC s funding commitments under the Funding Agreement.

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

Additional funding from ATIC to GF. In July 2009, pursuant to a funding request from GF in accordance with the Funding Agreement, ATIC contributed $260 million of cash to GF in exchange for GF securities consisting of $52 million aggregate principal amount of Class A Notes and $208 million aggregate principal amount of Class B Notes. The Company declined to participate in the funding. As a result, the Company s economic ownership interest in GF (on a fully converted to common basis) decreased to approximately 32 percent.

Wafer Supply Agreement. The Wafer Supply Agreement governs the terms by which the Company purchases products manufactured by GF. Pursuant to the Wafer Supply Agreement, the Company purchases, subject to limited exceptions, all of its microprocessor unit (MPU) product requirements from GF. If the Company acquires a third-party business that manufactures MPU products, it will have up to two years to transition the manufacture of such MPU products to GF. In addition, once GF establishes a 32nm-qualified process, the Company will purchase from GF, where competitive, specified percentages of its graphics processor unit (GPU) requirements at all process nodes, which percentages will increase linearly over a five-year period. At its request, GF will also provide sort services to the Company on a product-by-product basis.

The Company will provide GF with product forecasts of its MPU and GPU product requirements. The price for MPU products is related to the percentage of the Company s MPU-specific total cost of goods sold. The price for GPU products will be determined by the parties when GF is able to begin manufacturing GPU products for the Company.

The Wafer Supply Agreement is in effect through May 2, 2024. However, the Wafer Supply Agreement may be terminated if a business plan deadlock exists and ATIC elects to enter into a transition period pursuant to the Funding Agreement. GF has agreed to use commercially reasonable efforts to assist the Company to transition the supply of products to another provider, and continue to fulfill purchase orders for up to two years following the termination or expiration of the Wafer Supply Agreement.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Stock-Based Incentive Compensation Plans

The following table summarizes stock-based compensation expense related to employee stock options, restricted stock and restricted stock units of continuing operations for the quarters and nine months ended September 26, 2009 and September 27, 2008, respectively, which was allocated in the condensed consolidated statements of operations as follows:

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	(In millions)			
Cost of sales	$ 1	$ 2	$ 3	$ 8
Research and development	10	10	29	34
Marketing, general, and administrative	7	7	25	15
Total stock-based compensation expense	18	19	57	57
Tax benefit				
Stock-based compensation expense, net of tax	$ 18	$ 19	$ 57	$ 57

For the quarter and nine months ended September 26, 2009, the Company did not have employee stock-based compensation expense for discontinued operations. For the quarter and nine months ended September 27, 2008, employee stock-based compensation expense included in discontinued operations and excluded from continuing operations was $1 million and $2 million, respectively.

Stock Options. The weighted-average assumptions that the Company applied in the lattice-binomial model that the Company uses to value employee stock options are as follows:

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Expected volatility	65.22%	67.36%	74.35%	65.24%
Risk-free interest rate	1.96%	2.71%	1.54%	2.67%
Expected dividends	0%	0%	0%	0%
Expected life (in years)	3.67	3.19	3.67	3.19

For the quarters ended September 26, 2009 and September 27, 2008, the Company granted 1,507,512 and 1,528,297 employee stock options, respectively, with average estimated grant date fair values of $1.77 and $2.58, respectively. For the nine months ended September 26, 2009 and September 27, 2008, the Company granted 4,286,175 and 12,083,955 employee stock options, respectively, with average estimated grant date fair values of $1.78 and $2.98, respectively.

In addition, on June 29, 2009, the Company launched a tender offer to exchange certain outstanding stock options with an exercise price greater than $6.34 per share, a grant date on or before June 28, 2008 and an expiration date after July 27, 2010, held by eligible employees for replacement options to be granted under the Company s 2004 Equity Incentive Plan (the Option Exchange). The Option Exchange expired on July 27, 2009. As a result, employees tendered options to purchase 14.6 million shares of common stock (representing 67% of the total options eligible for exchange) with a weighted-average exercise price of $14.70 per share, and the Company cancelled and replaced those options on July 27, 2009 with options to purchase 4 million shares of common stock with an exercise price of $3.80 per share, which was the closing price

of the Company common stock on the New York Stock Exchange on July 27, 2009. The Option Exchange resulted in an incremental stock-based compensation charge of approximately $1 million. This incremental charge along with unamortized expenses associate with the cancelled options are being recognized over the new vesting periods of the replacement options which range from one to two years.

Restricted Stock Units and Awards. For the quarters ended September 26, 2009 and September 27, 2008, the Company granted 401,950 and 435,928 shares of restricted stock and restricted stock units, respectively, with an average grant date fair value of $3.88 and $5.57, respectively. For the nine months ended September 26, 2009 and September 27, 2008, the Company granted 16,151,056 and 7,724,514 shares of restricted stock and restricted stock units, respectively, with an average grant date fair value of $3.99 and $7.24, respectively.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

4. Goodwill and Acquisition Related Intangible Assets

The Company s carrying amount of goodwill as of September 26, 2009 and December 27, 2008 was $323 million and is entirely attributable to the Graphics segment.

Information regarding the Company s acquisition-related intangible assets as of September 26, 2009 and December 27, 2008, and for the nine months ended September 26, 2009, is as follows:

	Developed product technology	Game console royalty agreements	Customer relationships	Trademark and trade name	Total
			(In millions)		
Intangible assets, net December 27, 2008	$ 2	$ 83	$ 62	$ 21	$ 168
2009 amortization expense	(2)	(22)	(25)	(3)	(52)
Intangible assets, net September 26, 2009	$	$ 61	$ 37	$ 18	$ 116
Weighted average amortization period (in months)	50	60	48	84	

Estimated future amortization expense related to acquisition-related intangible assets is as follows:

Fiscal year		Amortization expense (In millions)
Remaining	2009	$ 18
	2010	61
	2011	29
	2012	4
	2013	4
Total		$ 116

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

5. Net Income (Loss) Attributable to AMD Common Stockholders Per Share

Basic net income (loss) attributable to AMD common stockholders per share is computed using the weighted-average number of common shares outstanding and shares issuable upon exercise of the Warrants issued by the Company to WCH in connection with the GF transaction. The Warrants became exercisable for a nominal consideration upon the July 24, 2009 public ground-breaking of GF s planned manufacturing facility in New York. Accordingly, the 35 million Warrant shares have been included in the weighted-average basic per share computations from that date forward. (See Note 2, GLOBALFOUNDRIES).

Diluted net income (loss) attributable to AMD common stockholders per share is computed using the weighted-average number of common shares outstanding plus any dilutive potential common shares outstanding. Potential dilutive common shares include stock options, restricted stock awards and shares issuable upon the conversion of convertible debt. The following table sets forth the components of basic and diluted income (loss) attributable to AMD common stockholders per share:

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	(In millions except per share data)		(In millions except per share data)	
Numerator:				
Net income (loss)	$ (135)	$ (127)	$ (884)	$ (1,666)
Net (income) loss attributable to noncontrolling interest	29	(7)	60	(27)
Class B preferred share accretion	(22)		(50)	
Numerator for basic and diluted net income (loss) attributable to AMD common stockholders	$ (128)	$ (134)	$ (874)	$ (1,693)
Numerator for basic and diluted income (loss) attributable to AMD common stockholders from continuing operations	$ (128)	$ 16	$ (874)	$ (1,019)
Numerator for basic and diluted income (loss) attributable to AMD common stockholders from discontinued operations	$	$ (150)	$	$ (674)
Denominator:				
Denominator for basic net income (loss) attributable to AMD common stockholders per share	694	608	662	607
Effect of dilutive potential common shares:				
Denominator for diluted net income (loss) attributable to AMD common stockholders per share	694	608	662	607
Basic and diluted net income (loss) attributable to AMD common stockholders from continuing operations per share	$ (0.18)	$ 0.03	$ (1.32)	$ (1.68)
Basic and diluted net income (loss) attributable to AMD common stockholders from discontinued operations per share	$	$ (0.25)	$	$ (1.11)
Basic and diluted net income (loss) attributable to AMD common stockholders per share	$ (0.18)	$ (0.22)	$ (1.32)	$ (2.79)

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Potential common shares (i) from outstanding equity incentive awards totaling approximately 64 million, and (ii) issuable under the Company s 5.75% Convertible Senior Notes due 2012 totaling 75 million were not included in the net loss attributable to AMD common stockholders per share calculation for the third quarter and nine months ended September 26, 2009 because their inclusion would have been anti-dilutive.

Potential common shares from outstanding equity incentive awards totaling approximately 62 million as well as approximately 75 million common shares issuable under the Company s 5.75% Convertible Senior Notes due 2012 were not included in the net loss attributable to AMD common stockholders per share calculation for the third quarter and nine months ended September 27, 2008 because their inclusion would have been anti-dilutive.

6. Segment Reporting

Management, including the Chief Operating Decision Maker (CODM), who is the Company s chief executive officer, reviews and assesses operating performance using segment net revenues and operating income (loss) before interest, other income (expense), net, and income taxes. These performance measures include the allocation of expenses to the operating segments based on management s judgment.

As of December 27, 2008, the Company had two reportable segments:

- the Computing Solutions segment, which includes microprocessors, chipsets and embedded processors and related revenue; and
- the Graphics segment, which includes graphics, video and multimedia products and related revenue as well as revenue received in connection with the development and sale of game console systems that incorporate its graphics technology.

In the first quarter of 2009, the Company consummated the GF manufacturing joint venture transaction and started using the following three reportable segments:

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

In addition to these reportable segments, the Company has an All Other category, which is not a reportable segment. This category includes certain expenses and credits that are not allocated to any of the operating segments because the CODM does not consider these expenses and credits in evaluating the performance of the operating segments. Such expenses are non-Foundry segment related expenses and include employee stock-based compensation expense, restructuring charges and impairment charges for goodwill and intangible assets. The results of the Handheld business unit are also reported in the All Other category. The Handheld business unit consists of the AMD Imageon media processor brand and handheld products that were part of the Handheld business unit prior to the sale of certain graphics and multimedia technology assets and intellectual property to Qualcomm Incorporated during the first quarter of 2009.

Starting in the first quarter of 2009, the Company also has an Intersegment Eliminations category, which is also not a reportable segment. This category includes intersegment eliminations for revenue, cost of sales and profits on inventory related to transactions between the Computing Solutions segment and the Foundry segment.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table provides a summary of net revenue and operating income (loss) by segment for the quarter and nine months ended September 26, 2009. Information for prior periods has not been recast to reflect the segment changes noted above because it is not practicable to do so.

	Quarter Ended September 26, 2009	Nine Months Ended September 26, 2009
	(In millions)	
Net revenue:		
Computing Solutions	$ 1069	$ 2,917
Graphics	306	779
Foundry	256	792
All Other	21	61
Intersegment Eliminations	(256)	(792)
Total net revenue	$ 1,396	$ 3,757
Operating income (loss):		
Computing Solutions	$ 76	$ (31)
Graphics	8	(3)
Foundry	(101)	(334)
All Other	(49)	(214)
Intersegment Eliminations	(11)	(42)
Total operating income (loss)	$ (77)	$ (624)

The following table provides a summary of net revenue and operating income (loss) by segment for the quarters and nine months ended September 26, 2009 and September 27, 2008, applying the segment structure that was in place as of December 27, 2008:

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	(In millions)			
Net revenue:				
Computing Solutions	$ 1,069	$ 1,391	$ 2,917	$ 3,686
Graphics	306	385	779	895
All Other	21	21	61	65
Total net revenue	$ 1,396	$ 1,797	$ 3,757	$ 4,646
Operating income (loss):				
Computing Solutions	$ (22)	$ 143	$ (364)	$ (30)
Graphics	3	47	(18)	22

All Other	(58)	(68)	(242)	(673)
Total operating income (loss)	$ (77)	$ 122	$ (624)	$ (681)

7. Comprehensive Income (Loss)

The following are the components of comprehensive income (loss), shown net of tax:

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	(In millions)			
Net income (loss) attributable to AMD common stockholders	$ (128)	$ (134)	$ (874)	$ (1,693)
Net change in unrealized gains (losses) on available-for-sale securities	2		8	(2)
Net change in unrealized gains (losses) on cash flow hedges	8	(26)	17	(35)
Net change in minimum pension liability			4	
Other comprehensive income (loss)	10	(26)	29	(37)
Total comprehensive income (loss)	$ (118)	$ (160)	$ (845)	$ (1,730)

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

8. Commitments and Contingencies

Guarantees

Guarantees of Indebtedness Recorded on the Company s Condensed Consolidated Balance Sheet

As of December 27, 2008, the principal guarantee related to indebtedness recorded on the Company s condensed consolidated balance sheet was for $28 million and represented the amount of silent partnership contributions that AMD Fab 36 Holding and AMD Fab 36 Admin were required to repurchase from Leipziger Messe (excluding the guaranteed rate of return). At the Closing of the GF transaction in the first quarter of 2009, AMD Fab 36 Holding and AMD Fab 36 Admin repurchased the partnership interests in AMD Fab 36 KG held by Leipziger Messe and the guarantee was terminated.

Guarantees of Indebtedness Not Recorded on the Company s Condensed Consolidated Balance Sheet

AMTC and BAC Guarantees

The Advanced Mask Technology Center GmbH & Co. KG (AMTC) and Maskhouse Building Administration GmbH & Co. KG (BAC) are joint ventures initially formed by AMD, Infineon Technologies AG (Infineon) and DuPont Photomasks, Inc. (Dupont) for the purpose of constructing and operating an advanced photomask facility in Dresden, Germany. AMTC provides advanced photomasks for use in manufacturing the Company s microprocessors. In April 2005, DuPont was acquired by Toppan Printing Co., Ltd. and became a wholly owned subsidiary of Toppan, named Toppan Photomasks, Inc. (Toppan). In December 2007, Infineon entered into an assignment agreement to transfer its interest in AMTC and BAC to Qimonda AG (Qimonda), with the exception of certain AMTC/BAC related payment guarantees. The assignment became effective in January 2008. In January 2009, Qimonda filed an application with the local court in Munich to commence insolvency proceedings. Pursuant to the partnership agreements of AMTC and BAC, the commencement of insolvency proceedings constituted an event of default which gave AMD and Toppan the right to expel Qimonda from the joint ventures. In March 2009, with agreement from Qimonda s insolvency administrator, AMD and Toppan expelled Qimonda as a limited partner from the AMTC and BAC joint ventures and became the only remaining joint venture partners.

In December 2002, BAC obtained a euro denominated term loan to finance the construction of the photomask facility pursuant to which the equivalent of $33 million was outstanding as of September 26, 2009. Also in December 2002, each of Toppan Photomasks Germany GmbH, and AMTC, as lessees, entered into a lease agreement with BAC, as lessor. The term of the lease agreement is ten years from initial occupancy. Each joint venture partner guaranteed a specific percentage of AMTC s portion of the rental payments. Currently, Infineon, AMD and Toppan are the guarantors under the rental guarantee. The rental payments to BAC are in turn used by BAC to repay amounts outstanding under the BAC term loan. There is no separate guarantee outstanding for the BAC term loan. With respect to the lease agreement, AMTC may exercise a step-in right in which it would take over Toppan Germany s remaining rental payments in connection with the lease agreement between Toppan Photomask Germany and BAC. As of September 26, 2009, the Company s guarantee of AMTC s portion of the rental obligation was approximately $17 million. The Company s maximum liability in the event AMTC exercises its step-in right and Toppan defaults under the guarantee would be approximately $58 million. These estimates are based upon forecasted rents to be charged by BAC in the future and are subject to change based upon the actual usage of the facility by the tenants and foreign currency exchange rates.

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(Unaudited)

In December 2007, AMTC entered into a euro denominated revolving credit facility, pursuant to which the equivalent of $51 million was outstanding as of September 26, 2009. The term of the revolving credit facility is three years. Upon request by AMTC and subject to certain conditions, the term of the revolving credit facility may be extended for up to two additional years. In June 2009, the AMTC credit facility and related documents were amended to reflect Qimonda s expulsion from the joint ventures. Pursuant to the amended guarantee agreement, each of AMD and Toppan guarantee 50% of AMTC s outstanding loan balance under the revolving credit facility. As of September 26, 2009, the Company s potential obligation under this guarantee was the equivalent of $25 million plus the Company s portion of accrued interest and expenses. Under the terms of the guarantee, if the Company s group consolidated cash (which is defined as cash, cash equivalents and marketable securities less the aggregate amount outstanding under any revolving credit facility and not including GF cash, cash equivalents and marketable securities) is less than or expected to be less than $500 million, the Company will be required to provide cash collateral equal to 50% of the balance outstanding under the revolving credit facility.

As of March 28, 2009, Qimonda owed AMTC approximately $20 million in connection with its committed capacity allocations. However, as a result of the commencement of insolvency proceedings, these amounts are considered insolvency claims and will be handled along with the claims of Qimonda s other creditors. Because the Company believes that AMTC is unlikely to recover amounts due from Qimonda during the insolvency proceedings, the Company recorded a charge of $10 million, or 50 percent of the total receivable, in the first quarter of 2009. As of September 26, 2009, this receivable was still outstanding.

Warranties and Indemnities

The Company generally warrants that its microprocessors, graphics processors, and chipsets sold to its customers will conform to the Company s approved specifications and be free from defects in material and workmanship under normal use and service for one year, provided that, subject to certain exceptions, the Company generally offers a three-year limited warranty to end users for microprocessor products that are commonly referred to as processors in a box and for ATI Technologies ULC (ATI)-branded PC workstation products and has offered extended limited warranties to certain customers of tray microprocessor products and/or workstation graphics products who have written agreements with the Company and target their computer systems at the commercial and/or embedded markets.

Changes in the Company s potential liability for product warranty during the nine months ended September 26, 2009 and September 27, 2008 are as follows:

	Nine months Ended	
	September 26, 2009	September 27, 2008
	(In millions)	
Balance, beginning of year	$ 19	$ 15
New warranties issued during the year	21	27
Settlements during the year	(21)	(10)
Changes in liability for pre-existing warranties during the year, including expirations	(1)	(12)
Balance, end of the period	$ 18	$ 20

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

Contingencies

The Company is a defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company s financial condition or results of operations.

9. Income Tax

The Company recorded an income tax benefit of $5 million in the third quarter of 2009 and an income tax benefit of $1 million in the third quarter of 2008. For the nine months ended September 26, 2009, the Company recorded an income tax provision of $101 million. For the nine months ended September 27, 2008, the Company recorded an income tax benefit of $1 million.

The income tax benefit of $5 million for the third quarter of 2009 consisted of foreign taxes in profitable locations of $20 million, offset by discrete tax benefits of $18 million and the tax effects of items credited directly to other comprehensive income (OCI) of $7 million. Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided in ASC 740-20-45-7 when there is a pre-tax loss from continuing operations and there are items charged or credited to other categories, including OCI, in the current year. The intra-period tax allocation rules related to items charged or credited directly to OCI can result in disproportionate tax effects that remain in OCI until certain events occur. As a result of items credited directly to OCI during the quarter, due principally to the effects of the Company s foreign currency hedging program, approximately $7 million of tax provision benefit was allocated to the third quarter income tax provision. The income tax provision of $101 million recorded in the first nine months of 2009 was primarily due to a one-time loss of deferred tax assets for German net operating loss carryovers upon the transfer of the Company s ownership interests in its Dresden Subsidiaries to GF and foreign taxes in profitable locations, offset by discrete tax benefits including the tax effects of items credited directly to OCI. The income tax benefit of $1 million for both the third quarter and first nine months of 2008 was due to foreign taxes in profitable locations offset by discrete tax benefits including the monetization of the U.S. research and development credits pursuant to the Housing and Economic Recovery Act of 2008 and a refund of withholding taxes.

As of September 26, 2009, substantially all of the Company s U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which at September 26, 2009, in management s estimate, is not more likely than not to be achieved.

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10. Financial Instruments

Available-for-sale securities held by the Company as of September 26, 2009 and December 27, 2008 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In millions)		
September 26, 2009				
Cash equivalents:				
Money market funds	$ 1,231	$	$	$ 1,231
Time deposits	307			307
Commercial paper	111			111
Total cash equivalents	$ 1,649	$	$	$ 1,649
Marketable securities:				
Commercial paper	$ 500	$	$	$ 500
Auction rate securities	85	7		92
Total marketable securities	$ 585	$ 7	$	$ 592
Long-term investments:				
Equity investments (included in other assets)	$ 1	$	$	$ 1
Grand Total	$ 2,235	$ 7	$	$ 2,242
December 27, 2008				
Cash equivalents:				
Money market funds	$ 547	$	$	$ 547
Time deposits	236			236
Commercial paper	16			16
Total cash equivalents	$ 799	$	$	$ 799
Marketable securities:				
Auction rate securities	$ 89	$	$	$ 89
Spansion Class A common stock	3			3
Total marketable securities	$ 92	$	$	$ 92
Long-term investments:				
Equity investments (included in other assets)	$ 2	$	$	$ 2
Grand Total	$ 893	$	$	$ 893

All contractual maturities of the Company s available-for-sale marketable debt securities at September 26, 2009 were within one year except those for auction rate securities (ARS). The Company s ARS have stated maturities ranging from January 2025 to December 2050. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

The Company did not sell any available-for-sale securities prior to maturity in the quarters and nine months ended September 26, 2009 and September 27, 2008.

