
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 25, 2005

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
(State or other jurisdiction of
incorporation or organization)

One AMD Place
Sunnyvale, California
(Address of principal executive offices)

94-1692300
(I.R.S. Employer
Identification No.)

94088
(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-12 of the Exchange Act). Yes No

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

Indicate the number of shares outstanding of the registrant's common stock, \$0.01 par value, as of October 31, 2005: 404,068,688.

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ITEM 1. FINANCIAL STATEMENTS**Financial Statements**
Condensed Consolidated Statements of Operations
(Unaudited)

	Quarter Ended		Nine Months Ended	
	September 25, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(In thousands except per share amounts)			
Net sales	\$ 1,263,866	\$ 988,560	\$ 3,320,372	\$ 2,876,699
Net sales to related party (see Note 3)	258,889	250,899	688,929	861,030
Total net sales	1,522,755	1,239,459	4,009,301	3,737,729
Expenses:				
Cost of sales	896,261	738,026	2,469,663	2,289,935
Research and development	289,018	230,896	814,724	681,807
Marketing, general and administrative	258,748	202,179	698,974	561,389
Restructuring and other special charges, net	—	—	—	2,514
	1,444,027	1,171,101	3,983,361	3,535,645
Operating income	78,728	68,358	25,940	202,084
Interest income and other, net	6,054	2,502	13,126	11,280
Interest expense	(30,615)	(25,148)	(80,513)	(83,258)
Income (loss) before minority interest and income taxes	54,167	45,712	(41,447)	130,106
Minority interest in net loss of subsidiaries	21,227	3,008	105,985	1,832
Income before income taxes	75,394	48,720	64,538	131,938
(Benefit) provision for income taxes	(606)	4,872	(5,358)	10,819
Net income	\$ 76,000	\$ 43,848	\$ 69,896	\$ 121,119
Net income per common share:				
Basic	\$ 0.19	\$ 0.12	\$ 0.18	\$ 0.34
Diluted	\$ 0.18	\$ 0.12	\$ 0.17	\$ 0.32
Shares used in per share calculation:				
Basic	399,025	355,254	395,839	353,412
Diluted	443,681	417,576	409,586	418,531

See accompanying notes.

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Condensed Consolidated Balance Sheets

	September 25, 2005	December 26, 2004*
(Unaudited) (In thousands except par value and share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 806,115	\$ 918,377
Short-term investments	536,052	277,182
Total cash and cash equivalents and short-term investments	1,342,167	1,195,559
Accounts receivable	673,211	564,538
Accounts receivable from related party (see Note 3 and Note 12)	204,383	172,871
Allowance for doubtful accounts	(15,795)	(17,837)
Total accounts receivable, net	861,799	719,572
Inventories:		
Raw materials	49,738	63,875
Work-in-process	677,991	571,651
Finished goods	204,034	239,264
Total inventories	931,763	874,790
Deferred income taxes	54,232	87,836
Prepaid expenses and other current assets	263,878	350,240
Other receivable from related party (see Note 3)	8,564	—
Total current assets	3,462,403	3,227,997
Property, plant and equipment:		
Land and land improvements	68,792	77,977
Buildings and leasehold improvements	2,471,263	2,449,389
Equipment	7,774,795	7,920,517
Construction in progress	1,168,906	589,700
Total property, plant and equipment	11,483,756	11,037,583
Accumulated depreciation and amortization	(7,162,372)	(6,803,776)
Property, plant and equipment, net	4,321,384	4,233,807
Other assets	376,169	382,406
Total assets	\$ 8,159,956	\$ 7,844,210
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to bank under revolving loans	\$ 75,656	\$ —
Accounts payable	901,708	636,229
Accounts payable to related party (see Note 3)	39,943	18,894
Accrued compensation and benefits	232,446	191,431
Accrued liabilities	390,213	437,161
Accrued royalties payable to related party (see Note 3)	4,118	8,180
Amounts payable to Spansion Pension Trust (see Note 3)	8,564	—
Restructuring accruals, current portion	21,355	18,997
Income taxes payable	12,245	47,145
Deferred income on shipments to distributors	163,652	141,738
Current portion of long-term debt and capital lease obligations	184,872	220,828
Current portion of long-term debt payable to related party (see Note 3)	40,000	10,000
Other current liabilities	137,583	115,773
Total current liabilities	2,212,355	1,846,376
Deferred income taxes	50,630	104,246
Long-term debt and capital lease obligations, less current portion	1,708,872	1,598,268
Long-term debt payable to related party (see Note 3)	—	30,000
Other long-term liabilities	436,802	414,626
Minority interest	777,052	840,641
Commitments and contingencies		
Stockholders' equity:		
Capital stock:		
Common stock, par value \$0.01; 750,000,000 shares authorized; shares issued: 408,618,229 on September 25, 2005 and 398,505,543 on December 26, 2004; shares outstanding: 401,964,057 on September 25, 2005 and 391,738,648 on December 26, 2004	4,020	3,917
Capital in excess of par value	2,528,219	2,407,770
Treasury stock, at cost (6,654,172 shares on September 25, 2005 and 6,766,895 shares on December 26, 2004)	(89,715)	(91,101)
Retained earnings	378,067	308,497
Accumulated other