At September 26, 2009 and December 27, 2008, the Company had approximately $45 million and $31 million, respectively, of investments classified as held-to-maturity, consisting of money market funds, commercial paper and treasury notes used for long-term workers compensation, leasehold, foreign exchange and letter of credit deposits, which are included in other assets on the Company s condensed consolidated balance sheets. The fair value of these investments approximated their cost at September 26, 2009 and December 27, 2008.

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In addition, the Company also had trading securities, consisting of ARS subject to the UBS put option, of $72 million and $71 million included in marketable securities at September 26, 2009 and December 27, 2008.

Fair Value Measurements

Assets and (liabilities) measured at fair value are summarized below:

		Fair value measurement at reporting dates using		
	September 26, 2009 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds[1]	$ 1,275	$ 1,275	$	$
Commercial paper[2]	612		612	
Time deposits[3]	307		307	
Auction rate securities[4]	164			164
UBS put option[5]	2			2
Marketable equity securities[6]	1	1		
Foreign currency derivative contracts[7]	6		6	
	December 27, 2008			
Money market mutual funds[1]	$ 576	$ 576	$	$
Commercial paper[2]	18		18	
Time deposits[3]	236		236	
Auction rate securities[4]	160			160
UBS put option[5]	11			11
Marketable equity securities[6]	5	5		
Foreign currency derivative contracts[7]	(36)		(36)	

(1) At September 26, 2009, $1,231 million was included in cash and cash equivalents and $44 million was included in other assets on the Company s condensed consolidated balance sheet. At December 27, 2008, $547 million was included in cash and cash equivalents and $29 million was included in other assets on the Company s condensed consolidated balance sheet.

(2) At September 26, 2009, $111 million was included in cash and cash equivalents; $500 million was included in marketable securities; and $1 million included in other assets on the Company s condensed consolidated balance sheet. At December 27, 2008, $16 million was included in cash and cash equivalents and $2 million was included in other assets on the Company s condensed consolidated balance sheet.

(3) At September 26, 2009, $307 million was included in cash and cash equivalents on the Company s condensed consolidated balance sheet. At December 27, 2008, $236 million was included in cash and cash equivalents on the Company s condensed consolidated balance sheet.

(4) At September 26, 2009, $164 million was included in marketable securities on the Company s condensed consolidated balance sheet, which included $92 million of securities classified as available-for-sale and $72 million classified as trading securities. At December 27, 2008, $160 million was included in marketable securities on the Company s condensed consolidated balance sheet, which included $89 million of securities classified as available-for-sale and $71 million classified as trading securities.

(5) At September 26, 2009, $2 million was included in prepaid expenses and other current assets on the Company s condensed consolidated balance sheet. At December 27, 2008, $11 million was included in other assets on the Company s condensed consolidated balance sheet.

(6)

At September 26, 2009, $1 million was included in other assets on the Company s condensed consolidated balance sheet. At December 27, 2008, $3 million was included in marketable securities and $2 million was included in other assets on the Company s condensed consolidated balance sheet.

(7) At September 26, 2009, $7 million of foreign currency derivative contracts in a gain position was included in prepaid expenses and other current assets on the Company s condensed consolidated balance sheet and $1 million of contacts in a loss position was included in accrued liabilities on the Company s condensed consolidated balance sheet. At December 27, 2008, $36 million was included in accrued liabilities on the Company s condensed consolidated balance sheet, which included $42 million of foreign currency derivative contracts that were in a loss position and $6 million of contracts that were in a gain position. (See Note 16, Hedging Transactions and Derivative Financial Instruments).

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The Company measures its cash equivalents, marketable securities, the UBS put option and foreign currency derivative contracts at fair value. Cash equivalents and marketable securities are primarily classified within Level 1 or Level 2, with the exception of ARS investments. This is because cash equivalents and marketable securities are valued primarily using quoted market prices or alternative pricing sources and models utilizing market observable inputs, as provided to the Company by its brokers. The Company s Level 1 assets are valued using quoted prices for identical instruments in active markets. The Company s Level 2 assets, all of which mature within six months, are valued using broker reports that utilize quoted market prices for similar instruments. The ARS investments and the UBS put option are classified within Level 3 because they are valued using a discounted cash flow model. Some of the inputs to this model are unobservable in the market and are significant. The Company s foreign currency derivative contracts are classified within Level 2 because the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates.

As of September 26, 2009, the Company s investments in ARS included approximately $130 million of student loan ARS and $34 million of municipal and corporate ARS. Approximately 79 percent of the Company s ARS holdings are AAA rated investments and all of the $130 million of student loan ARS are guaranteed by the Federal Family Educational Loan Program. Until the first quarter of 2008, the fair values of the Company s ARS were determinable by reference to frequent successful Dutch auctions of such securities, which settled at par.

The continuing uncertainties in the credit markets have affected all of the Company s ARS investments and auctions for these securities have failed to settle on their respective settlement dates. As a result, reliable Level 1 or Level 2 pricing is not available for these ARS. In light of these developments, to determine the fair value for its ARS, the Company obtained broker reports and discussed with brokers the critical inputs that they used in their proprietary models to assess fair value, which included liquidity, credit rating and discounted cash flows associated with these ARS. In addition, the Company performed its own discounted cash flow analysis. The outcomes of these activities indicated that the fair value of the ARS increased by $17 million as of September 26, 2009 when compared with the fair value as of December 27, 2008.

The significant inputs and assumptions used by the Company in the discounted cash flow model to determine the fair value of its ARS, as of September 26, 2009 and December 27 2008, were as follows:

The discount rate was determined based on the one-year LIBOR of 1.24% as of September 26, 2009, adjusted by 84 basis points (bps) to reflect the current market conditions for instruments with similar credit quality at the date of valuation. As of December 27, 2008, the discount rate was determined based on the average one-year LIBOR of 2.34% adjusted by 240 bps to reflect the current market conditions for instruments with similar credit quality at the date of valuation. In addition, as of September 26, 2009 and December 27, 2008, the discount rate was adjusted for a liquidity discount of 90 bps to reflect the market risk for these investments that has arisen due to the lack of an active market.

As of September 26, 2009 and December 27, 2008, the Company assigned an additional credit risk discount of 200 bps to the discount rate for all ARS that are not backed by the federal government. The total carrying value as of September 26, 2009 and December 27, 2008 of investments not backed by the federal government was approximately $34 million and $33 million, respectively.

As of September 26, 2009 and December 27, 2008, the Company applied the discount rate over the expected life of the estimated cash flows of the ARS (approximately 17 years). The projected interest income is based on the future contractual rates set forth in the individual prospectus for each of the ARS.

In October 2008, UBS AG (UBS) offered to repurchase all of the Company s ARS that were purchased from UBS prior to February 13, 2008. In accounting for the put option, the Company made the fair value accounting election. Accordingly, the Company initially recorded the put option at its estimated fair value as an other asset on the Company s condensed consolidated balance sheet, with the corresponding gain recorded in

earnings. The put option is marked to market each quarter, with changes in its estimated fair value recorded in earnings. The Company recorded losses of $3 million and $9 million during the quarter and nine months ended September 26, 2009, respectively, to reflect the change in fair value of the UBS put option. The Company s significant inputs and assumptions used in the discounted cash flow model to determine the fair value of this put option, as of September 26, 2009 and December 27, 2008, are as follows:

As of September 26, 2009, the discount rate was determined based on the one-year LIBOR (1.24%), adjusted by 96 bps to reflect the credit risk associated with the UBS put option. The 96 bps represents the current credit default swap rate for UBS. As of December 27, 2008, the discount rate was determined based on the period end one-year LIBOR (2.09%), adjusted by 202 bps to reflect the credit risk associated with the UBS put option. The 202 bps represents the current credit default swap rate for UBS.

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The Company applied the discount rate over the expected life of the estimated cash flows of the put option (9 months). The projected interest income is based on the future contractual rates set forth in the individual prospectus for each of the ARS that is included in the put option.

If different assumptions were used for the various inputs to the valuation approach including, but not limited to, assumptions involving the estimated lives of the ARS investments, the estimated cash flows over those estimated lives, the estimated discount rates applied to those cash flows and the illiquidity factor, the estimated fair value of these investments and the put option could be significantly higher or lower than the fair value determined by the Company as of September 26, 2009.

In addition, the Company has reclassified the ARS, with an estimated fair value of $72 million at September 26, 2009 ($71 million as of December 27, 2008), that the Company purchased from UBS from the available-for-sale category, to the trading securities category. Future changes in estimated fair value of these ARS are being recorded in earnings. The Company recorded a gain of $3 million and $9 million during the quarter and nine months ended September 26, 2009, respectively, to reflect the change in the fair value of these ARS. The Company recorded losses of $3 million and $9 million during the quarter and nine months ended September 26, 2009, respectively, to reflect the change in the fair value of the UBS put option.

With respect to $75 million (par value) of its ARS holdings, prior to June 30, 2010, UBS, at its sole discretion, may sell, or otherwise dispose of, and/or enter orders in the auctions process with respect to these securities on the Company s behalf so long as the Company receives par value for the ARS sold. UBS has also agreed to use its best efforts to facilitate issuer redemptions and/or to resolve the liquidity concerns of holders of their ARS through restructurings and other means.

As of September 26, 2009, the Company classified its investments in ARS as current assets because it has the intent to sell and it reasonably expects that it will be able to sell these securities and have the proceeds available for use in its operations within the next twelve months. Although there may not be successful future auctions, the Company reasonably expects there to be other channels through which it will be able to sell the ARS. Specific factors the Company considered in determining that its ARS should be classified as short-term marketable securities and included as current assets are as follows:

The Company has had redemptions, at par, totaling $39 million throughout the period of failed auctions, including $8 million in the third quarter.

The Company is receiving above market rates of interest on the ARS without any default. The Company believes the issuers have an incentive to refinance because of higher interest rates compared with market rates demonstrated by redemptions the Company received throughout the period of failed auctions.

In informal discussions with staff members at brokerage firms, the Company has been informed that brokerage firms continue in their efforts to create a new market for these securities by working with issuers to refinance the existing instruments into a new form of security or reducing the maturity to attract investors.

The roll-forward of the financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Quarter Ended September 26, 2009	Nine Months Ended September 26, 2009

	Auction Rate Securities	UBS Put Option	Auction Rate Securities	UBS Put Option
	(In millions)			
Beginning balance	$ 167	$ 5	$ 160	$ 11
Redemption at par	(8)		(13)	
Change in fair value included in net income (loss)	3	(3)	9	(9)
Change in fair value included in other comprehensive income (loss)	2		8	
Ending balance, September 26, 2009	$ 164	$ 2	$ 164	$ 2

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Total financial assets at fair value classified within Level 3 were 2 percent of total assets on the Company s condensed consolidated balance sheet as of September 26, 2009.

	Quarter Ended September 27, 2008 Auction Rate Securities	Nine Months Ended September 27, 2008 Auction Rate Securities
	(In millions)	
Beginning balance	$ 180	$
Transfers of ARS into Level 3		210
Redemption at par		(18)
Change in fair value included in net income (loss)		(12)
Ending balance, September 27, 2008	$ 180	$ 180

Total financial assets at fair value classified within Level 3 were 1.9 percent of total assets on the Company s condensed consolidated balance sheet as of September 27, 2008

Fair Value of Other Financial Instruments. The fair value of the Company s long-term debt, except for the convertible notes issued by GF, is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the convertible notes issued by GF is estimated based on a valuation model that incorporates relevant market inputs. The carrying amounts and estimated fair values of the Company s debt instruments are as follows:

	September 26, 2009		December 27, 2008	
	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value
	(In millions)			
Long-term debt (excluding capital leases)	$ 5,306	$ 4,582	$ 4,551	$ 2,071

The fair value of the Company s accounts receivable and accounts payable approximate their carrying value based on existing payment terms. In addition, with respect to the balances of $125 million and $86 million as of September 26, 2009 and December 27, 2008, respectively, relating to the receivable financing arrangement with IBM Credit LLC, the fair value approximates the carrying value due to the short term nature. (See Note 13, Receivable Financing Arrangement).

11. Restructuring

In the second and fourth quarters of 2008, the Company initiated restructuring plans to reduce its cost structure. Both plans primarily involved the termination of employees.

The restructuring charges recorded in conjunction with the plan initiated during the second quarter of 2008 primarily represented severance and costs related to the continuation of certain employee benefits and costs to terminate a contract. This plan was completed during the third quarter of 2009. As a result, the Company reversed approximately $3 million of restructuring charges in the third quarter.

The restructuring charges recorded in conjunction with the plan initiated during the fourth quarter of 2008 primarily represented severance and costs related to the continuation of certain employee benefits, contract or program termination costs, asset impairments and exit costs for facility consolidations and closures. In the third quarter of 2009, the Company recorded restructuring charges related to this plan of approximately $7 million. The Company anticipates that this plan will be substantially completed during 2009 and that the restructuring charges relating to this

plan to be recorded in the remainder of 2009 will be minimal.

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Restructuring charges for the plans initiated in the second and fourth quarters of 2008 have been aggregated and are included in the caption Restructuring charges in the Company s condensed consolidated statement of operations, with the exception of $1 million in 2008, which is classified as discontinued operations.

The following table provides a summary of each major type of cost associated with the restructuring plan initiated in the fourth quarter of 2008 through September 26, 2009:

	December 27, 2008	March 28, 2009	June 27, 2009	September 26, 2009	Total
			(In millions)		
Severance and benefits	$ 22	$ 25	$	$ 1	$ 48
Contract or program terminations	4	13			17
Asset impairments	18	10			28
Facility consolidations and closures	6	7	1	6	20
Total	$ 50	$ 55	$ 1	$ 7	$ 113

The following table provides a roll forward of the liability associated with the restructuring plan initiated in the fourth quarter 2008:

	Severance and related benefits	Other exit-related costs
	(in millions)	
Balance December 27, 2008	$ 14	$ 9
Charges	28	35
Cash payments	(36)	(21)
Non-cash charges		(2)
Balance September 26, 2009	$ 6	$ 21

In December 2002, the Company initiated a restructuring plan (the 2002 Restructuring Plan) to align the cost structure to industry conditions resulting from weak customer demand and industry-wide excess inventory. The 2002 Restructuring Plan resulted in the consolidation of facilities, primarily at the Sunnyvale, California site and at sales offices worldwide. With respect to its Sunnyvale, California site, the Company entered into a sublease agreement for a portion of these facilities with Spansion Inc. On March 1, 2009, Spansion filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On March 31, 2009, Spansion filed a motion in that proceeding in which it indicated that it does not intend to perform its obligations under its sublease agreement with the Company. As a result of this and the Company s ongoing assessment of the restructuring accrual, the Company recorded an additional charge of approximately $5 million in the first quarter of 2009, which is included in the caption Restructuring charges in its condensed consolidated statement of operations. The Company anticipates these amounts will be paid through 2011.

The following table provides a roll forward of the liability associated with the 2002 Restructuring Plan:

	Other exit-related costs
	(In millions)

Balance December 27, 2008	$	32
Charges		5
Cash payments		(13)
Balance September 26, 2009	$	24

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12. Disposition of Assets

In the first quarter of 2009, the Company completed the sale of certain graphics and multimedia technology assets and intellectual property that were formerly part of its Handheld business unit to Qualcomm Incorporated for approximately $65 million in cash. In addition, certain employees of the Handheld business became employees of Qualcomm. The assets the Company sold to Qualcomm had a carrying value of approximately $32 million and were classified as assets held for sale and included in the caption Prepaid expenses and other current assets in the Company s 2008 consolidated balance sheet. As a result of the sale transaction the Company recognized a gain of $28 million. As part of the Company s agreement with Qualcomm, the Company retained the AMD Imageon media processor brand and the rights to continue selling the products that were part of the Handheld business unit. The Company intends to support existing handheld products and customers through the current product lifecycles. However, the Company currently does not intend to develop any new handheld products beyond those already committed.

13. Receivable Financing Arrangement

On March 26, 2008, the Company entered into a Sale of Receivables Supplier Agreement with IBM Credit LLC (IBM Credit), and one of its wholly-owned subsidiaries, AMD International Sales & Service, Ltd. (AMDISS), entered into the same sales agreement with IBM United Kingdom Financial Services Ltd. (IBM UK), pursuant to which the Company and AMDISS agreed to sell to each of IBM Credit and IBM UK certain receivables. Pursuant to the sales agreements, the IBM parties agreed to purchase from the AMD parties invoices of specified customers up to credit limits set by the IBM parties. As of September 26, 2009, only selected distributor customers have participated in this program. Because the Company does not recognize revenue until its distributors sell its products to their customers, the Company classified funds received from the IBM parties as debt. The debt is reduced as the IBM parties receive payments from the distributors. For the nine months ended September 26, 2009, the Company received proceeds of approximately $399 million from the transfer of accounts receivable under this financing arrangement and the IBM parties collected approximately $361 million from the distributors participating in the arrangement. As of September 26, 2009, $125 million was outstanding under these agreements. As of December 27, 2008, $86 million was outstanding under these agreements. These amounts appear as Other short-term obligations on the Company s condensed consolidated balance sheets and are not considered a cash commitment.

14. Accrued Liabilities

The Company s accrued liabilities at the quarters ended September 26, 2009 and December 27, 2008 were as follows:

	September 26, 2009	December 27, 2008
	(In millions)	
Marketing program and advertising expenses	$ 172	$ 216
Software technology licenses payables	50	87
Interest payables	79	77
Other	304	405
Total	$ 605	$ 785

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15. Accounting Change Convertible Debt Instruments

In the first quarter of 2009, the Company adopted the new guidance for accounting for convertible debt that may be fully or partially settled in cash upon conversion, as codified principally in ASC 470 and modified its accounting for its 6.00% Notes. To retrospectively apply this new guidance, the proceeds from the issuance of the Company s 6.00% Notes were allocated between a liability (issued at a discount) and equity in a manner that reflects interest expense at the market interest rate for similar nonconvertible debt as of the original issuance date of the 6.00% Notes. The debt discount is being accreted from issuance through April 2015, the period the 6.00% Notes are expected to be outstanding, with the accretion recorded as additional non-cash interest expense. The equity component is included in the paid-in-capital portion of stockholders equity on the Company s condensed consolidated balance sheet. The initial value of the equity component, which reflects the equity conversion feature of the 6.00% Notes, is equal to the initial debt discount.

In November 2008, the Company repurchased $60 million in principal value of its 6.00% Notes in an open market transaction for approximately $21 million, and recognized a gain of approximately $27 million after giving effect to the retrospective application of the change in accounting.

During the third quarter of 2009, the Company repurchased $186 million in principal value of its 6.00% Notes in open market transactions for approximately $104 million and recognized a gain of approximately $66 million.

During the first nine months of 2009, the Company repurchased $344 million in principal value of its 6.00% Notes in open market transactions for approximately $161 million and recognized a gain of approximately $174 million.

Information related to equity and debt components:

	September 26, 2009	December 27, 2008
	(In millions)	
Carrying amount of the equity component	$ 235	$ 262
Principal amount of the 6.00% Notes	1,796	2,140
Unamortized discount[1]	(161)	(212)
Net carrying amount	$ 1,635	$ 1,928

(1) As of September 26, 2009, the remaining period over which the unamortized discount will be amortized is 67 months.

Information related to interest rates and expense

(Millions except percentages):

	Quarter Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Effective interest rate	8%	8%	8%	8%
Interest cost related to contractual interest coupon	$ 29	$ 33	$ 90	$ 99
Interest cost related to amortization of the discount	$ 6	$ 6	$ 18	$ 18

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The following tables show the financial statement line items affected by retrospective application of the new guidance in ASC 470 on the affected financial statement line items for the periods indicated:

	Consolidated Statements of Operations (In millions except per share data) Years Ended					
	December 27, 2008			December 29, 2007		
	As Retrospectively Adjusted	As Reported	Effect of Change	As Retrospectively Adjusted	As Reported	Effect of Change
Interest expense	$ (391)	$ (366)	$ (25)	$ (383)	$ (367)	$ (16)
Other income (expense), net	(44)	(31)	(13)	(162)	(162)	
Income (loss) before income taxes	(2,351)	(2,313)	(38)	(2,782)	(2,766)	(16)
Income (loss) from continuing operations	(2,419)	(2,381)	(38)	(2,809)	(2,793)	(16)
Net income (loss)	(3,103)	(3,065)	(38)	(3,360)	(3,344)	(16)
Net income (loss) attributable to AMD common stockholders	(3,136)	(3,098)	(38)	(3,395)	(3,379)	(16)
Net income (loss) attributable to AMD common stockholders per common share						
Basic and diluted						
Continuing operations	$ (4.04)	$ (3.98)	$ (0.06)	$ (5.10)	$ (5.07)	$ (0.03)
Basic and diluted net income (loss) attributable to AMD common stockholders per common share	$ (5.16)	$ (5.10)	$ (0.06)	$ (6.09)	$ (6.06)	$ (0.03)
Shares used in per share calculation						
Basic and diluted	607	607		558	558	

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Condensed Consolidated Statements of Operations Quarter Ended September 27, 2008 (In millions except per share data)		
	As Retrospectively Adjusted	As Reported	Effect of Change
Interest expense	$ (94)	$ (87)	$ (7)
Other income (expense), net	(13)	(13)	
Income (loss) before income taxes	22	29	(7)
Income (loss) from continuing operations	23	30	(7)
Net income (loss)	(127)	(120)	(7)
Net income (loss) attributable to AMD common stockholders	(134)	(127)	(7)
Net income (loss) attributable to AMD common stockholders per common share			
Basic and diluted			
Continuing operations	$ 0.03	$ 0.04	$ (0.01)
Basic and diluted net income (loss) attributable to AMD common stockholders per common share	$ (0.22)	$ (0.21)	$ (0.01)
Shares used in per share calculation			
Basic and diluted	608	608	

	Condensed Consolidated Statements of Operations Nine Months Ended September 27, 2008 (In millions)		
	As Retrospectively Adjusted	As Reported	Effect of Change
Interest expense	$ (246)	$ (227)	$ (19)
Other income (expense), net	(48)	(48)	
Income (loss) before income taxes	(993)	(974)	(19)
Income (loss) from continuing operations	(992)	(973)	(19)
Net income (loss)	(1,666)	(1,647)	(19)
Net income (loss) attributable to AMD common stockholders	(1,693)	(1,674)	(19)
Net income (loss) attributable to AMD common stockholders per common share			
Basic and diluted			
Continuing operations	$ (1.68)	$ (1.65)	$ (0.03)
Basic and diluted net income (loss) attributable to AMD common stockholders per common share	$ (2.79)	$ (2.76)	$ (0.03)
Shares used in per share calculation			
Basic and diluted	607	607	

	Consolidated Balance Sheets December 27, 2008		
	As Retrospectively Adjusted	As Previously Reported (In millions)	Effect of Change
Other assets	$ 506	$ 509	$ (3)
Total assets	7,672	7,675	(3)
Long-term debt and capital lease obligation, less current portion[1]	4,490	4,702	(212)
Stockholders equity:			
Capital in excess of par value[2]	6,361	6,099	262
Retained earnings (deficit)[3]	(6,251)	(6,198)	(53)
Total stockholders equity (deficit)	127	(82)	209
Total liabilities and stockholders equity (deficit)	$ 7,672	$ 7,675	$ (3)

(1) The effect of the change on long-term debt at December 27, 2008 includes the discount determined as of the original issuance date of the 6.00% Notes ($259 million), less amortization of the discount from the issuance date ($41 million) and the amount of the debt discount written off in connection with the November 2008 repurchase of the 6.00% Notes allocated to the debt component ($6 million).

(2) The effect of the change on paid-in capital at December 27, 2008 includes the discount determined as of the original issuance date of the 6.00% Notes ($259 million), and the cost of the November 2008 repurchase of the 6.00% Notes allocated to the

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Advanced Micro Devices, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

equity component ($6 million) less the portion of the original debt issuance costs in proportion to amounts allocated to equity ($3 million).

(3) The effect of the change on retained earnings (deficit) at December 27, 2008 includes the amortization of the discount from the issuance date ($41 million) and an adjustment to the previously reported gain on the November 2008 repurchase of the 6.00% Notes ($12 million).

16. Hedging Transactions and Derivative Financial Instruments

The Company maintains a foreign currency hedging strategy, which uses derivative financial instruments to mitigate the risks associated with changes in foreign currency exchange rates. This strategy takes into consideration all of the Company s consolidated exposures. The Company does not use derivative financial instruments for trading or speculative purposes.

From time to time the Company uses foreign currency forward contracts to hedge certain forecasted expenses denominated in foreign currencies, primarily the euro and Canadian dollar. The Company designates these contracts as cash flow hedges of forecasted expenses and evaluates hedge effectiveness prospectively and retrospectively. As such, the effective portion of the gain or loss on these contracts is reported as a component of other comprehensive income and reclassified to earnings in the same line item as the associated forecasted transaction and in the same period during which the hedged transaction affects earnings. Any ineffective portion is recorded in earnings immediately.

The Company also uses, from time to time, foreign currency forward contracts to economically hedge recognized foreign currency exposures on the balance sheets of various subsidiaries, primarily those denominated in the euro and Canadian dollar. The Company does not designate these forward contracts as hedging instruments. Accordingly, the gain or loss associated with these contracts is recorded in earnings immediately. During the second quarter of 2009, the Company decided to hedge only the balance sheet exposure denominated in Canadian dollar in the future.

The following table shows the amount of gain (loss) included in other comprehensive income, the amount of gain (loss) reclassified from other comprehensive loss and included in earnings, and the fair value amounts included in prepaid expenses and other current assets should the foreign currency forward contracts designated as cash flow hedges be in a gain position and accrued liabilities if in a loss position for the quarter and nine months ended September 26, 2009. The table also includes the amount of gain (loss) included in other income (expense) related to contracts not designated as hedging instruments for the quarter and nine months ended September 26, 2009.

Location of gain/(loss)	Amount of gain (loss) during quarter ended September 26, 2009	Amount of gain (loss) during nine months ended September 26, 2009	Fair value included in prepaid expenses and other current assets (accrued liabilities)
Foreign Currency Forward Contracts			
Contracts designated as cash flow hedging instruments			$ 7
Other comprehensive income	$ 11	$ 2	
Cost of sales	$ (1)	$ (19)	
Research and development	$ (1)	$ (12)	
Marketing, general and administrative	$	$ (5)	
Contracts not designated as hedging instruments			
Other income (expense), net	$ 2	$ (40)	$ (1)

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

By using derivative instruments, the Company is subject to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Company s credit risk will equal the fair value of the derivative instrument. Generally, when the fair value of a derivative contract is positive, the counterparty owes the Company, thus creating a receivable risk for the Company. The Company minimizes

counterparty credit (or repayment) risk by entering into derivative transactions with major financial institutions of investment grade credit rating. Based upon certain factors, including a review of the credit default swap rates for the Company s counterparties, the Company determined its counterparty credit risk to be immaterial. As of September 26, 2009, the notional value of the Company s outstanding foreign currency forward contracts was $331 million. All the contracts mature within 12 months and the amounts recorded in other comprehensive income are expected to be recognized during this period. Under the agreement with the counterparties, the Company is required to post a minimum $15 million collateral to secure credit lines to execute these derivative instruments. In addition, the Company is required to post additional collateral should the derivative contracts be in a net loss position. As of September 26, 2009, no additional collateral has been posted.

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

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: the demand for our products; the growth and competitive landscape of the markets in which we participate; current global business and economic conditions and end-user demand for PCs; our cost reduction efforts and related restructuring charges; future sales of previously written-down inventory; our plans to purchase or otherwise retire our 5.75% Notes, 6.00% Notes and 7.75% Notes; our ability to liquidate our auction rate securities in the next twelve months; our capital expenditures; our aggregate contractual obligations; and availability of external financing. Material factors and assumptions that were applied in making these forward-looking statements include, without limitation, the following: (1) the expected rate of market growth and demand for our products and technologies (and the mix thereof); (2) our expected market share; (3) our expected product and manufacturing costs and average selling prices; (4) our overall competitive position and the competitiveness of our current and future products; (5) our ability to introduce new products and transition to more advanced manufacturing process technologies, consistent with our current plans; (6) our ability to make additional investment in research and development and that such opportunities will be available; and (7) the expected demand for computers. Material factors that could cause actual results to differ materially from current expectations include, without limitation, the following: (1) that Intel Corporation s pricing, marketing and rebating programs, product bundling, standard setting, new product introductions or other activities may negatively impact sales; (2) that our substantial indebtedness could adversely affect our financial position and prevent us from implementing our strategy or fulfilling our contractual obligations; (3) that we will require additional funding and may be unable to raise sufficient capital, on favorable terms, or at all; (4) that we may be unable to maintain the level of investment in research and development that is required to remain competitive; (5) that we may be unable to develop, launch and ramp new products and technologies in the volumes required by the market on a timely basis; (6) that we may be unable to transition to advanced manufacturing process technologies in a timely and effective way; (7) 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; (8) that demand for computers will be lower than currently expected; (9) that we may under-utilize GLOBALFOUNDRIES and our own manufacturing facilities; and (10) the effect of political or economic instability, domestically or internationally, on our sales or production.

For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see Part II, Item 1A Risk Factors section beginning on page 60 and the Financial Condition section beginning on page 48 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.

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The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this report and our audited consolidated financial statements and related notes as of December 27, 2008 and December 29, 2007, and for each of the three years in the period ended December 27, 2008 as filed in our Annual Report on Form 10-K for the year ended December 27, 2008.

Overview

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

- x86 microprocessors, for the commercial and consumer markets, embedded microprocessors for commercial, commercial client and consumer markets and chipsets for desktop and notebook PCs, professional workstations and servers; and
- graphics, video and multimedia products for desktop and notebook computers, including home media PCs and professional workstations, servers and technology for game consoles.

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In this section, we will describe the general financial condition and the results of operations for Advanced Micro Devices, Inc. and its consolidated subsidiaries as well as GLOBALFOUNDRIES Inc. (GF) and its consolidated subsidiaries, including a discussion of our results of operations for the quarter and nine months ended September 26, 2009 compared to the quarter ended June 27, 2009 and quarter and nine months ended September 27, 2008, an analysis of changes in our financial condition and a discussion of our contractual obligations and off balance sheet arrangements. For accounting purposes, we are required to consolidate the accounts of GF. References in this report to us, our, or AMD include these consolidated operating results.

During the third quarter of 2009, we made progress toward improving our financial performance as we continued to focus on controlling our operating expenses and as demand increased for our products. We continued to improve our competitive position with the introduction of more competitive products. In the third quarter of 2009, we introduced our industry-leading ATI Radeon HD 5000 series of GPU products. We also introduced more energy efficient six-core AMD Opteron processors for servers.

Net revenue in the third quarter of 2009 was $1.4 billion, an increase of 18 percent compared to the second quarter of 2009 and a decrease of 22 percent compared to the third quarter of 2008. The increase in third quarter 2009 net revenue compared to the second quarter of 2009 was primarily due to a 16 percent increase in unit shipments. Unit shipments increased due to an increase in demand for our products. Net revenue in the third quarter of 2008 included process technology license revenue of $191 million, which accounted for 11 percent of total third quarter 2008 revenue. Without the effect of the process technology license revenue, net revenue in the third quarter of 2009 would have decreased 13 percent compared to the third quarter of 2008. This 13 percent decrease in third quarter 2009 net revenue compared to the third quarter of 2008 was primarily due to a 14 percent decrease in average selling prices. Average selling prices for the third quarter of 2009 compared to the third quarter of 2008 decreased due to a decrease in average selling prices of microprocessors for notebooks and GPU products primarily due to a shift in our product mix to more value-priced products.

Gross margin as a percentage of net revenue for the third quarter of 2009 was 42 percent, a 5 percentage point increase compared to 37 percent in the second quarter of 2009 and a 9 percentage point decrease compared to 51 percent in the third quarter of 2008. Gross margin in the third quarter of 2009 included a $9 million, or 1 percentage point, benefit related to the sale of inventory that had been written-down in the fourth quarter of 2008. A portion of this inventory was also sold in the second quarter of 2009, which benefited gross margin in the second quarter of 2009 by $98 million, or approximately 8 percentage points. The increase in gross margin in the third quarter of 2009 as compared to the second quarter of 2009 was primarily due to an improvement in our unit costs. Our unit costs improved primarily due to an increase in microprocessor unit shipments using our 45-nanometer technology. Gross margin was also favorably impacted by the improvement in utilization of GF s manufacturing assets in the third quarter of 2009. Gross margin in the third quarter of 2008 was favorably impacted by 6 percentage points as a result of the $191 million process technology license revenue noted above. Gross margin in the third quarter of 2009 declined compared to the third quarter of 2008 primarily due to a decline in average selling prices. Average selling prices declined due to a decrease in average selling prices of microprocessors for notebooks and GPU products due to a shift in our product mix to more value-priced products.

Our operating loss for the third quarter of 2009 was $77 million compared to a $249 million operating loss in the second quarter of 2009 and $122 million of operating income in the third quarter of 2008. The improvement in operating performance in the third quarter of 2009 compared to the second quarter of 2009 was primarily due to an 18 percent increase in net revenue described above and a 5 percent decrease in research and development expenses and marketing, general and administrative expenses primarily due to the effect of our cost reduction initiatives. The decline in operating performance in the third quarter of 2009 compared to the third quarter of 2008 was primarily due to a 22 percent decrease in net revenue described above partially offset by a 15 percent decrease in research and development expenses and marketing, general and administrative expenses primarily due to the effect of our cost reduction initiatives.

Our cash, cash equivalents and marketable securities as of September 26, 2009 were $2.5 billion compared to $1.1 billion as of December 27, 2008. The increase in our cash, cash equivalents and marketable securities was primarily due to the consummation of the GF manufacturing joint venture transaction in the first quarter of 2009. Of the $2.5 billion, $975 million constituted GF cash and cash equivalents. During 2009, we repurchased an aggregate of $344 million principal amount of our 6.00% Notes for $161 million in cash.

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

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GLOBALFOUNDRIES

On March 2, 2009, we consummated the transactions contemplated by the Master Transaction Agreement among us, Advanced Technology Investment Company LLC (ATIC), a limited liability company established under the laws of the Emirate of Abu Dhabi and wholly owned by the Government of the Emirate of Abu Dhabi, and West Coast Hitech L.P., an exempted limited partnership organized under the laws of the Cayman Islands (WCH), acting through its general partner, West Coast Hitech G.P., Ltd., a corporation organized under the laws of the Cayman Islands, pursuant to which we formed GLOBALFOUNDRIES Inc., (GF). At the closing of this transaction (Closing), we contributed certain assets and liabilities to GF, including, among other things, shares of the groups of German subsidiaries owning Fab 1 Module 1 (formerly Fab 36) and Fab 1 Module 2 (formerly Fab 30/38), certain manufacturing assets, real property, tangible personal property, employees, inventories, books and records, a portion of our patent portfolio, intellectual property and technology, rights under certain material contracts and authorizations necessary for GF to carry on its business. In exchange we received GF securities consisting of one Class A Ordinary Share, 1,090,950 Class A Preferred Shares and 700,000 Class B Preferred Shares, and the assumption of certain liabilities by GF. ATIC contributed $1.4 billion of cash to GF in exchange for GF securities consisting of one Class A Ordinary Share, 218,190 Class A Preferred Shares, 172,760 Class B Preferred Shares, $202 million aggregate principal amount of 4% Class A Subordinated Convertible Notes (the Class A Notes) and $807 million aggregate principal amount of 11% Class B Subordinated Convertible Notes (the Class B Notes), and transferred $700 million of cash to us in exchange for the transfer by us of 700,000 GF Class B Preferred Shares.

At the Closing, we also issued to WCH, for an aggregate purchase price of $125 million, 58 million shares of our common stock and warrants to purchase 35 million shares of our common stock at an exercise price of $0.01 per share (the Warrants). The Warrants are exercisable after the earlier of (i) public ground-breaking of GF s planned manufacturing facility in New York and (ii) March 2, 2011. The Warrants expire on March 2, 2019. On July 24, 2009 GF held a public ground-breaking for its planned manufacturing facility in New York. As a result, the Warrants issued by us to WCH on March 2, 2009 to purchase 35 million shares of the Company s common stock at an exercise price of $0.01 per share became exercisable by WCH on July 24, 2009. These Warrants are included in our basic earnings per share calculation in the third quarter of 2009.

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

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

As of the Closing, AMD and ATIC owned 1,090,950, or 83.3%, and 218,190, or 16.7%, respectively, of Class A Preferred Shares, and ATIC owned 100% of the Class B Preferred Shares and 100% of the Class A Notes and Class B Notes.

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

Class B Preferred Shares. The Class B Preferred Shares rank senior in right of payment to all other classes or series of equity securities of GF for purposes of dividends, distributions and upon a Liquidation Event. Each Class B Preferred Share is deemed to accrete in value at a rate of 12% per year, compounded semiannually, of the initial purchase price per such share. The accreted value accrues daily from the Closing and is taken into account upon certain distributions to the holders of Class B Preferred Shares or upon conversion of the Class B Preferred Shares. In the event of a Liquidation Event, each Class B Preferred Share will be entitled to receive, prior to any distribution to the holders of any other classes or series of equity securities, an amount equal to its accreted value. Upon completion of the above distribution to the holders of Class B Preferred Shares, each Class A Preferred Share will be entitled to receive its liquidation preference amount out of any remaining assets of GF. Upon completion of the above distributions to the holders of Preferred Shares, all of the remaining assets of GF, if any, will be distributed pro rata among the holders of Ordinary Shares. Each Class B Preferred Share is convertible, at the option of the holder thereof, into Class B Ordinary Shares at the then applicable Class B Conversion Rate (as hereinafter defined) upon a Liquidation Event. Each Class B Preferred Share automatically converts into Class B Ordinary Shares at the then applicable Class B Conversion Rate upon the earlier of (i) an IPO or (ii) a change of control transaction of GF. The Class B Conversion Rate is 100 Class B Ordinary Shares for each Class B Preferred Share converted, subject to customary anti-dilution adjustments. The Class B Preferred Shares are non-voting until the Reconciliation Event (defined below). Following the Reconciliation Event, each Class B Preferred Share will vote on an as-converted basis with the Ordinary Shares, voting together as a single class, with respect to any question upon which holders of Ordinary Shares have the right to vote.

Class A Subordinated Convertible Notes. The Class A Notes accrue interest at a rate of 4% per annum, compounded semiannually, and mature upon the later of (i) 10 years from the date of issuance or (ii) the date of the earlier of (i) such time when we have secured for GF certain rights under our existing cross license agreement with Intel Corporation (Intel Patent Cross License Agreement), or (ii) such time when GF s Board of Directors determines that GF no longer needs to be a Subsidiary under the Intel Patent Cross License Agreement (the Reconciliation Event). Interest on the Class A Notes is payable semiannually in additional Class A Notes. The Class A Notes are the unsecured obligations of GF and rank subordinated in right of payment to any current or future senior indebtedness of GF. The Class A Notes are not redeemable by GF without the note holder s consent. The Class A Notes are convertible, in whole or in part, in multiples of $1,000, into GF Class A Preferred Shares at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date based on the conversion ratio in effect on the date of conversion, if (i) such conversion would not cause GF to fail to constitute our Subsidiary under the Intel Patent Cross License Agreement or (ii) the Reconciliation Event has occurred. On or after the Reconciliation Event, the Class A Notes will automatically convert into Class A Preferred Shares upon the earlier of (i) an IPO, (ii) certain change of control transactions of GF or (iii) the close of business on the business day immediately preceding the maturity date.

Class B Subordinated Convertible Notes. The Class B Notes accrue interest at a rate of 11% per annum, compounded semiannually, and mature upon the later of (i) 10 years from the date of issuance or (ii) the date of the Reconciliation Event. Interest on the Class B Notes is payable semiannually in additional Class B Notes. The Class B Notes are the unsecured obligations of GF and rank subordinated in right of payment to any current or future senior indebtedness of GF. The Class B Notes are not redeemable by GF without the note holder s consent. The Class B Notes are convertible, in whole or in part, in multiples of $1,000, into GF Class B Preferred Shares at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date at the conversion ratio in effect on the date of conversion, if (i) such conversion would not cause GF to fail to constitute our Subsidiary under the Intel Patent Cross License Agreement or (ii) the Reconciliation Event has occurred. On or after the Reconciliation Event, the Class B Notes will automatically convert into GF Class B Preferred Shares upon the earlier of (i) an IPO, (ii) certain change of control transactions of GF or (iii) the close of business on the business day immediately preceding the maturity date.

Based on the structure of the transaction, pursuant to the guidance on accounting for interests in variable interest entities, GF is a variable-interest entity, and we are deemed to be the primary beneficiary and, therefore, required to consolidate the accounts of GF.

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ATIC s noncontrolling interest, represented by its equity interests in GF, is presented outside of stockholders equity in the condensed consolidated balance sheet due to ATIC s right to put those securities back to us in the event of a change of control of AMD during the two years following the Closing. Our net income (loss) attributable to its common stockholders per share consists of consolidated net income (loss), as adjusted for (i) the portion of GF s earnings or losses attributable to ATIC, which is based on ATIC s proportional ownership interest in GF s Class A Preferred Shares (16.7% as of September 26, 2009), and (ii) the non-cash accretion on GF s Class B Preferred Shares attributable to us, based on the proportional ownership interest of GF s Class A Preferred Shares (83.3% as of September 26, 2009).

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

Shareholders Agreement. The Shareholders Agreement sets forth the rights and obligations of AMD and ATIC as shareholders of GF. The initial GF board of directors (GF Board) consists of eight directors, and AMD and ATIC each designated four directors. After the Reconciliation Event, the number of directors a GF shareholder may designate may decrease according to the percentage of GF shares it owns on a fully diluted basis.

Pursuant to the Shareholders Agreement, GF is not allowed to take certain corporate actions without unanimous GF Board approval. The Shareholders Agreement sets forth procedures by which any deadlock with respect to matters requiring GF Board approval is to be resolved.

Pursuant to the Shareholders Agreement, if a change of control of AMD occurs within two years of Closing, ATIC will have the right to put any or all GF securities (valued at their fair market value) held by ATIC and its permitted transferees to us in exchange for cash, or if a change of control of AMD occurs after a specified event, ATIC will have the option to purchase in cash any or all of GF securities (valued at their fair market value) held by us and our permitted transferees.

Funding Agreement. The Funding Agreement provides for the future funding of GF and governs the terms and conditions under which ATIC is obligated to provide such funding. Pursuant to the Funding Agreement, ATIC has committed to additional equity funding of a minimum of $3.6 billion and up to $6.0 billion to be provided in phases over the next five years. We have the right, but not the obligation, to provide additional future capital to GF in an amount pro rata to our interest in the fully converted ordinary shares of GF.

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At each equity funding, the equity securities to be issued by GF will consist of 20% of Class A Preferred Shares and 80% of Class B Preferred Shares. Rather than issuing Preferred Shares, GF may, in certain circumstances, issue additional Class A Notes and Class B Notes to ATIC in those same proportions in connection with future funding. The aggregate amount of equity funding to be provided by the shareholders in any fiscal year depends on the time period of such funding and the amounts set forth in the five-year capital plan of GF. In addition, GF is required to obtain specified third-party debt in any given fiscal year, as set forth in its five-year capital plan. To the extent that GF obtains more than the specified amount of third-party debt, ATIC is able to reduce its funding commitment accordingly. To the extent that GF is not able to obtain the full amount of third-party debt, ATIC is not obligated to make up the difference. To the extent we choose not to participate in an equity financing of GF, ATIC is obligated to purchase our share of GF securities, subject to ATIC s funding commitments under the Funding Agreement.

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

July Funding from ATIC to GF. In July 2009, pursuant to a funding request from GF in accordance with the Funding Agreement, ATIC contributed $260 million of cash to GF in exchange for GF securities consisting of $52 million aggregate principal amount of Class A Notes and $208 million aggregate principal amount of Class B Notes. We declined to participate in the funding request. As a result, our economic ownership interest in GF (on a fully converted to common basis) decreased to approximately 32 percent.

Wafer Supply Agreement. The Wafer Supply Agreement governs the terms by which we purchase products manufactured by GF. Pursuant to the Wafer Supply Agreement, we purchase, subject to limited exceptions, all of our microprocessor unit (MPU) product requirements from GF. If we acquire a third-party business that manufactures MPU products, we will have up to two years to transition the manufacture of such MPU products to GF. In addition, once GF establishes a 32nm-qualified process, we will purchase from GF, where competitive, specified percentages of our graphics processor unit (GPU) requirements at all process nodes, which percentages will increase linearly over a five-year period. At our request, GF will also provide sort services to us on a product-by-product basis.

We will provide GF with product forecasts of our MPU and GPU product requirements. The price for MPU products is related to the percentage of our MPU-specific total cost of goods sold. The price for GPU products will be determined by the parties when GF is able to begin manufacturing GPU products for us.

The Wafer Supply Agreement is in effect through May 2, 2024. However, the Wafer Supply Agreement may be terminated if a business plan deadlock exists and ATIC elects to enter into a transition period pursuant to the Funding Agreement. GF has agreed to use commercially reasonable efforts to assist us to transition the supply of products to another provider, and continue to fulfill purchase orders for up to two years following the termination or expiration of the Wafer Supply Agreement.

Critical Accounting Policies

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

Management believes there have been no significant changes during the first nine months of 2009 to the items that we disclosed as our critical accounting policies and estimates in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended December 27, 2008.

Results of Operations

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

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As of December 27, 2008, we had two reportable segments:

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

In the first quarter of 2009 we consummated the GF manufacturing joint venture transaction and started reporting using the following three reportable segments:

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

In addition to these reportable segments, we have an All Other category, which is not a reportable segment. This category includes certain expenses and credits that are not allocated to any of the operating segments because we do not consider these expenses and credits in evaluating the performance of the operating segments. Such expenses are non-Foundry segment related expenses and include employee stock-based compensation expense, restructuring charges and impairment charges for goodwill and intangible assets. The results of the Handheld business unit are also reported in the All Other category. The Handheld business unit consists of the AMD Imageon media processor brand and handheld products that were part of the Handheld business unit prior to the sale of certain graphics and multimedia technology assets and intellectual property to Qualcomm Incorporated during the first quarter of 2009.

Starting in the first quarter of 2009, we also have an Intersegment Eliminations category, which is also not a reportable segment. This category includes intersegment eliminations for revenue, cost of sales and profits on inventory related to transactions between the Computing Solutions segment and the Foundry segment.

The following table provides a summary of net revenue and operating income (loss) by segment for the quarters ended September 26, 2009, June 27, 2009, September 27, 2008 and the nine months ended September 26, 2009 and September 27, 2008. Information for periods prior to March 28, 2009 has not been recast to reflect the segment changes noted above because it is not practicable to do so.

	Quarter Ended			Nine Months Ended	
	September 26, 2009	June 27, 2009	September 27, 2008	September 26, 2009	September 27, 2008
			(In millions)		
Net revenue:					
Computing Solutions	$ 1,069	$ 910	$ 1,391	$ 2,917	$ 3,686
Graphics	306	251	385	779	895
Foundry	256	253		792	
All Other	21	23	21	61	65
Intersegment Eliminations	(256)	(253)		(792)	
Total net revenue	$ 1,396	$ 1,184	$ 1,797	$ 3,757	$ 4,646

Operating income (loss):					
Computing Solutions	$ 76	$ (72)	$ 143	$ (31)	$ (30)
Graphics	8	(12)	47	(3)	22
Foundry	(101)	(101)		(334)	
All Other	(49)	(41)	(68)	(214)	(673)
Intersegment Eliminations	(11)	(23)		(42)	
Total operating income (loss)	$ (77)	$ (249)	$ 122	$ (624)	$ (681)

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Computing Solutions

Computing Solutions net revenue of $1.1 billion in the third quarter of 2009 decreased 23 percent compared to net revenue of $1.4 billion in the third quarter of 2008. Net revenue in the third quarter of 2008 included $191 million of process technology license revenue, which accounted for 14 percent of total third quarter 2008 net revenue. Without the effect of the process technology license revenue, Computing Solutions net revenue would have decreased 11 percent primarily as a result of a 17 percent decrease in average selling prices, partially offset by a 7 percent increase in unit shipments. The decrease in average selling prices was primarily due to a decrease in average selling prices of microprocessors for notebooks and a greater mix of chipsets, which typically have lower average selling prices. Average selling prices of our microprocessors for notebooks decreased as customers demanded more value-priced products, which resulted in both our decreasing the price of our products and a shift in our product mix to lower end microprocessors. The increase in unit shipments was primarily attributable to an increase in unit shipments of chipsets. Chipset unit shipments increased due to increased demand.

Computing Solutions net revenue of $1.1 billion in the third quarter of 2009 increased 17 percent compared to net revenue of $910 million in the second quarter of 2009 primarily due to an 18 percent increase in unit shipments. The increase in unit shipments was primarily attributable to an increase in unit shipments for chipsets and microprocessors for notebooks. Unit shipments of chipsets and microprocessors for notebooks increased due to increased demand. Although average selling prices were relatively flat in the third quarter of 2009 compared to the second quarter of 2009, an increase in microprocessor average selling prices was offset by a decrease in average selling prices for chipsets.

Computing Solutions net revenue of $2.9 billion for the first nine months of 2009 decreased 21 percent compared to net revenue of $3.7 billion for the first nine months of 2008. Net revenue for the first nine months of 2008 included $191 million of process technology license revenue, which accounted for 5 percent of total net revenue for the nine months of 2008. Without the effect of the process technology license revenue, Computing Solutions net revenue would have decreased 17 percent primarily as a result of a 21 percent decrease in average selling prices. Average selling prices decreased primarily due to a decrease in average selling prices of microprocessors for notebooks and a greater mix of chipsets, which typically have lower average selling prices. Average selling prices for our microprocessors for notebooks decreased as customers demanded more value-priced products, which resulted in both our decreasing the price of our products and a shift in our product mix to lower end microprocessors.

Computing Solutions operating income was $76 million in the third quarter of 2009 and $143 million in the third quarter of 2008. Our third quarter of 2009 operating results are not comparable to operating results for the third quarter of 2008 because of the creation of the Foundry segment in the first quarter of 2009, which resulted in our reporting certain research and development and marketing, general and administrative expenses in the Foundry segment that we would previously have reported in the Computing Solutions segment.

Computing Solutions operating income was $76 million in the third quarter of 2009 compared to an operating loss of $72 million in the second quarter of 2009. The improvement in operating results was primarily due to the $159 million increase in net revenue described above, partially offset by a $50 million increase in cost of sales, a $25 million decrease in marketing, general and administrative expenses and a $12 million decrease in research and development expenses. Cost of sales increased primarily due to the 18 percent increase in unit shipments referenced above. Research and development expenses and marketing, general and administrative expense decreased for the reason set forth under Expenses below.

Computing Solutions operating loss was $31 million in the first nine months of 2009 compared to an operating loss of $30 million in the first nine months of 2008. The first nine months of 2009 operating results are not comparable to operating results for the first nine months of 2008 because of the creation of the Foundry segment in the first quarter of 2009, which resulted in our reporting certain research and development and marketing, general and administrative expenses in the Foundry segment that we would previously have reported in the Computing Solutions segment. Furthermore, the operating loss in the first nine months of 2008 included a $193 million gain on the sale of 200 millimeter equipment and $191 million of process technology license revenue that did not recur in the first nine months of 2009.

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Graphics

Graphics net revenue of $306 million in the third quarter of 2009 decreased 21 percent compared to net revenue of $385 million in the third quarter of 2008. The decrease was primarily due to a 19 percent decrease in revenue from the sale of GPU products and a 31 percent decrease in revenue received in connection with the development and sale of game console systems that incorporate our graphics technology. Revenue from the sale of GPU products decreased due to a significant decrease in GPU average selling prices resulting from a shift in our product mix to more value-priced GPU products. Royalty revenue decreased due to lower demand for the latest generation of game consoles. GPU unit shipments were flat compared to the third quarter of 2008.

Graphics net revenue of $306 million in the third quarter of 2009 increased 22 percent compared to net revenue of $251 million in the second quarter of 2009. The increase was primarily due to a 24 percent increase in revenue from the sale of GPU products and a 4 percent increase in revenue received in connection with the development and sale of game console systems that incorporate our graphics technology. Revenue from the sale of GPU products increased due to a significant increase in GPU unit shipments, partially offset by a slight decrease in GPU average selling prices. GPU unit shipments increased primarily due to seasonality and increased demand for our GPUs. GPU average selling prices decreased due to competitive pricing pressure.

Graphics net revenue of $779 million in first nine months of 2009 decreased 13 percent compared to net revenue of $895 million in the first nine months of 2008. The decrease was due to a 13 percent decrease in both revenue from the sale of GPU products and revenue received in connection with the development and sale of game console systems that incorporate our graphics technology. Revenue from the sale of GPU products decreased due to a decrease in both GPU unit shipments and GPU average selling prices. GPU unit shipments decreased primarily due to decline in end-user demand. GPU average selling prices decreased due to competitive pricing pressure and a shift in our product mix to more value-priced GPU products. Revenue received in connection with the development and sale of game console systems that incorporate our graphics technology decreased primarily due to lower royalty revenue from the latest generation of game consoles.

Graphics operating income was $8 million in the third quarter of 2009 compared to operating income of $47 million in the third quarter of 2008. The decline in operating results was primarily due to the $79 million decrease in net revenue described above, partially offset by a $24 million decrease in cost of sales and a decrease of $7 million in research and development and $8 million in marketing, general and administrative expenses. Cost of sales decreased due to a shift in our product mix to more value priced products.

Graphics operating income was $8 million in the third quarter of 2009 compared to operating loss of $12 million in the second quarter of 2009. The improvement in operating results was primarily due to a $55 million increase in net revenue described above and a $10 million decrease in research and development expense, partially offset by a $45 million increase in cost of sales. Cost of sales increased due to higher unit shipments. Research and development expenses decreased for the reasons set forth under Expenses below.

Graphics operating loss was $3 million in the first nine months of 2009 compared to operating income of $22 million in the first nine months of 2008. The decline in operating results was primarily due to a $116 million decrease in net revenue described above, partially offset by a $68 million decrease in cost of sales and a $26 million decrease in marketing, general and administrative expense. Cost of sales decreased due to lower GPU shipments. Marketing, general and administrative expenses decreased primarily due to the effect of our cost reduction initiatives.

Foundry

Foundry net revenue was $256 million in the third quarter of 2009. Prior to the first quarter of 2009, we did not have a Foundry segment and, therefore, the results of operations for the third quarter of 2009 for the Foundry segment are not comparable to the third quarter of 2008.

Foundry net revenue of $256 million in the third quarter of 2009 slightly increased as compared to $253 million in the second quarter of 2009 due to increased shipments offset by lower wafer cost.

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Foundry net revenue was $792 million in the first nine months of 2009. Prior to the first quarter of 2009, we did not have a Foundry segment and, therefore, the results of operations for the first nine months of 2009 for the Foundry segment are not comparable to the first nine months of 2008.

Foundry operating loss was $101 million in the third quarter of 2009. Prior to the first quarter of 2009, we did not have a Foundry segment and, therefore, the results of operations for the third quarter of 2009 for the Foundry segment are not comparable to the third quarter of 2008.

Foundry operating loss was $101 million in the third quarter of 2009 was flat compared to an operating loss of $101 million in the second quarter of 2009. Cost of sales decreased by $14 million, which was offset by an increase of $16 million in research and development expense. Research and development expenses increased for the reasons set forth under Expenses below.

Foundry operating loss was $334 million in the first nine months of 2009. Prior to the first quarter of 2009, we did not have a Foundry segment and, therefore, the results of operations for the first nine months of 2009 for the Foundry segment are not comparable to the first nine months of 2008.

All Other Category

All Other net revenue, which consisted of sales of products included in our Handheld business unit, was $21 million in the third quarter of 2009, which was flat compared to the third quarter of 2008.

All Other net revenue of $21 million in the third quarter of 2009 decreased 9 percent compared to $23 million in the second quarter of 2009. All Other net revenue decreased because we no longer develop new Handheld products, and we experienced reduced customer orders in the third quarter of 2009.

All Other net revenue of $61 million in the first nine months of 2009 decreased 6 percent compared to $65 million in the first nine months of 2008. All Other net revenue decreased because we no longer develop new Handheld products, and we experienced reduced customer orders in the first nine months of 2009.

All Other operating loss of $49 million in third quarter of 2009 decreased by $19 million compared to an operating loss of $68 million in the third quarter of 2008. The improvement in operating results was primarily attributable to a $13 million decrease in the amortization of acquired intangible assets due to the write-down of certain intangible assets in the fourth quarter of 2008 and a $5 million reduction in restructuring charges.

All Other operating loss of $49 million in the third quarter of 2009 increased $8 million compared to an operating loss of $41 million in the second quarter of 2009. The increase in operating loss was primarily attributable to a $3 million increase in restructuring charges.

All Other operating loss of $214 million in the first nine months of 2009 decreased by $459 million compared to an operating loss of $673 million in the first nine months of 2008. The improvement in operating results was primarily attributable to the absence of any impairment charges or charges related to the write-down of assets during the period. During the second quarter of 2008, we had a $403 million impairment charge, which included a goodwill write-down of $336 million, and a write-down of specific intangible assets of $67 million. There were no corresponding charges in the first nine months of 2009.

Intersegment Eliminations Category

Intersegment eliminations represent eliminations during consolidation in revenue and in cost of sales and profits on inventory between the Computing Solutions segment and the Foundry segment. For the quarters ended September 26, 2009 and June 27, 2009 and the nine months ended September 26, 2009, intersegment eliminations of revenue were $256 million, $253 million and $792 million. For the quarters ended September 26, 2009 and June 27, 2009 and the nine months ended September 26, 2009, intersegment eliminations of cost of sales and profits on inventory were $245 million, $230 million and $750 million.

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

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

	Quarter Ended			Nine Months Ended	
	September 26, 2009	June 27, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	(In millions except for percentages)				
Cost of sales	$ 811	$ 743	$ 881	$ 2,220	$ 2,598
Gross margin	585	441	916	1,537	2,048
Gross margin percentage	42%	37%	51%	41%	44%
Research and development	$ 420	$ 425	$ 438	$ 1,289	$ 1,383
Marketing, general and administrative	221	247	315	755	987
Amortization of acquired intangible assets	17	17	30	52	107
Impairment of goodwill and acquired intangible assets			2		405
Restructuring charges	4	1	9	65	40
Interest income	4	6	7	13	32
Interest expense	(114)	(108)	(94)	(319)	(296)
Other income (expense), net	47	6	(13)	147	(48)
Income tax provision (benefit)	$ (5)	$ (10)	$ (1)	$ 101	$ (1)

Gross Margin

Gross margin as a percentage of net revenue declined 9 percentage points from 51 percent in the third quarter of 2008 to 42 percent in the third quarter of 2009. However, during the fourth quarter of 2008, we recorded a $227 million incremental write-down of inventory due to weak economic conditions. A portion of this inventory was sold during the third quarter of 2009, which benefited third quarter 2009 gross margin by $9 million, or 1 percentage point. We expect that in the future we will have minimal sales of remaining written-down inventory. Therefore, we do not expect that future sales related to this inventory will have a significant impact on gross margin. Gross margin in the third quarter of 2008 was favorably impacted by 6 percentage points as a result of the $191 million of process technology license revenue. The decline in gross margin was due primarily to a decline in average selling prices. Overall average selling prices declined due to a decrease in average selling prices of microprocessors for notebooks and GPU products due to a shift in our product mix to more value-priced products. Gross margin was also negatively impacted by the underutilization of GF s manufacturing assets, as wafer volumes declined.

Gross margin as a percentage of net revenue was 42 percent for the third quarter of 2009, a 5 percentage point increase compared to 37 percent in the second quarter of 2009. As described above, gross margin in the third quarter of 2009 included a $9 million, or 1 percentage point, benefit related to the sale of inventory that had been written-down in the fourth quarter of 2008. A portion of this inventory was also sold in the second quarter of 2009, which benefited gross margin in the second quarter of 2009 by $98 million, or approximately 8 percentage points. The increase in gross margin was primarily due to an improvement in our unit costs. Our unit costs improved due to an increase in microprocessor unit shipments using our 45-nanometer technology. Gross margin was also favorably impacted by the improvement in the utilization of GF s manufacturing assets in the third quarter of 2009 as wafer volumes increased.

Gross margin as a percentage of net revenue was 41 percent for the first nine months of 2009, a 3 percentage point decrease compared to 44 percent in the first nine months of 2008. Gross margin in the first nine months of 2009 included a $171 million benefit related to the sale of inventory that had been written-down in the fourth quarter of 2008, which benefited gross margin by 5 percentage points. Gross margin in the first nine months of 2008 was favorably impacted by 2 percentage points as a result of the $191 million of process technology license revenue. Gross margin in the first nine months of 2009 was adversely impacted by the significant decline in average selling prices. Average selling prices declined due to a decrease in average selling prices of microprocessors for notebooks and GPU products due to a shift in product mix to more value-priced products. Gross margin for the first nine months of 2009 was also negatively impacted by the underutilization of GF s manufacturing assets as wafer volumes declined.

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Expenses

Research and Development Expenses

Research and development expenses decreased $18 million, or 4 percent, from $438 million in the third quarter of 2008 to $420 million in third quarter of 2009. This decrease was primarily due to a $36 million decrease in product engineering and design costs, resulting from our cost reduction initiatives. In addition, product engineering and design costs attributable to the Handheld business unit decreased because we no longer develop new Handheld products. This decrease was partially offset by an $18 million increase in manufacturing process technology expense.

Research and development expenses decreased $5 million, or 1 percent, from $425 million in the second quarter of 2009 to $420 million in the third quarter of 2009. This decrease was primarily due to a $19 million decrease in product engineering and design costs for our Computing Solutions segment and Graphics segment. This decrease was partially offset by a $16 million increase in manufacturing process technology expense for our Foundry segment primarily in the development of bulk technology.

Research and development expenses decreased $94 million, or 7 percent, from $1,383 million in the first nine months of 2008 to $1,289 million in the first nine months of 2009. This decrease was primarily due to a $149 million decrease in product engineering and design costs, which reflected our efforts to reduce operating expenses and lower product engineering and design costs attributable to the Handheld business unit, partially offset by a $33 million increase in manufacturing process technology expenses.

From time to time, GF applies for subsidies relating to certain research and development projects. These research and development subsidies are recorded as a reduction of research and development expenses when all conditions and requirements set forth in the subsidy allowance are met. The credit to research and development expenses was $12 million in the second quarter of 2009 $11 million in the third quarter of 2009, and $13 million in the third quarter of 2008. The credit to research and development expenses totaled $36 million in the first nine months of 2009 and $29 million in the first nine months of 2008.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses decreased $94 million, or 30 percent, from $315 million in the third quarter of 2008 to $221 million in the third quarter of 2009. This decrease was primarily due to a $70 million decrease in cooperative advertising costs and a $24 million decrease in corporate sales and marketing expenses. The decrease in cooperative advertising costs and corporate sales and marketing expenses was primarily due to a decrease in sales and the effect of our cost reduction initiatives.

Marketing, general and administrative expenses decreased $26 million, or 11 percent, from $247 million in the second quarter of 2009 to $221 million in the third quarter of 2009. This decrease was primarily due to a $15 million decrease in cooperative advertising costs for our Computing Solution segment and a $15 million decrease in other administrative expenses. Marketing, general and administrative expenses for our Graphics segment and Foundry segment were relatively flat.

Marketing, general and administrative expenses decreased $232 million or 24 percent, from $987 million in the first nine months of 2008 to $755 million in the first nine months of 2009. This decrease was primarily due to a $187 million decrease in cooperative advertising costs and an $85 million decrease in corporate sales and marketing expenses. These decreases, which were the result of the decrease in sales and our efforts to reduce operating expenses, were partially offset by $21 million of expenses in connection with the formation of GF and an increase in other administrative expenses of $18 million.

Amortization of Acquired Intangible Assets, and Impairment of Goodwill and Acquired Intangible Assets

Amortization of acquired intangible assets decreased $13 million, or 43 percent, from $30 million in the third quarter of 2008 to $17 million in the third quarter of 2009. This decrease in amortization of acquired intangible assets was primarily due to the write-down of certain acquired intangible assets as a result of the impairment analysis conducted in the fourth quarter of 2008. Impairment charges on goodwill and acquired intangible assets related to our Handheld business unit were $2 million in the third quarter of 2008. No impairment charges were recorded in the third quarter of 2009.

Amortization of acquired intangible assets of $17 million in the third quarter of 2009 was flat compared to $17 million in the second quarter of 2009.

Amortization of acquired intangible assets decreased $55 million, or 51 percent, from $107 million in the first nine months of 2008 to $52 million in the first nine months of 2009. This decrease in amortization of acquired intangible assets was primarily due to the write-down of certain acquired intangible assets as a result of the impairment analysis conducted in the fourth quarter of 2008. Impairment charges on goodwill and acquired intangible assets related to Handheld business unit were $405 million in the first nine months of 2008. No impairment charges were recorded in the first nine months of 2009.

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In the fourth quarter of 2009, pursuant to our accounting policy, we will perform an annual impairment test of goodwill. At this time we are not able to determine if the impairment test will result in any impairment charges. To the extent the impairment analysis does result in impairment charges, such charges could be material.

Effects of Restructuring Plans

In the second and fourth quarters of 2008, we initiated restructuring plans to reduce our cost structure. Both plans primarily involved the termination of employees.

The restructuring charges recorded in conjunction with the plan initiated during the second quarter of 2008 primarily represented severance and costs related to the continuation of certain employee benefits and costs to terminate a contract. This plan was completed during the third quarter of 2009 and as a result we reversed approximately $3 million of restructuring charges.

The restructuring charges recorded in conjunction with the plan initiated during the fourth quarter of 2008 primarily represented severance and costs related to the continuation of certain employee benefits, contract or program termination costs, asset impairments and exit costs for facility consolidations and closures. In the third quarter of 2009, we recorded restructuring charges related to this plan of approximately $7 million. We anticipate that this plan will be substantially completed during 2009 and that the restructuring charges relating to this plan to be recorded in the remainder of 2009 will be minimal.

Restructuring charges for the plans initiated in the second and fourth quarters of 2008 have been aggregated and are included in the caption Restructuring charges in our condensed consolidated statement of operations, with the exception of $1 million in 2008, which is classified as discontinued operations.

The following table provides a summary of each major type of cost associated with the restructuring plan initiated in the fourth quarter of 2008 through September 26, 2009:

	December 27, 2008	March 28, 2009	June 27, 2009	September 26, 2009	Total
			(In millions)		
Severance and benefits	$ 22	$ 25	$	$ 1	$ 48
Contract or program terminations	4	13			17
Asset impairments	18	10			28
Facility consolidations and closures	6	7	1	6	20
Total	$ 50	$ 55	$ 1	$ 7	$ 113

The following table provides a roll forward of the liability associated with the restructuring plan initiated in the fourth quarter 2008:

	Severance and related benefits	Other exit-related costs
	(in millions)	
Balance December 27, 2008	$ 14	$ 9
Charges	28	35
Cash payments	(36)	(21)
Non-cash charges		(2)
Balance September 26, 2009	$ 6	$ 21

In December 2002, we initiated a restructuring plan (the 2002 Restructuring Plan) to align the cost structure to industry conditions resulting from weak customer demand and industry-wide excess inventory. The 2002 Restructuring Plan resulted in the consolidation of facilities, primarily at the Sunnyvale, California site and at sales offices worldwide. With respect to our Sunnyvale, California site, we entered into a sublease agreement for a portion of these facilities with Spansion Inc. On March 1, 2009, Spansion filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On March 31, 2009, Spansion filed a motion in that proceeding in which it indicated that it does not

intend to perform its obligations under its sublease agreement with us. As a result of this and our ongoing assessment of the restructuring accrual, we recorded an additional charge of approximately $5 million in the first quarter of 2009, which is included in the caption Restructuring charges in our condensed consolidated statement of operations. We anticipate these amounts will be paid through 2011.

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The following table provides a roll forward of the liability associated with the 2002 Restructuring Plan:

	Other exit-related costs (In millions)
Balance December 27, 2008	$ 32
Charges	5
Cash payments	(13)
Balance September 26, 2009	$ 24

Interest Income

Interest income of $4 million in the third quarter of 2009 decreased from $7 million in the third quarter of 2008 primarily due to lower weighted-average interest rates, partially offset by higher average cash balances.

Interest income of $4 million in the third quarter of 2009 decreased from $6 million in the second quarter of 2009 primarily due to lower weighted-average interest rates.

Interest income of $13 million in the first nine months of 2009 decreased from $32 million in the first nine months of 2008 primarily due to lower weighted-average interest rates.

Interest Expense

Interest expense of $114 million in the third quarter of 2009 increased from $94 million in the third quarter of 2008 primarily due to an additional $30 million in interest expense incurred by GF on its Class A Notes and Class B Notes which were issued to ATIC on March 2, 2009. This increase was partially offset by a decrease of $10 million of interest expense due to the lower principal amount outstanding under our 6.00% Convertible Senior Notes due 2015 (6.00% Notes) and the Fab 36 Term Loan in the third quarter of 2009 compared to the third quarter of 2008.

Interest expense of $114 million in the third quarter of 2009 increased from $108 million in the second quarter of 2009 primarily because GF incurred $5 million in incremental interest expense on its Class A Notes and Class B Notes during the third quarter of 2009 compared to the second quarter of 2009. This increase was due to the additional funding from ATIC of $260 million in exchange for Class A Notes and Class B Notes in July 2009.

Interest expense of $319 million for the first nine months of 2009 increased from $296 million for the first nine months of 2008 primarily due to an additional $62 million in interest expense incurred by GF on its Class A Notes and Class B Notes, which were issued to ATIC in connection with the GF transaction. This increase was partially offset by $35 million decreased interest expense due to lower principal amount outstanding on our Fab 36 Term Loan, 6.00% Notes and GF s redemption of Leipziger Messe s silent partnership contributions during the first quarter of 2009.

In May 2008, the FASB issued FSP APB No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1*)* now codified principally in Accounting Standards Codification Topic 470, *Debt* (ASC 470). This new guidance requires the issuer of certain convertible debt instruments that may be settled in cash or other assets on conversion to separately account for the liability, or debt, and equity, or conversion option, components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. In the first quarter of 2009, we adopted this accounting change and modified the accounting for our 6.00% Notes. To retrospectively apply this new guidance, we allocated the proceeds from the issuance of our 6.00% Notes between the liability (issued at a discount) and equity components in a manner that reflects an interest expense based on the market interest rate for similar nonconvertible debt as of the original issuance date of the 6.00% Notes. We accreted the debt discount from the original issuance date of the 6.00% Notes through April 2015, the period that we expect the 6.00% Notes to be outstanding, and recorded it as additional non-cash interest expense. The additional non-cash interest expense included in each of the third quarter of 2009 and the second quarter of 2009 was $6 million. The additional non-cash interest expense included in the third quarter of 2008 was $7 million. The additional non-cash interest expense included in the first nine months of 2009 and the first nine months of 2008 was $18 million and $19 million, respectively.

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Other Income/Expense, Net

Other income, net in the third quarter of 2009, was $47 million compared to other expense, net of $13 million in the third quarter of 2008. In the third quarter of 2009, we repurchased an aggregate of $186 million principal amount of our 6% Convertible Senior Notes due 2015 (6.00% Notes) for approximately $104 million in cash, resulting in a gain of approximately $66 million. This gain was partially offset by a $15 million foreign exchange loss due to the unfavorable foreign exchange impact primarily on the Euro denominated liabilities for our Foundry segment. In the third quarter of 2008, we recorded a $9 million other than temporary impairment charge related to our investment in Spansion Inc.

Other income, net of $47 million in the third quarter of 2009 increased from $6 million in the second quarter of 2009. In the third quarter of 2009, we repurchased an aggregate of $186 million principal amount of our 6% Notes for approximately $104 million in cash, resulting in a gain of approximately $66 million. This gain was partially offset by a $15 million foreign exchange loss due to the unfavorable foreign exchange impact primarily on the Euro denominated liabilities for our Foundry segment. In the second quarter of 2009, we recognized a gain of $15 million in connection with the settlement of a liability related to certain foreign currency exchange contracts. In addition, we repurchased an aggregate of $15 million principal amount of our 5.75% Convertible Senior Notes due 2012 (5.75% Notes) for approximately $9 million in cash, resulting in a gain of approximately $6 million. These gains were partially offset by a $10 million foreign exchange loss due to the unfavorable foreign exchange impact primarily on the Euro denominated liabilities for our Foundry segment.

Other income, net in the first nine months of 2009, was $147 million compared to other expense, net of $48 million in the first nine months of 2008. In the first nine months of 2009, we repurchased $344 million principal amount of our 6.00% Notes for approximately $161 million in cash, resulting in a gain of approximately $174 million, and we repurchased $15 million principal amount of our 5.75% Notes for approximately $9 million in cash, resulting in a gain of approximately $6 million. In addition, we recognized a gain of $15 million on settlement of a liability related to certain foreign currency exchange contracts and a gain of $28 million on the sale of certain Handheld assets. These gains were partially offset by a $17 million charge for real estate transfer taxes in connection with the GF manufacturing joint venture transaction, a $10 million charge related to the AMTC joint venture (described in more detail in the section Off Balance Sheet Arrangements, below) and a $35 million foreign exchange loss due to the unfavorable foreign exchange impact primarily on the Euro denominated liabilities for our Foundry segment. In the first nine months of 2008, we recorded a $33 million other than temporary impairment charge related to our investment in Spansion Inc., and a $12 million other than temporary impairment charge related to our portfolio of ARS.

Income Taxes

We recorded an income tax benefit of $5 million in the third quarter of 2009 and an income tax benefit of $1 million in the third quarter of 2008. For the nine months ended September 26, 2009, we recorded an income tax provision of $101 million. For the nine months ended September 27, 2008, we recorded an income tax benefit of $1 million.

The income tax benefit of $5 million for the third quarter of 2009 consisted of foreign taxes in profitable locations of $20 million, offset by discrete tax benefits of $18 million and the tax effects of items credited directly to other comprehensive income (OCI) of $7 million. Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided in ASC 740-20-45-7 when there is a pre-tax loss from continuing operations and there are items charged or credited to other categories, including OCI, in the current year. The intra-period tax allocation rules related to items charged or credited directly to OCI can result in disproportionate tax effects that remain in OCI until certain events occur. As a result of items credited directly to OCI during the quarter, due principally to the effects of our foreign currency hedging program, approximately $7 million of tax provision benefit was allocated to the third quarter income tax provision. The income tax provision of $101 million recorded in the first nine months of 2009 was primarily due to a one-time loss of deferred tax assets for German net operating loss carryovers upon the transfer of our ownership interests in its Dresden Subsidiaries to GF and foreign taxes in profitable locations, offset by discrete tax benefits including the tax effects of items credited directly to OCI. The income tax benefit of $1 million for both the third quarter and first nine months of 2008 was due to foreign taxes in profitable locations offset by discrete tax benefits including the monetization of the U.S. research and development credits pursuant to the Housing and Economic Recovery Act of 2008 and a refund of withholding taxes.

As of September 26, 2009, substantially all of our U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which at September 26, 2009, in management s estimate, is not more likely than not to be achieved.

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Stock-Based Compensation

The following table summarizes stock-based compensation expense related to employee stock options, restricted stock and restricted stock units for the quarter ended June 27, 2009 and the quarters and nine months ended September 26, 2009 and September 27, 2008, which we allocated in the condensed consolidated statements of operations as follows:

	Quarter Ended			Nine Months Ended	
	September 26, 2009	June 27, 2009	September 27, 2008	September 26, 2009	September 27, 2008
			(In millions)		
Cost of sales	$ 1	$ 1	$ 2	$ 3	$ 8
Research and development	10	10	10	29	34
Marketing, general, and administrative	7	7	7	25	15
Total stock-based compensation expense	18	18	19	57	57
Tax benefit					
Stock-based compensation expense, net of tax	$ 18	$ 18	$ 19	$ 57	$ 57

We did not have employee stock-based compensation expense for discontinued operations for the quarter and nine months ended September 26, 2009. For the quarter and nine months ended September 27, 2008, employee stock-based compensation expense included in discontinued operations and excluded from continuing operations was $1 million and $2 million, respectively.

Stock-based compensation expenses of $18 million in the third quarter of 2009 were flat as compared to the third quarter of 2008 and second quarter of 2009.

Stock-based compensation expenses of $57 million in the first nine months of 2009 were flat compared to the first nine months of 2008. The charges associated with the accelerated vesting of stock awards upon the retirement of an executive in the first nine months of 2009 were substantially offset by a decrease in overall stock-based compensation expense in the first nine months of 2009 as compared to the first nine months of 2008. This decrease was primarily as a result of: (i) a cumulative adjustment of expenses to reflect the effect of applying a higher forfeiture rate retrospectively in the first nine months of 2009, (ii) lower average grant date fair value in the first nine months of 2009 as compared to the first nine months of 2008 and (iii) the forfeiture of certain stock option and RSU grants from employees transferring to GF following the Closing of the GF manufacturing joint venture transaction.

In addition, on June 29, 2009, we launched a tender offer to exchange certain outstanding stock options with an exercise price greater than $6.34 per share, a grant date on or before June 28, 2008 and an expiration date after July 27, 2010, held by eligible employees for replacement options to be granted under our 2004 Equity Incentive Plan (the Option Exchange). The Option Exchange expired on July 27, 2009. As a result, employees tendered options to purchase 14.6 million shares of common stock (representing 67% of the total options eligible for exchange) with a weighted-average exercise price of $14.70 per share, and we cancelled and replaced those options on July 27, 2009 with options to purchase 4 million shares of common stock with an exercise price of $3.80 per share, which was the closing price of our common stock on the New York Stock Exchange on July 27, 2009. The Option Exchange resulted in an incremental stock-based compensation charge of approximately $1 million. This incremental charge along with unamortized stock-based compensation expenses associated with the cancelled options are being recognized over the new vesting periods of the replacement options which range from one to two years.

International Sales

International sales as a percentage of net revenue were 86 percent in the third quarter of 2009, 89 percent in the third quarter of 2008 and 87 percent in the second quarter of 2009. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future. Substantially all of our sales transactions were denominated in U.S. dollars.

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Disposition of Assets

In the first quarter of 2009, we completed the sale of certain graphics and multimedia technology assets and intellectual property that were formerly part of our Handheld business unit to Qualcomm Incorporated for approximately $65 million in cash. In addition, certain employees of the Handheld business were transferred to Qualcomm. The assets we sold to Qualcomm had a carrying value of approximately $32 million and were classified as assets held for sale and included in the caption Prepaid expenses and other current assets in our 2008 consolidated balance sheet. As a result of the consummation of the sale transaction, we recognized a gain of $28 million. As part of our agreement with Qualcomm, we retained the AMD Imageon media processor brand and the rights to continue selling the products that were part of the Handheld business unit. We intend to support existing handheld products and customers through the current product lifecycles. However, we currently do not intend to develop any new handheld products beyond those already committed.

FINANCIAL CONDITION

Our cash, cash equivalents and marketable securities at September 26, 2009 totaled $2.5 billion, and our debt and capital lease obligations totaled $5.7 billion. Of the $2.5 billion cash, cash equivalents and marketable securities, $975 million constituted GF cash and cash equivalents. Of the $5.7 billion debt and capital lease obligations, GF is obligated to repay $2 billion.

Operating Activities

Net cash used in operating activities was $677 million in the first nine months of 2009. Net loss of $884 million was adjusted for non-cash charges consisting primarily of $844 million of depreciation and amortization expense, $82 million of interest expense primarily related to GF s Class A Notes and Class B Notes, $57 million of stock-based compensation expense, and $12 million net loss from the sale and disposal of property, plant and equipment. These charges were offset by a net gain of $180 million related to our repurchase of an aggregate of $344 million principal amount of our 6.00% Notes for $161 million in cash and $15 million principal amount of our 5.75% Notes for $9 million in cash, amortization of foreign grants and subsidies of $78 million and a gain of $28 million from the sale of certain Handheld assets. The net changes in operating assets at September 26, 2009 compared to December 27, 2008 included an increase in accounts receivable of $611 million. The increase included the non-cash impact of our financing arrangement with IBM Credit LLC and IBM United Kingdom Financial Services Ltd. Under this arrangement, we sold to the IBM parties certain accounts receivable of our distributor customers. Because we do not recognize revenue until the distributors sell our products to their customers, we classify the funds that we receive from the IBM parties as debt. IBM s collections of these accounts receivable from our customers reduced our reported accounts receivable but did not affect cash flows from operations. During the nine months ended September 26, 2009, IBM collected approximately $361 million in transferred accounts receivable. Therefore, after considering IBM s collections of transferred receivables, the increase in accounts receivable was $250 million. This increase was primarily due to timing of sales and collections within the first nine months of 2009. There was also a decrease in accounts payable and accrued liabilities of $142 million, primarily due to lower purchases reflecting the effect of our cost cutting efforts and timing of the payment.

Net cash used in operating activities was $442 million in the first nine months of 2008. Non-cash charges included in our net loss of $1.7 billion consisted primarily of $1 billion of goodwill and acquisition-related intangible impairment charges attributable to discontinued operations, $920 million of depreciation and amortization expense, $62 million of stock-based compensation expense, $45 million of other-than-temporary impairment on our marketable securities and $29 million net loss from the sale and disposal of property, plant and equipment. These charges were offset by $193 million net gain on the sale of certain 200-millimeter wafer fabrication equipment and the amortization of foreign grants and subsidies of $72 million. The net changes in operating assets for the first nine months of 2008 included a decrease of $456 million in accounts payable and accrued liabilities primarily reflecting the effects of our cost cutting efforts, an increase of $76 million in accounts receivable primarily due to an increase in sales, a decrease of $56 million in prepaid and other assets primarily related to a decrease in receivables of foreign grants and subsidies and an increase of $43 million in inventories primarily for our chipset and graphics products.

Investing Activities

Net cash used in investing activities was $716 million in the first nine months of 2009 primarily as a result of a net cash outflow of $486 million for the purchase of available-for-sale securities and $293 million used to purchase property, plant and equipment, of which $242 million related to property, plant and equipment attributable to the Foundry segment. This was partially offset by $58 million of proceeds from sale of certain Handheld assets.

Net cash used in investing activities was $78 million in the first nine months of 2008, primarily as a result of $511 million of cash used to purchase property, plant and equipment and payments of $95 million in connection with the exercise of our call option to repurchase the limited partnership interest in AMD Fab 36 KG held by one of the unaffiliated partners, Fab 36 Beteiligungs GmbH & Co. KG. This was partially offset by $343 million of proceeds from the sale of property, plant and equipment, primarily the 200-millimeter wafer fabrication equipment, and $179

million in net proceeds from the sale and maturity of available-for-sale securities.

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Financing Activities

Net cash provided by financing activities was $2.3 billion in the first nine months of 2009 primarily as a result of proceeds of $2.3 billion from the issuance of GF s Class A Notes, Class B Notes, Class A Preferred Shares and Class B Preferred Shares, of which $1.6 billion constituted cash proceeds to GF, proceeds of $399 million from the sale of certain of our accounts receivable to the IBM parties pursuant to a Sale of Receivables Supplier Agreement, proceeds of $125 million from the sale of 58 million shares of AMD common stock and warrants to purchase 35 million shares of AMD common stock at an exercise price of $0.01 per share to WCH in connection with the closing of the GF manufacturing joint venture, and proceeds from grants and allowances from the Federal Republic of Germany and the State of Saxony of $40 million for GF s Dresden manufacturing facilities. These amounts were partially offset by payments to Leipziger Messe of $180 million to repurchase its partnership interests in AMD Fab 36 KG, $67 million related to the guaranteed rate of return on those partnership interests and $10 million related to a call option premium to Leipziger Messe for the early repurchase of its partnership interests. Net cash provided by financing activities was also partially offset by $359 million of payments on certain debt and cash obligations consisting of $161 million for the repurchase of $344 million principal amount of our 6.00% Notes and $9 million for the repurchase of $15 million principal amount of our 5.75% Notes.

Net cash provided by financing activities was $196 million in the first nine months of 2008, primarily due to proceeds of $182 million from the sale of certain of our accounts receivable to IBM Credit LLC pursuant to a Sale of Receivables Supplier Agreement and proceeds of grants and subsidies from the Federal Republic of Germany and the State of Saxony for the Fab 36 project of $114 million and for the Fab 38 project of $40 million, partially offset by payments of $98 million for debt and capital lease obligations, payments of $38 million in connection with the exercise of our call option to repurchase the silent partnership contributions in AMD Fab 36 KG held by Fab 36 Beteiligungs GmbH & Co. KG and payments of $19 million for the guaranteed return on the unaffiliated limited partners limited partnership contributions.

During the first nine months of 2009 and the first nine months of 2008, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any related financing cash flows.

Liquidity

Without taking into account GF s operations, we believe that current cash, cash equivalents and marketable securities balances at September 26, 2009, anticipated cash flow from operations and available external financing will be sufficient to fund operations and capital investments over the next twelve months. With respect to GF s operations, we believe that current cash and cash equivalents at September 26, 2009, anticipated cash flow from operations and financing from ATIC pursuant to the Funding Agreement will be sufficient to fund its operations and capital investment over the next twelve months. See also GLOBALFOUNDRIES Funding Agreement, above.

We anticipate that aggregate consolidated capital expenditures for the remainder of 2009 will be approximately $357 million, of which approximately $308 million relates to GF capital expenditures, including anticipated expenditures related to Fab1 Module 2 (formerly Fab 38) and the new wafer fabrication facility (Fab 2) in New York.

During the first nine months of 2009, our cash, cash equivalents and marketable securities balance increased from $1.1 billion to $2.5 billion primarily due to $2.1 billion received from ATIC and WCH by GF and us in connection with the consummation of the GF manufacturing joint venture transaction. In addition, pursuant to a funding request from GF in accordance with the Funding Agreement, ATIC contributed $260 million of cash to GF in exchange for GF securities consisting of $52 million aggregate principal amount of Class A Subordinated Convertible Notes and $208 million aggregate principal amount of Class B Subordinated Convertible Notes. We declined to participate in the requested funding. As a result, our economic ownership interest in GF (on a fully converted to common basis) decreased to approximately 32 percent. The increase in our cash, cash equivalents and marketable securities balance during the first nine months of 2009 was partially offset by $884 million in operating losses and $359 million for the repayment and repurchase of debt during the first nine months of 2009. Of the $2.5 billion, $975 million constituted GF cash and cash equivalents.

Without taking into account GF s operations, we believe that in the event additional funding is required, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, we cannot assure that such funding will be available on terms favorable to us or at all.

In the first nine months of 2009, we repurchased $344 million principal amount of our 6.00% Notes for $161 million and $15 million principal amount of our 5.75% notes for $9 million. We may make additional purchases of our 6.00% Notes, our 5.75% Notes and/or our 7.75% Notes in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so.

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Auction Rate Securities

The ongoing uncertainties in the credit markets continue to affect all of our auction rate securities (ARS) and auctions for these securities have failed to settle on their respective settlement dates. While these securities are currently illiquid, there have been no defaults and all interest has been received when due. We continue to classify the ARS purchased from UBS AG (UBS) as trading securities. These ARS had a fair value of $72 million at September 26, 2009. We recorded income of $9 million during the first nine months of 2009 to reflect the change in fair value of ARS that are classified as trading securities. We also recorded a loss of $9 million during the first nine months of 2009 to reflect the change in fair value of the put option we acquired from UBS in October 2008. We expect that while we hold ARS purchased from UBS and the related put option, any changes in fair value of the ARS will be substantially offset by changes in the fair value of the put option. We classified our remaining ARS as available-for-sale securities and as of September 26, 2009 we have recorded an unrealized gain of $8 million in other comprehensive income, a component of our stockholders equity.

With respect to $75 million (par value) of our ARS holdings purchased from UBS, prior to June 30, 2010, UBS, at its sole discretion, may sell, or otherwise dispose of, and/or enter orders in the auctions process with respect to these securities on our behalf so long as we receive par value for the ARS sold. UBS has also agreed to use its best efforts to facilitate issuer redemptions and/or to resolve the liquidity concerns of holders of their ARS through restructurings and other means.

As of September 26, 2009, we classified our investments in ARS as current assets because we have the intent to sell these securities and we reasonably expect that we will be able to sell these securities and have the proceeds available for use in our operations within the next twelve months. Although there may not be successful future auctions, we reasonably expect there to be other channels through which we may sell the ARS. Specific factors we considered in determining that our ARS should be classified as short-term marketable securities and included as current assets are as follows:

- We had redemptions, at par, totaling $39 million throughout the period of failed auctions, including $8 million in the third quarter.
- We are receiving above market rates of interest on the ARS without any default. We believe the issuers have an incentive to refinance because of higher interest rates compared with market rates demonstrated by redemptions we received throughout the period of failed auctions.
- In informal discussions with staff members at brokerage firms, we have been informed that brokerage firms continue in their efforts to create a new market for these securities by working with issuers to refinance the existing instruments into a new form of security or reducing the maturity to attract investors.

Because we have the intent to sell the ARS securities and we reasonably expect that we will be able to sell them, any additional decline in fair value would be considered other than temporary. If such decline exceeds the unrealized gain in other comprehensive income, we would record the excess as an impairment charge in our condensed consolidated statements of operations, which could materially adversely impact our results of operations.

Contractual Obligations

The following table summarizes our consolidated principal contractual cash obligations, including GF principal contractual cash obligations, at September 26, 2009, and is supplemented by the discussion following the table:

		Payment due by period					
	Total	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014 and beyond
				(In millions)			
5.75% Senior Notes due 2012	$ 1,485	$	$	$	$ 1,485	$	$
6.00% Senior Notes due 2015[1]	1,796						1,796
Fab 36 Term Loan	527	67	290	170			

7.75% Senior Notes Due 2012	390				390		
Other long-term liabilities	68		15	29	22	2	
Aggregate interest obligation[2]	967	59	231	224	192	108	153
Obligations under capital leases[3]	444	13	50	50	50	50	231
Operating leases	227	16	58	31	26	22	74
Unconditional purchase commitments[4]	2,238	580	332	214	218	225	669
Total contractual obligations[5]	$ 8,142	$ 735	$ 976	$ 718	$ 2,383	$ 407	$ 2,923

(1) Excludes the debt discount caused by the application of FSP APB 14-1 (now codified principally in ASC 470).

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(2) Represents estimated aggregate interest obligations, including GF s interest obligations, that are payable in cash on outstanding debt obligations, excluding capital lease obligations. Also excludes non-cash interest on 6.00% Notes caused by the application of FSP APB 14-1(now codified principally in ASC 470).

(3) Includes principal and imputed interest.

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

(5) The table above excludes the Class A Notes and the Class B Notes because these notes are convertible to either Class A or Class B Preferred shares, as applicable, and interest is payable in additional notes. There are no contractual cash obligations associated with these notes. Of the amounts set forth in the table above, GF s principal contractual cash obligations at September 26, 2009 were as follows:

		Payment due by period					
	Total	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014 and beyond
				(In millions)			
Fab 36 Term Loan	$ 527	$ 67	$ 290	$ 170	$	$	$
Other long-term liabilities	36		2	16	18		
Aggregate interest obligation	12	3	8	1			
Obligations under capital leases	404	11	45	45	45	45	213
Operating leases	9	1	3	2	2	1	
Unconditional purchase commitments	1,699	111	263	213	218	225	669
Total GF contractual obligations	$ 2,687	$ 193	$ 611	$ 447	$ 283	$ 271	$ 882

The following discussion is limited to our consolidated principal contractual cash obligations unless otherwise noted.

5.75% Convertible Senior Notes due 2012

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

The 5.75% Notes will be convertible, in whole or in part, at any time prior to the close of business on the business day immediately preceding the maturity date of the 5.75% Notes, into shares of our common stock based on an initial conversion rate of 49.6771 shares of common stock per $1,000 principal amount of the 5.75% Notes, which is equivalent to an initial conversion price of approximately $20.13 per share. This initial conversion price represents a premium of 50% relative to the last reported sale price of our common stock on August 8, 2007 (the trading date preceding the date of pricing of the 5.75% Notes) of $13.42 per share. This initial conversion rate will be adjusted for certain anti-dilution events. In addition, the conversion rate will be increased in the case of corporate events that constitute a fundamental change (as defined in the 5.75% Indenture) of AMD under certain circumstances. Holders of the 5.75% Notes may require us to repurchase the 5.75% Notes for cash equal to 100% of the principal amount to be repurchased plus accrued and unpaid interest upon the occurrence of a fundamental change (as defined in the 5.75% Indenture) or a termination of trading (as defined in the Indenture). Additionally, an event of default (as defined in the 5.75% Indenture) may result in the acceleration of the maturity of the 5.75% Notes.

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The 5.75% Notes rank equally in right of payment with our existing and future senior debt and senior in right of payment to all of our future subordinated debt. The 5.75% Notes rank junior in right of payment to all our existing and future senior secured debt to the extent of the collateral securing such debt and are structurally subordinated to all existing and future debt and liabilities of our subsidiaries.

The net proceeds from the offering, after deducting discounts, commissions and offering expenses payable by us, were approximately $1.5 billion. We used all of the net proceeds, together with available cash, to repay in full the remaining outstanding balance of the Credit Agreement with Morgan Stanley Senior Funding, Inc. dated October 24, 2006 (October 2006 Term Loan). All security interests under the October 2006 Term Loan were released. In connection with this repayment, we recorded a charge of approximately $17 million to write off the remaining unamortized debt issuance costs associated with the October 2006 Term Loan.

In the second quarter of 2009, we repurchased $15 million principal amount of our 5.75% Notes in open market transactions for $9 million.

We may elect to purchase or otherwise retire our 5.75% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations.

6.00% Convertible Senior Notes due 2015

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

Upon the occurrence of certain events described in the 6.00% Indenture, the 6.00% Notes will be convertible into cash up to the principal amount, and if applicable, into shares of our common stock issuable upon conversion of the 6.00% Notes (the 6.00% Conversion Shares) in respect of any conversion value above the principal amount, based on an initial conversion rate of 35.6125 shares of common stock per $1,000 principal amount of 6.00% Notes, which is equivalent to an initial conversion price of $28.08 per share. This initial conversion price represents a premium of 100% relative to the last reported sale price of our common stock on April 23, 2007 (the trading date preceding the date of pricing of the 6.00% Notes) of $14.04 per share. The conversion rate will be adjusted for certain anti-dilution events. In addition, the conversion rate will be increased in the case of corporate events that constitute a fundamental change (as defined in the 6.00% Indenture) under certain circumstances. Holders of the 6.00% Notes may require us to repurchase the 6.00% Notes for cash equal to 100% of the principal amount to be repurchased plus accrued and unpaid interest upon the occurrence of a fundamental change or a termination of trading (as defined in the 6.00% Indenture). Additionally, an event of default (as defined in the 6.00% Indenture) may result in the acceleration of the maturity of the 6.00% Notes.

The 6.00% Notes rank equally with our existing and future senior debt and are senior to all of our future subordinated debt. The 6.00% Notes rank junior to all of our existing and future senior secured debt to the extent of the collateral securing such debt and are structurally subordinated to all existing and future debt and liabilities of our subsidiaries.

In connection with the issuance of the 6.00% Notes, on April 24, 2007, we purchased a capped call with Lehman Brothers OTC Derivatives Inc., or Lehman Brother Derivatives, represented by Lehman Brothers Inc. The capped call had an initial strike price of $28.08 per share, subject to certain adjustments, which matches the initial conversion price of the 6.00% Notes, and a cap price of $42.12 per share. The capped call was intended to reduce the potential common stock dilution to then existing stockholders upon conversion of the 6.00% Notes because the call option allowed us to receive shares of common stock from the counterparty generally equal to the number of shares of common stock issuable upon conversion of the 6.00% Notes.

Lehman Brothers Derivatives filed a voluntary chapter 11 bankruptcy petition on October 4, 2008, which was an event of default under the capped call arrangement, giving us the immediate right to terminate the transaction and entitling us to claim reimbursement for the loss in terminating and closing out the capped call transaction. On December 15, 2008, we delivered a notice of termination to Lehman Brothers Derivatives of the capped call transaction. The Lehman Brothers Derivatives bankruptcy proceedings are ongoing and our ability to reduce the potential dilution upon conversion of the 6.00% Notes through the capped call transaction has effectively been eliminated. As a result of the uncertain recoverability of this counterparty exposure, we are unable to predict whether, and to what extent, we may be able to recover any of our losses under the capped call transaction.

The net proceeds from the offering, after deducting discounts, commissions and offering expenses payable by us, were approximately $2.2 billion. We used approximately $182 million of the net proceeds to purchase the capped call and applied $500 million of the net proceeds to

prepay a portion of the amount outstanding under our October 2006 Term Loan. In connection with this repayment, we recorded a charge of approximately $5 million to write off unamortized debt issuance costs associated with the October 2006 Term Loan repayment.

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In November 2008, we repurchased $60 million in principal amount of our 6.00% Notes in open market transactions for $21 million. In February 2009, we repurchased $158 million in principal amount of our 6.00% Notes in open market transactions for $57 million. In the third quarter of 2009, we repurchased $186 million in principal amount of our 6.00% Notes in open market transactions for $104 million.

We may elect to purchase or otherwise retire our 6.00% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations.

Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements

On April 21, 2004, AMD Fab 36 Limited Liability Company & Co. KG (AMD Fab 36 KG), the legal entity that owns the 300-millimeter wafer fabrication facility currently known as Fab 1 Module 1, entered into a 700 million euro Term Loan Facility Agreement among AMD Fab 36 KG, as borrower, and a consortium of banks led by Dresdner Bank AG, as lenders, (Fab 36 Term Loan) and other related agreements (collectively, the Fab 36 Loan Agreements) to finance the purchase of equipment and tools required to operate Fab 36. The consortium of banks agreed to make available up to $893 million in loans to AMD Fab 36 KG upon its achievement of specified milestones, including attainment of technical completion at Fab 36, which required certification by the banks technical advisor that AMD Fab 36 KG had a wafer fabrication process suitable for high-volume production of advanced microprocessors, had achieved specified levels of average wafer starts per week and average wafer yields, and had completed capital expenditures of approximately $1.5 billion. AMD Fab 36 KG pledged substantially all of its current and future assets as security under the Fab 36 Loan Agreements.

In October 2006, AMD Fab 36 KG borrowed $645 million under the Fab 36 Term Loan (the First Installment). In December 2006, AMD Fab 36 KG borrowed $248 million under the Fab 36 Term Loan (the Second Installment). AMD Fab 36 KG may select an interest period of one, two, or three months or any other period agreed between AMD Fab 36 KG and the lenders. The rate of interest on each installment for the interest period selected is the percentage rate per annum which is the aggregate of the applicable margin, plus LIBOR plus minimum reserve cost if any. As of September 26, 2009, the rate of interest for the initial interest period was 3.0975 percent. An aggregate of $367 million has been repaid as of September 26, 2009. As of September 26, 2009, AMD Fab 36 KG had borrowed the full amount available under the Fab 36 Term Loan and the total amount outstanding under the Fab 36 Term Loan was $527 million. This loan is repayable in quarterly installments, which commenced in September 2007 and terminates in March 2011.

In connection with the Closing of the GF manufacturing joint venture transaction, the terms of the Fab 36 Loan Agreements were amended to allow for the transfer of Fab 36, AMD Fab 36 KG and its affiliated limited partners and general partner, AMD Fab 36 Holding GmbH, AMD Fab 36 Admin GmbH and AMD Fab 36 LLC, to GF. In addition, we also amended the terms of the related Guarantee Agreement. Pursuant to the Guarantee Agreement, we and GF are joint guarantors of AMD Fab 36 KG s obligations to the lenders under the Fab 36 Loan Agreements. However, if we are called upon to make any payments under the Guarantee Agreement, GF has separately agreed to indemnify us for the full amount of such payments. We must continue to comply with the covenants set forth in the Guarantee Agreement, including specified adjusted tangible net worth and EBITDA financial covenants, if group consolidated cash declines below the following amounts:

	if Moody s	**if Standard & Poor s**	
Amount (in millions)	**Rating is at least**	**Rating is at least**	
$500	B1 or lower	and	B+ or lower
425	Ba3	and	BB-
400	Ba2	and	BB
350	Ba1	and	BB+
300	Baa3 or better	and	BBB-or better

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Pursuant to the Fab 36 Term Loan and the Guarantee Agreement, for as long as we consolidate the operations of GF for financial reporting purposes, any group consolidated cash requirements will be considered on a consolidated basis, including both our and GF s cash, cash equivalents and short-term investments. As of September 26, 2009, group consolidated cash was greater than $500 million and, therefore, the preceding financial covenants were not applicable.

If group consolidated cash declines below the amounts set forth above, we would be required to maintain adjusted tangible net worth, determined as of the last day of each preceding fiscal quarter, of not less than the amounts set forth below:

Measurement Date on fiscal quarter ending	Amount (In millions)
December 2005	$ 1,500
March 2006 and on the last day of each fiscal quarter thereafter	$ 1,750

In addition, if group consolidated cash declines below the amounts set forth above, we would be required to maintain EBITDA (as defined in the Fab 36 Term Loan) as of the last day of each preceding fiscal period set forth below in an amount not less than the amount set forth below opposite the date of such preceding fiscal period:

Period	Amount (In millions)
For the four consecutive fiscal quarters ending December 2005 and for the four fiscal quarters ending on each fiscal quarter thereafter	$850 and $750 on an annualized basis for the two most recent fiscal quarters ending prior to December 31, 2006

The amended and restated Fab 36 Term Loan also sets forth certain covenants applicable to AMD Fab 36 KG. For example, for as long as group consolidated cash is at least $1 billion, our credit rating is at least B3 by Moody s and B- by Standard & Poor s, and no event of default has occurred, the only financial covenant that AMD Fab 36 KG is required to comply with is a loan to fixed asset value covenant. Specifically, the loan to fixed asset value (as defined in the agreement) as at the end of any relevant period specified in Column A below cannot exceed the percentage set out opposite such relevant period in Column B below:

Column A (Relevant Period)	Column B (Maximum Percentage of Loan to Fixed Asset Value)
up to and including 31 December 2008	50 percent
up to and including 31 December 2009	45 percent
thereafter	40 percent

As of September 26, 2009, AMD Fab 36 KG was in compliance with this covenant.

If group consolidated cash is less than $1 billion or our credit rating is below B3 by Moody s and B- by Standard & Poor s, AMD Fab 36 KG will also be required to maintain minimum cash balances equal to the lesser of 100 million euro and 50 percent of the total outstanding amount under the Fab 36 Term Loan. AMD Fab 36 KG may elect to maintain the minimum cash balance in an equivalent amount of U.S. dollars if group consolidated cash is at least $500 million. If on any scheduled repayment date, our credit rating is Caa2 or lower by Moody s or CCC or lower by Standard & Poor s, AMD Fab 36 must increase the minimum cash balances by 5 percent of the total outstanding amount, and at each subsequent request of Dresdner Bank, by a further 5 percent of the total outstanding amount until such time as either the credit rating increases to at least Ba3 by Moody s and BB- by Standard & Poor s or the minimum cash balances are equal to the total outstanding amounts. As of September 26, 2009, our credit rating was CCC+ with Standard and Poor s and B3 with Moody s. As a result, AMD Fab 36 KG maintains a minimum cash balance of 100 million euro.

Also on April 21, 2004, AMD, AMD Fab 36 KG, AMD Fab 36 LLC, AMD Fab 36 Holding GmbH, and AMD Fab 36 Admin GmbH entered into a series of agreements (the partnership agreements) with the original unaffiliated limited partners of AMD Fab 36 KG, Leipziger Messe GmbH, a nominee of the State of Saxony, Fab 36 Beteiligungs GmbH, an investment consortium arranged by M+W Zander Facility Engineering GmbH, the general contractor for the project, relating to the rights and obligations with respect to their limited partner and silent partner contributions in AMD Fab 36 KG. Pursuant to the terms of the partnership agreements, AMD, through AMD Fab 36 Holding and AMD Fab 36 Admin, provided an aggregate of $713 million, Leipziger Messe provided an aggregate of $241 million and Fab 36 Beteiligungs provided an

aggregate of $147 million in funding to AMD Fab 36 KG. In addition, AMD Fab 36 Holding and AMD Fab 36 Admin had a call option over the partnership interests held by Leipziger Messe and Fab 36 Beteiligungs. On April 1, 2009 AMD Fab 36 Holding and AMD Fab 36 Admin exercised the call option over the partnership

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interests in AMD Fab 36 KG held by Fab 36 Beteiligungs. In connection with the Closing of the GF manufacturing joint venture transaction, AMD Fab 36 Holding and AMD Fab 36 Admin, repurchased the partnership interests in AMD Fab 36 KG held by Leipziger Messe for the euro-equivalent of approximately $190 million in cash, and Leipziger Messe withdrew as a partner of AMD Fab 36 KG.

The Federal Republic of Germany and the State of Saxony also provide support to AMD Fab 36 KG in the form of:

- a loan guarantee equal to 80 percent of the losses sustained by the lenders after foreclosure on all other security; and
- subsidies consisting of grants and allowances totaling up to approximately $797 million, depending on the level of capital investments by AMD Fab 36 KG and $34 million allowances depending on the level of capital investments for expansion of production capacity at the Dresden site.

In connection with the receipt of investment grants, AMD Fab 36 KG is required to attain a certain employee headcount by December 2009 and is required to maintain this headcount through December 2014. These grants are recorded as long-term liabilities on our condensed consolidated balance sheet and amortized to operations ratably starting from December 2004 through December 2014. Initially, we amortized the grant amounts as a reduction to research and development expenses. Beginning in the first quarter of 2006 when Fab 1 Module 1 began producing revenue generating products, we started amortizing these amounts as a reduction to cost of sales. Allowances are amortized as a reduction of depreciation expense ratably over the life of the investments because these allowances are intended to subsidize the capital investments. Noncompliance with the covenants contained in the subsidy documents could result in GF having to repay all or a portion of the amounts received to date.

As of September 26, 2009, AMD Fab 36 KG received cash allowances of $407 million for capital investments made in 2003 through 2008 as well as cash grants of $221 million for capital investments made in 2003 through 2009.

Under the Fab 36 Loan Agreements, AMD Fab 36 KG would be in default if certain obligations thereunder are not complied with or upon the occurrence of certain events and if, after the occurrence of the event, the lenders determine that their legal or risk position is adversely affected. Circumstances that could result in a default include:

- GF s failure to provide loans to AMD Fab 36 KG as required under the Fab 36 Loan Agreements;
- failure to pay any amount due under the Fab 36 Loan Agreements within five days of the due date;
- occurrence of any event which the lenders reasonably believe has had or is likely to have a material adverse effect on the business, assets or condition of AMD Fab 36 KG, GF or AMD or their ability to perform under the Fab 36 Loan Agreements;
- filings or proceedings in bankruptcy or insolvency with respect to us, GF, AMD Fab 36 KG or any limited partner;
- occurrence of a change in control (as defined in the Fab 36 Loan Agreements) of GF, AMD or ATIC;
- AMD Fab 36 KG s noncompliance with certain affirmative and negative covenants, including restrictions on payment of profits, dividends or other distributions except in limited circumstances and restrictions on incurring additional indebtedness, disposing of assets and repaying subordinated debt; and

AMD Fab 36 KG s noncompliance with certain financial covenants, including loan to fixed asset value ratio and, in certain circumstances, a minimum cash covenant.

In general, any material default with respect to other indebtedness of AMD, GF or AMD Fab 36 KG that is not cured, would result in a cross-default under the Fab 36 Loan Agreements.

7.75% Senior Notes Due 2012

On October 29, 2004, we issued $600 million of 7.75% Senior Notes due 2012 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. On April 22, 2005, we exchanged these notes for publicly registered notes which have substantially identical terms as the old notes except that the publicly registered notes are registered under the Securities Act of 1933, and, therefore, do not contain legends restricting their transfer. The 7.75% Notes mature on November 1, 2012. Interest on the 7.75% Notes is payable semiannually in arrears on May 1 and November 1, beginning May 1, 2005. From November 1, 2008, we may redeem the 7.75% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	Price as Percentage of Principal Amount
Beginning on November 1, 2008 through October 31, 2009	103.875 percent
Beginning on November 1, 2009 through October 31, 2010	101.938 percent
Beginning on November 1, 2010 through October 31, 2011	100.000 percent
On November 1, 2011	100.000 percent

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Holders have the right to require us to repurchase all or a portion of our 7.75% Notes in the event that we undergo a change of control, as defined in the indenture governing the 7.75% Notes at a repurchase price of 101 percent of the principal amount plus accrued and unpaid interest.

The indenture governing the 7.75% Notes contains certain covenants that limit, among other things, our ability and the ability of our restricted subsidiaries, which include all of our subsidiaries, from:

- incurring additional indebtedness except specified permitted debt;
- paying dividends and making other restricted payments;
- making certain investments if an event of default exists, or if specified financial conditions are not satisfied;
- creating or permitting certain liens;
- creating or permitting restrictions on the ability of the restricted subsidiaries to pay dividends or make other distributions to us;
- using the proceeds from sales of assets;
- entering into certain types of transactions with affiliates; and
- consolidating, merging or selling our assets as an entirety or substantially as an entirety.

In February 2006, we redeemed 35 percent (or $210 million) of the aggregate principal amount outstanding of the 7.75% Notes. The holders of the 7.75% Notes received 107.75 percent of the principal amount of the 7.75% Notes plus accrued interest. In connection with this redemption, we recorded a charge of approximately $16 million, which represents the 7.75% redemption premium, and a charge of 4 million, which represents 35 percent of the unamortized issuance costs incurred in connection with the original issuance of the 7.75% Notes.

We may elect to purchase or otherwise retire the remaining principal outstanding under our 7.75% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations

Other Long-Term Liabilities

Other Long-Term Liabilities in the Contractual Obligations table above includes $47 million of payments due under certain software and technology licenses that will be paid through 2010, of which $36 million is GF s obligation and $21 million related to employee benefit obligations.

Other Long-Term Liabilities excludes amounts recorded on our condensed consolidated balance sheet that do not require us to make cash payments, which as of September 26, 2009, primarily consisted of $328 million of deferred grants and subsidies related to GF s Dresden wafer manufacturing facilities and $71 million of deferred gains resulting from equipment sales and the sale and leaseback of our headquarters in Sunnyvale, California in 1998, and our facility in Markham, Canada in 2008.

Other Long-Term Liabilities also excludes $106 million of non-current unrecognized tax benefits, which are included in the caption, Other long-term liabilities on our condensed consolidated balance sheet at September 26, 2009. Included in the non-current unrecognized tax benefits is a potential cash payment of approximately $15 million that could be payable by us upon settlement with a taxing authority. We have not included this amount in the Contractual Obligations table above as we cannot make a reasonably reliable estimate regarding the timing of any settlement with the respective taxing authority, if any.

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Capital Lease Obligations

As of September 26, 2009, we had aggregate outstanding capital lease obligations of $263 million. Included in this amount is $232 million of GF s obligations under certain energy supply contracts for its wafer fabrication facilities in Dresden, Germany. Certain fixed payments due under these energy supply arrangements are accounted for as capital leases. The capital lease obligations under the energy supply arrangements are payable in monthly installments through 2020.

Operating Leases

We lease certain of our facilities, including our executive offices in Sunnyvale, California, and in some jurisdictions we lease the land on which these facilities are built, under non-cancelable lease agreements that expire at various dates through 2018. Certain manufacturing and office equipment is leased for terms ranging from one to five years. Total future non-cancelable lease obligations as of September 27, 2009 were $227 million, of which $39 million is accrued as a liability for certain facilities that were included in our 2002 and 2008 restructuring plans. These payments will be made through 2011. Of the total future non-cancelable lease obligations as of September 26, 2009, GF is responsible for $9 million.

Unconditional Purchase Commitments

Total non-cancelable purchase commitments as of September 26, 2009 were $2.2 billion for periods through 2020. These purchase commitments include $712 million related to GF s contractual obligations for the purchase of energy and gas for its wafer fabrication facilities in Dresden, Germany, and $855 million representing payments by GF to IBM for the period from September 26, 2009 through 2015 pursuant to its joint development agreement. As IBM s services are being performed ratably over the life of the agreement, the payments are expensed as incurred. The IBM agreement and the related payment obligations as well as the commitments to purchase energy and gas were transferred to GF upon the Closing on March 2, 2009. The remaining purchase commitments include non-cancelable contractual obligations, including GF contractual obligations, to purchase raw materials, natural resources and office supplies as well as a commitment to the Minister of Industry under the Investment Canada Act regarding specified Canadian capital expenditures over a three-year period.

Receivable Financing Arrangement

On March 26, 2008, we entered into a Sale of Receivables Supplier Agreement with IBM Credit LLC, or IBM Credit, and one of our wholly-owned subsidiaries, AMD International Sales & Service, Ltd., or AMDISS, entered into the same sales agreement with IBM United Kingdom Financial Services Ltd., or IBM UK, pursuant to which we and AMDISS agreed to sell to each of IBM Credit and IBM UK certain receivables. Pursuant to the sales agreements, the IBM parties agreed to purchase from the AMD parties invoices of specified AMD customers up to credit limits set by the IBM parties. As of September 26, 2009, only selected distributor customers have participated in this program. Because we do not recognize revenue until our distributors sell our products to their customers, we classify funds received from the IBM parties as debt. This debt is reduced as the IBM parties receive payments from our distributor customers. For the nine months ended September 26, 2009, we received proceeds of approximately $399 million from the transfer of accounts receivable under this financing arrangement and the IBM parties collected approximately $361 million from the distributors participating in the arrangement. As of September 26, 2009, $125 million was outstanding under these agreements. As of December 27, 2008, $86 million was outstanding under these agreements. These amounts appear as Other short-term obligations on our condensed consolidated balance sheet and are not considered a cash commitment.

Off-Balance Sheet Arrangements

Guarantees

Guarantees of Indebtedness Recorded on our Condensed Consolidated Balance Sheet

As of December 27, 2008, the principal guarantee related to indebtedness recorded on our consolidated condensed balance sheet was for $28 million and represented the amount of silent partnership contributions that AMD Fab 36 Holding and AMD Fab 36 Admin were required to repurchase from Leipziger Messe (excluding the guaranteed rate of return.) At the Closing of the GF transaction in the first quarter of 2009, AMD Fab 36 Holding and AMD Fab 36 Admin repurchased the partnership interests in AMD Fab 36 KG held by Leipziger Messe and the guarantee was terminated.

Guarantees of Indebtedness Not Recorded on our Condensed Consolidated Balance Sheet

AMTC and BAC Guarantees

The Advanced Mask Technology Center GmbH & Co. KG (AMTC) and Maskhouse Building Administration GmbH & Co. KG (BAC) are joint ventures initially formed by AMD, Infineon Technologies AG (Infineon) and DuPont Photomasks, Inc. (Dupont) for the purpose of constructing and operating an advanced photomask facility in Dresden, Germany. AMTC provides advanced photomasks for use in manufacturing our microprocessors. In April 2005, DuPont was acquired by Toppan Printing Co., Ltd. and

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became a wholly owned subsidiary of Toppan, named Toppan Photomasks, Inc. (Toppan). In December 2007, Infineon entered into an assignment agreement to transfer its interest in AMTC and BAC to Qimonda AG (Qimonda), with the exception of certain AMTC/BAC related payment guarantees. The assignment became effective in January 2008. In January 2009, Qimonda filed an application with the local court in Munich to commence insolvency proceedings. Pursuant to the partnership agreements of AMTC and BAC, the commencement of insolvency proceedings constituted an event of default which gave AMD and Toppan the right to expel Qimonda from the joint ventures. In March 2009, with agreement from Qimonda s insolvency administrator, AMD and Toppan expelled Qimonda as a limited partner from the AMTC and BAC joint ventures, and, accordingly, became the only remaining joint venture partners.

In December 2002, BAC obtained a euro denominated term loan to finance the construction of the photomask facility pursuant to which the equivalent of $33 million was outstanding as of September 26, 2009. Also in December 2002, each of Toppan Photomasks Germany GmbH, and AMTC, as lessees, entered into a lease agreement with BAC, as lessor. The term of the lease agreement is ten years from initial occupancy. Each joint venture partner guaranteed a specific percentage of AMTC s portion of the rental payments. Currently, Infineon, AMD and Toppan are the guarantors under the rental guarantee. The rental payments to BAC are in turn used by BAC to repay amounts outstanding under the BAC term loan. There is no separate guarantee outstanding for the BAC term loan. With respect to the lease agreement, AMTC may exercise a step-in right in which it would take over Toppan Germany s remaining rental payments in connection with the lease agreement between Toppan Photomask Germany and BAC. As of September 26, 2009, our guarantee of AMTC s portion of the rental obligation was approximately $17 million. Our maximum liability in the event AMTC exercises its step-in right and Toppan defaults under the guarantee would be approximately $58 million. These estimates are based upon forecasted rents to be charged by BAC in the future and are subject to change based upon the actual usage of the facility by the tenants and foreign currency exchange rates.

In December 2007, AMTC entered into a euro denominated revolving credit facility, pursuant to which the equivalent of $51 million was outstanding as of September 26, 2009. The term of the revolving credit facility is three years. Upon request by AMTC and subject to certain conditions, the term of the revolving credit facility may be extended for up to two additional years. In June 2009, the AMTC credit facility and related documents were amended to reflect Qimonda s expulsion from the joint ventures. Pursuant to the amended guarantee agreement, each of AMD and Toppan guarantee 50% of AMTC s outstanding loan balance under the revolving credit facility. As of September 26, 2009, our potential obligation under this guarantee was the equivalent of $25 million plus our portion of accrued interest and expenses. Under the terms of the guarantee, if our group consolidated cash (which is defined as cash, cash equivalents and marketable securities less the aggregate amount outstanding under any revolving credit facility and not including GF cash, cash equivalents and marketable securities) is less than or expected to be less than $500 million, we will be required to provide cash collateral equal to 50% of the balance outstanding under the revolving credit facility.

As of March 28, 2009, Qimonda owed AMTC approximately $20 million in connection with its committed capacity allocations. However, as a result of the commencement of insolvency proceedings, these amounts are considered insolvency claims and will be handled along with the claims of Qimonda s other creditors. Because we believe that AMTC is unlikely to recover amounts due from Qimonda during the insolvency proceedings, we recorded a charge of $10 million, or 50 percent of the total receivable, in the first quarter of 2009. As of September 26, 2009 this receivable was still outstanding.

Recently Issued Accounting Standards

Transfer of Financial Assets. In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*, which removes the concept of a qualifying special-purpose entity from the guidance related to the accounting for transfers and servicing of financial instruments and removes the exception from applying the guidance for accounting for interests in variable interest entities to qualifying special-purpose entities. This guidance clarifies that the objective of paragraph 9 of SFAS 140 is to determine whether a transferor and all of the entities included in the transferor s financial statements being presented have surrendered control over the transferred financial assets. That determination must consider the transferor s continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. This guidance will be effective for interim and annual reporting periods beginning after November 15, 2009. We are currently evaluating the future impact this guidance will have on our consolidated results of operations or financial condition.

Variable Interest Entities. In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R).* This guidance amends the evaluation criteria to identify the primary beneficiary of a variable interest entity. Additionally, this guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. This guidance will be effective for interim and annual reporting periods beginning after November 15, 2009. We are currently evaluating the future impact this guidance will have on our consolidated results of operations or financial condition.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the fiscal year ended December 27, 2008. There have not been any significant changes in market risk since December 27, 2008.

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ITEM 4. CONTROLS AND PROCEDURES

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

As of September 26, 2009, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal controls over financial reporting during our third quarter of 2009 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

U.S. Consumer Class Action Lawsuits

The Court held a final approval hearing on August 31, 2009, and entered its order granting final approval of the HDCP settlement and dismissing the case with prejudice on September 11, 2009.

AMD v. Samsung Electronics Co. et al.

The Court issued its claims construction order on September 17, 2009. The trial date is likely to be extended until January 2011.

ITEM 1A. RISK FACTORS

This description of our business risk factors includes any material changes to and supersedes risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2008, and in Part II, Item 1A of our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 28, 2009 and June 27, 2009.

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 average selling prices 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. Because of its dominant position in the microprocessor market, Intel has been able to control x86 microprocessor and computer system standards and bench marks 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. As a result, 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 also manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor with respect to this portion of our business. Intel leverages its dominance in the microprocessor market to sell its integrated chipsets. Moreover, computer manufacturers are increasingly using integrated graphics chipsets rather than discrete graphics components, particularly for notebooks, because they cost less than traditional discrete graphics components while offering good enough graphics performance for most mainstream PCs.

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Also, Intel has stated that it intends to reenter the discrete GPU market. Intel could take actions that place our discrete GPUs and integrated chipsets 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 has substantially greater financial resources than we do and accordingly spends substantially greater amounts on research and development and production capacity 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 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 average selling prices for our products, which could have a material adverse effect on us.

The recent instability of the financial markets may adversely impact our business and operating results.

There is continued concern over the instability of the financial markets and their influence on the global economy. As a result of the macro-economic challenges currently affecting the global economy, our current or potential future customers may experience serious cash flow problems and as a result may modify, delay or cancel plans to purchase our products. For example, in the fourth quarter of 2008, typically the strongest quarter of our fiscal year, end user demand for PCs and servers decreased significantly. In turn, our customers sharply reduced orders for our products in order to balance their inventory levels to address end-customer demand. 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. For example, in January 2009, Qimonda AG, a supplier of memory for our graphics products, filed an application with the local court in Munich to commence insolvency proceedings and insolvency proceedings commenced in April 2009. In addition, the current economic conditions may make it more difficult for us to raise funds through borrowings or private or public sales of debt or equity securities. If global economic conditions deteriorate further or do not show improvement, we may experience material adverse impacts to our business and operating results.

The success of our business is dependent upon our ability to introduce products on a timely basis with required features and performance levels that provide value to our customers and support and coincide 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 and qualify 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 or qualifying 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 or qualifying 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.

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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 overall corporate average selling prices. If we are unable to introduce new products or launch new products with sufficient increases in average selling price or increased unit sales volumes capable of offsetting these reductions in average selling prices of existing products, our revenues, inventories, gross margins and operating results could be materially adversely affected.

We rely on GLOBALFOUNDRIES Inc. (GF) to manufacture our microprocessor products, and if GF is unable to manufacture our products on a timely basis or to meet our capacity requirements, our business could be materially adversely affected.

We rely on our GF joint venture to manufacture substantially all microprocessor products for us. If GF suffers any damage to its facilities, is unable to secure necessary raw materials from its suppliers, loses benefits under its material agreements such as its joint development agreement with IBM, is unable to obtain funding from ATIC under the Funding Agreement or otherwise, experiences power outages, lacks sufficient capacity to manufacture our products, encounters financial difficulties due to litigation or otherwise or suffers any other disruption or reduction in efficiency of foundry capacity, we may encounter supply delays or disruptions, which could materially adversely impact our business. If GF is unable to remain competitive using advanced process technologies, our business could be materially adversely affected. If we are unable to obtain sufficient supply from GF, we would have to move production of our products to new manufacturers, which could result in significant delays and materially adversely affect our business. If GF is not able to manufacture our products on a timely basis or to meet our capacity requirements, our business could be materially adversely affected. In addition, pursuant to a Wafer Supply Agreement that we entered into in connection with the transactions contemplated by the Master Transaction Agreement, we agreed to compensate GF on a cost plus basis. Although this cost-plus arrangement will not have an impact on our condensed consolidated financial statements while we are consolidating the financial results of GF, per unit manufacturing costs of AMD (excluding GF) will increase.

The under-utilization of GF manufacturing facilities may increase our per unit costs and may have a material adverse effect on us.

Pursuant to the Wafer Supply Agreement between us and GF, we are required to provide GF with forecasts of our volume requirements for microprocessors. Portions of these forecasts become binding purchase or payment requirements for us. It is difficult to predict future growth or decline in the demand for our products, making it difficult to forecast our requirements accurately. If our target markets do not grow, we may under-utilize GF manufacturing facilities. Because of our commitments to GF, during periods in which we under-utilize GF manufacturing facilities as a result of reduced demand for our microprocessor products, we may not be able to reduce our costs in proportion to the reduced revenues for such a period. When this occurs, our operating results will be materially adversely affected.

We rely on third-party foundries and other contractors to manufacture our graphics and chipset products.

In addition to relying on GF to manufacture substantially all of our microprocessor products, we currently rely on other independent foundries to manufacture our graphics and chipset products. We also rely on third-party manufacturers to manufacture our high end graphics boards. Independent contractors perform the assembly, testing and packaging of these products. We obtain these manufacturing services for our graphics and chipset products on a purchase order basis and these manufacturers are not required to provide us with any specified minimum quantity of product. Accordingly, our graphics business depends 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. We cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements. 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, reduce or eliminate deliveries to us, or increase the prices that they charge us on short notice.

We must have reliable relationships with our wafer manufacturers and subcontractors to ensure adequate product supply to respond to customer demand. If we move production of our products to new manufacturers or if current manufacturers implement new process technology or design rules, any transition difficulties may result in lower yields or poorer performance of our products. Because it could take several quarters to establish a strategic relationship with a new manufacturing partner, 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 foundries or contractors. Other risks associated with our dependence on third-party manufacturers, including GF, include reduced control over delivery schedules, quality assurance, manufacturing yields and cost, lack of capacity in periods of excess demand, misappropriation of our intellectual property, dependence on several small undercapitalized subcontractors, reduced ability to manage inventory and parts, and exposure to foreign countries and operations. If we are unable to secure sufficient or reliable supplies of wafers, our ability to meet customer demand for our graphics business may be adversely affected and this could have a material adverse effect on us.

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

We depend on third-party companies for the design, manufacture and supply of motherboards, BIOS software and other components that support our microprocessor offerings. In addition, we continue to work with other third parties to obtain graphics chips in order to provide our customers with a greater choice of technologies to best meet their needs.

Our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. If we are unable to secure sufficient support for our microprocessor products from designers and manufacturers of motherboards and chipsets, our business would be materially adversely affected. As a result of our acquisition of ATI, we design and supply a significantly greater amount of graphics products ourselves. This may cause third-party designers, manufacturers and suppliers to be less willing to do business with us or to support our products out of a perceived risk that we will be less willing to support their products or because we may compete with them. As a result, these third-party designers, manufacturers and suppliers could forge relationships, or strengthen their existing relationships, with our competitors. If the designers, manufacturers and suppliers of graphics chips, motherboards, and other components decrease their support for our product offerings and increase their support for the product offerings of our competitors, our business could be materially adversely affected.

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

Semiconductor manufacturing yields are a function 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. GF is responsible for developing manufacturing process technologies used to manufacture our microprocessor products and other third party foundries are responsible for the process technologies used to manufacture our graphics products. We cannot be certain that GF or 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. 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. Moreover, if foundries experience manufacturing inefficiencies, we may fail to achieve acceptable yields or experience product delivery delays. Any decrease in manufacturing yields could result in an increase in the per unit costs or force us to allocate our reduced product supply among our customers, which could potentially harm our customer relationships, reputation, and financial results.

If we do not fully realize the anticipated benefits of our GF manufacturing joint venture with ATIC, our business could be adversely impacted.

As a result of the consummation of the transactions contemplated by the Master Transaction Agreement, we anticipate realizing certain benefits to our business, including the ability to take advantage, as a shareholder of GF, of the shift by integrated device manufacturers, or IDMs, to a fabless business model. We cannot assure you that our manufacturing joint venture with ATIC will result in the full realization of these or any other benefits.

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.

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, down grades from credit rating agencies such as Moody s or Standard & Poor s, which we experienced during the second quarter of 2009, may adversely impact our ability to get external financing or the terms of such financing. Credit agency down grades 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. If we curtail planned investments in research and development or abandon projects, our products may fail to remain competitive

and we would be materially adversely affected.

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

As of September 26, 2009, we had consolidated debt of $5.7 billion. Of this amount, GF was responsible for $2 billion. 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, such as those that we are currently experiencing.

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, or our guarantees of other parties debts, will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter, and is subject to prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We cannot assure you that we will be able to generate 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. The macro-economic challenges affecting the global economy may further adversely impact our ability to borrow sufficient funds or sell assets or equity.

The agreements governing our borrowing arrangements impose restrictions on us that may adversely affect our ability to operate our business.

The indenture governing our 7.75% Senior Notes due 2012 (7.75% Notes) contains various covenants that limit our ability to:

- incur additional indebtedness, except specified permitted debt;
- pay dividends and make other restricted payments;
- make certain investments if a default or an event of default exists, or if specified financial conditions are not satisfied;

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 certain asset sales;

enter into certain types of transactions with affiliates; and

consolidate, merge or sell assets as an entirety or substantially as an entirety unless specified conditions are met.

In addition, the guarantee agreement related to the Euro 700 Million Term Loan Facility Agreement for AMD Fab 36 Limited Liability Company & Co. KG that we transferred to GF contains restrictive covenants that require us to maintain specified financial ratios when group consolidated cash is below specified amounts. Our ability to satisfy these financial ratios and tests can be affected by events beyond our control. We cannot assure you that we will meet those requirements. A breach of any of these financial ratios or tests could result in a default under the Fab 36 Term Loan agreement.

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 5.75% Convertible Senior Notes due 2012 (5.75% Notes), 6.00% Convertible Senior Notes due 2015 (6.00% Notes) and 7.75% 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 5.75% Notes, 6.00% Notes or 7.75% Notes accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings and our other indebtedness.

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If we are unable to continue to implement our cost cutting efforts, our business could be materially adversely affected.

We incurred a net loss attributable to AMD common stockholders of approximately $874 million in the first nine months of 2009 and $3.1 billion for 2008. We have taken a number of actions to decrease our expenses. For example, in the second and fourth fiscal quarters of 2008 we implemented restructuring plans to reduce our expenses. The restructuring charges for the restructuring plans implemented during 2008 represent primarily severance and costs related to the continuation of certain employee benefits in connection with the termination of employees, contract or program termination costs, asset impairments and exit costs for facility site consolidations and closures.

In January 2009, we implemented additional cost reduction activities including temporary salary reductions for employees in the United States and Canada and suspension of certain employment benefits such as our 401(k) plan matching program. We plan to restore employees salaries to previous levels beginning in December 2009. If our restructuring activities are not effectively managed, we may experience unanticipated effects causing harm to our business and customer relationships.

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

Collectively, our top four customers accounted for approximately 47 percent of our revenue in the third fiscal quarter of 2009. Moreover, historically a significant portion of ATI s revenues were derived from sales to a small number of customers, and we expect that a small number of customers will continue to account for a substantial part of revenues of our graphics businesses in the future. During the third fiscal quarter of 2009, four customers accounted for approximately 47 percent of the revenue of our Graphics segment. 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, we would be materially adversely affected.

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. The current uncertainty in global economic conditions has also impacted the semiconductor market as consumers and businesses have deferred purchases, which has negatively impacted demand for our products. Our financial performance has been, and may in the future be, negatively affected by these downturns. We 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;
- excess inventory levels in the channels of distribution, including those of our customers; and
- excess production capacity.

If the current downturn in the semiconductor industry does not improve, we will be materially adversely affected.

The demand for our products depends in part on continued growth 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 microprocessor and graphics businesses are dependent upon the market for mobile and desktop PCs and servers. Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past, are currently adversely affecting us and may materially adversely

affect us in the future. For example, during the fourth quarter of 2008, which is typically our strongest quarter during the fiscal year, end user demand for PCs and servers decreased significantly. In turn, our customers sharply reduced orders for our products in order to balance their inventory levels to end customer demand, which materially adversely affected us. We believe the macro-economic challenges currently affecting the global economy will continue to adversely impact end customer demand for PCs and servers for the remainder of 2009.

The growth of our business is also dependent on continued demand for our products from high-growth global markets. If demand from these markets is below our expectations, sales of our products may decrease, which could have a material adverse effect on us.

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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 expect competition to intensify due to rapid technological changes, frequent product introductions and aggressive pricing by competitors. We believe that the main factors that determine our product competitiveness are product quality, power consumption, reliability, speed, size (or form factor), cost, selling price, adherence to industry standards, software and hardware compatibility and stability, brand, timely product introductions and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, and successive generations of products are developed and introduced for sale. We expect that competition will continue to be intense in these markets and our competitors products may be less costly, provide better performance or include additional features that render our products uncompetitive. 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 revenue and gross margin.

Events or occurrences that adversely affect GF s results of operations or financial position will adversely affect our consolidated results of operations or financial position.

Because we consolidate the operations of GF for financial reporting purposes, events or occurrences that adversely affect GF s results of operations or financial position will adversely affect our consolidated results of operations or financial position. For example, if GF incurs additional liabilities or debt, or if GF must forfeit or repay the subsidies it receives from the State of Saxony and the Federal Republic of Germany because it is unable to comply with the covenants in the subsidy grant documents, its results of operations or financial position may be adversely affected, which would adversely affect our consolidated results of operations or financial position.

If we lose Microsoft Corporation s support for 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. If Microsoft does not continue to design and develop its operating systems so that they work with our x86 instruction sets, independent software providers may forego designing their software applications to take advantage of our innovations and customers may not purchase PCs with our microprocessors. In addition, 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, our ability to market our products would be materially adversely affected.

If we are ultimately unsuccessful in our antitrust lawsuit against Intel, our business may be materially adversely affected.

On June 27, 2005, we filed an antitrust complaint against Intel Corporation in the United States District Court for the District of Delaware under Section 2 of the Sherman Antitrust Act, Sections 4 and 16 of the Clayton Act, and the California Business and Professions Code. Our complaint alleges that Intel has unlawfully maintained a monopoly in the x86 microprocessor market by engaging in anti-competitive financial and exclusionary business practices that limit the ability and/or incentive of Intel s customers in dealing with us. If our antitrust lawsuit against Intel is ultimately unsuccessful, our business, including our ability to increase market share in the microprocessor market, could be materially adversely affected.

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, demand in the retail sector of the PC market is often stronger during the fourth quarter as a result of the winter holiday season. European sales are often weaker during the summer months. Many of the factors that create and affect seasonal trends are beyond our control.

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

In the design and development of new products and graphics product enhancements, we rely on third-party intellectual property such as software development tools and hardware testing tools. Our graphics business has experienced delays in the introduction of products as a result of the inability of then available third-party development tools to fully simulate the complex features and functionalities of its products. The design requirements necessary to meet consumer demands for more features and greater functionality from graphics products in the future may exceed the capabilities of the third-party 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.

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

Our operations depend upon obtaining deliveries of adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because some of the materials that we purchase are complex, it is difficult for us to substitute one supplier for another. Certain raw materials that are used in the manufacture of our products are available only from a limited number of suppliers.

For example, the manufacturing of our microprocessor products is largely dependent on one supplier of our silicon-on-insulator (SOI) wafers. We are also dependent on key chemicals from a limited number of suppliers and rely on a limited number of foreign companies to supply the majority of certain types of integrated circuit packages for our microprocessor products. Similarly, certain non-proprietary materials or components such as memory, PCBs, substrates and capacitors used in the manufacture of our graphics products are currently available from only a limited number of sources and are often 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. The macro-economic challenges currently affecting the global economy may impact our key suppliers who may reduce their output and become insolvent which may adversely impact our ability to procure key materials. For example, in January 2009, Qimonda AG, a supplier of memory for our graphics products filed an application with the local court in Munich to commence insolvency proceedings. If we are unable to procure certain of these materials, or our foundries are unable to procure materials for manufacturing our products, we would be materially adversely affected.

Our issuance to WCH of 58,000,000 shares of our common stock and 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 our 5.75% Notes and 6.00% Notes may dilute the ownership interest of our existing stockholders.

As part of the consummation of the transactions contemplated by the Master Transaction Agreement, we sold to WCH 58,000,000 shares of our common stock and warrants to purchase 35,000,000 shares of our common stock at an exercise price of $0.01 per share. These warrants became exercisable in July 2009. Our issuance of the shares to WCH and any subsequent 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 we issue to WCH could adversely affect prevailing market prices of our common stock, and the anticipated exercise by WCH of the warrants we issued to WCH could depress the price of our common stock.

Moreover, the conversion of some or all of the 5.75% Notes and the 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 anticipated conversion of the 5.75% Notes or 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 us.

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

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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 us.

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 being designed into third-party products and the success of those products.

Our graphics technology for game consoles is being used in the Nintendo GameCube, Nintendo Wii and Microsoft® Xbox 360 game consoles. 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 per unit royalties paid to us by Nintendo and Microsoft. Our royalty revenues are directly related to the sales of these products and reflective of their success in the market. If Nintendo or Microsoft does 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 Nintendo and Microsoft 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.

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

Our future success depends upon the continued service of numerous qualified engineering, manufacturing, marketing, sales and executive personnel. If we are not able to continue to attract, retain and motivate 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 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.

We outsource to third parties certain supply-chain logistics functions, including portions of our product distribution and transportation management, and co-source some information technology 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 and to our customers. In addition, we rely on a third party in India 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. Our relationships with these providers are governed by fixed term contracts. 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 us if the transition is not executed appropriately.

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Uncertainties involving the ordering and shipment of, and payment for, 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 a significant penalty. 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. For example, during the fourth quarter of 2008 our customers sharply reduced orders for our products in order to balance their inventory levels to end customer demand. With respect to our graphics products, we do not have any commitment or requirements for minimum product purchases in our sales agreements with add-in board, or AIB, customers, upon whom we rely to manufacture, market and sell our desktop GPUs. These sales are subject to uncertainty because demand by our AIBs can be unpredictable and susceptible to price competition. Our ability to forecast demand is even further complicated when we sell to OEMs 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, the return of previously sold products 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 profit margins. For example, in the fourth quarter of 2008, we recorded an incremental write-down of inventory of $227 million due to a weak economic outlook. Factors that may result in excess or obsolete inventory, which could result in write-downs of the value of our inventory, a reduction in average selling prices, 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 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 us.

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

We market and sell our products directly and through third-party distributors 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 our distributors to offer our competitors products. We are dependent on our distributors to supplement our direct marketing and sales efforts. If any significant distributor or a substantial number of our distributors 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 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. We defer the gross margins on our sales to distributors, resulting from both our deferral of revenue and related product costs, until the applicable products are re-sold by the distributors. However, in the event of a significant decline in the price of our products, the price protection rights we offer to our distributors would materially adversely affect us because our revenue would decline.

Failures in the global credit markets may impact the liquidity of our auction rate securities (ARS).

As of September 26, 2009, our investments in ARS included approximately $130 million of student loan ARS and $34 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. 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 action, 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 final payment is due according to contractual maturities (currently, ranging from 17 to 42 years for our ARS). As a result, the liquidity of these investments has been impacted.

While we believe that the current illiquidity of these investments is temporary, we cannot predict with certainty when liquidity in the ARS market will return. If this market illiquidity continues or worsens, we may be required to record additional impairment charges with respect to these investments in the future, which could materially adversely impact our results of operations.

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As of September 26, 2009, we owned $75 million par value of ARS that we purchased from UBS prior to February 13, 2008. From June 30, 2010 through July 2, 2012, we have the right, but not the obligation, to sell, at par, these ARS to UBS. During the course of our exercise period with respect to the UBS ARS, UBS may not have financial resources to satisfy its financial obligations. In the event UBS cannot satisfy its financial obligations, we would no longer have the certainty as to the liquidity of these UBS ARS.

We have not realized all of the anticipated benefits of our acquisition of ATI and may continue to incur future impairments of goodwill and assets related to the business acquired from ATI.

We have not realized all of the anticipated benefits of our acquisition of ATI, and since October 2006 we have incurred goodwill impairment charges of approximately $2.7 billion, of which approximately $800 million was included in discontinued operations as well as acquisition-related intangible assets impairment charges of approximately $488 million, of which $140 million was included in discontinued operations.

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These impairment charges were taken following revisions to our long-term financial outlook for the businesses of the former ATI in light of then-current market conditions and economic outlook, which we conducted as part of our annual strategic planning cycles and based on the preliminary findings of our annual and interim goodwill impairment testing. For 2008, the conclusion was also due to the deterioration in the price of our common stock and the resulting reduced market capitalization, which was an additional indicator of impairment.

As of September 26, 2009, the carrying amounts of goodwill and acquisition-related intangible assets were $2 million for our Handheld business unit, $5 million for our Computing Solutions segment and $432 million for our Graphics segment, which now includes revenue from royalties received in connection with sales of game console systems that incorporate our technology. We considered the income approach in determining the implied fair value of the goodwill, which requires estimates of future operating results and cash flows of each of the reporting units discounted using estimated discount rates taking into consideration the estimated sales proceeds that we expect to receive from any divestiture of these businesses. However, actual performance in the near-term and longer-term could be materially different from these forecasts, which could impact future estimates of fair value of our reporting units and may result in further impairment of goodwill.

Our operations in foreign countries are subject to political and economic risks, 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 GF for substantially all of our wafer fabrication capacity for microprocessors. Currently, all of GF s manufacturing facilities are concentrated in Germany. Nearly all product assembly and final testing of our microprocessor products is performed at manufacturing facilities in China, Malaysia and Singapore. In addition, our graphics and chipset products are manufactured, assembled and tested by independent third parties in the Asia-Pacific region and inventory related to those products is stored there, particularly in Taiwan. We also have international sales operations and as part of our business strategy, we are continuing to seek expansion of product sales in high growth markets. International sales as a percent of net revenue were 86 percent in the third quarter of 2009, 89 percent in the third quarter of 2008 and 87 percent in the second quarter of 2009. 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 achieving headcount reductions;
- 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; and

loss or modification of exemptions for taxes and tariffs.

Any conflict or uncertainty in the countries in which we operate, including public health or safety, natural disasters or general economic factors, could have a material adverse effect on our business. Any of the above risks, should they occur, could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, 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 us.

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

Worldwide economic conditions may adversely affect demand for our products. Also, the occurrence and threat of terrorist attacks and the consequences of sustained military action in the Middle East have in the past, and may in the future, adversely affect demand for our products. Terrorist attacks 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 may make travel and the transportation of our products more difficult and more expensive, which could materially adversely affect us.

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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. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of armed conflicts are unpredictable and we may not be able to foresee events that could have a material adverse effect on us.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States economy and worldwide financial markets. Any of these occurrences could have a material adverse effect on us and also may result in volatility of the market price for our securities.

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 Euro and the Canadian dollar. As a result of our acquisition of ATI, some of our expenses and debt are denominated in Canadian dollars. Additionally, as a result of a new sales program that has been implemented in China, a significant portion of our sales in China are now denominated in Chinese Renminbi. 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. In the past, the value of the U.S. dollar has fallen significantly, leading to increasingly unfavorable currency exchange rates on foreign denominated expenses. However, during the second half of 2008 and the nine months of 2009, the U.S. dollar strengthened leading to favorable currency exchange rates on foreign denominated expenses. 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 and equipment and materials used in manufacturing. 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 entering the market 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 heavily discounted gray market products, which adversely affect demand for our products. 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 used products represented as new. Our inability to control sales of our products on the gray market could have a material adverse effect on us.

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 we 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. Litigation can involve complex factual and legal questions and its outcome is uncertain.

Any claim that is successfully asserted against us may cause us to pay substantial damages.

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We have received correspondence from Intel relating to the 1976 and 2001 Patent Cross License Agreement between us and Intel. In the correspondence, Intel questions whether GF qualifies as a licensed Subsidiary under our cross-license agreements and whether the creation of GF is a breach of the provisions of one of our cross-license agreements. We have met with Intel and a mediator to discuss these matters. We cannot assure you that these matters will not result in litigation. If these matters resulted in litigation, it could be costly and time-consuming, and any negative results in such litigation could have a material adverse effect on 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 party s 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 cannot 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 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 and 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.

We are subject to a variety of environmental laws that could result in 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 or under 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, 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 on Superfund clean-up orders for three 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. For example, the European Union 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. These regulations affect semiconductor packaging. There is a risk that the cost, quality and manufacturing yields of lead-free products may be less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory. Other regulatory requirements potentially affecting our back-end manufacturing processes and the design and marketing of our products are in development throughout the world. 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.

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Our worldwide operations could be subject to natural disasters and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses.

We rely on GF for nearly all of our wafer fabrication capacity for microprocessors. Currently, all of GF s manufacturing facilities are located in Germany. Nearly all product assembly and final testing of our microprocessor products is performed at manufacturing facilities in China, Malaysia and Singapore. The foundries we use to manufacture our graphics and chipset products are located in the Asia-Pacific region and inventory is stored there, particularly in Taiwan. Many of our assembly, testing and packaging suppliers for our graphics products are also located in southern Taiwan. Earthquakes, fires or other occurrences that disrupt our manufacturing suppliers may occur. To the extent that the supply from our independent foundries or suppliers is interrupted for a prolonged period of time or terminated for any reason, we may not have sufficient time to replace our supply of products manufactured by those foundries.

Moreover, our Silicon Valley operations are located near major earthquake fault lines in California. In the event of a major earthquake, or other natural or manmade disaster, we could experience loss of life of our employees, destruction of facilities or business interruptions, any of which could materially adversely affect 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 effect on our cash, goodwill recorded as a result of our acquisition of ATI, income tax provision and net income in the period or periods for which that determination is made.

For example, the Canadian Revenue Agency, or CRA, is auditing ATI for the years 2000-2004 with respect to transactions between ATI and its subsidiaries. The audit has been completed and we are currently expecting to receive final notices of assessment. We could be subject to a significant loss of tax credits and other tax attributes as a result of the CRA audit.

ITEM 6. EXHIBITS

10.1	Amendment to Supplier Agreement dated August 4, 2009 between Advanced Micro Devices, Inc. and IBM Credit LLC.
10.2	Amendment to Supplier Agreement dated August 4, 2009 between AMD International Sale & Service, Ltd. and IBM United Kingdom Financial Services Ltd.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

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

ADVANCED MICRO DEVICES, INC.

Date: November 4, 2009

By: /s/ THOMAS J. SEIFERT
Thomas J. Seifert
Senior Vice President and Chief Financial Officer

Signing on behalf of the registrant and as the principal accounting officer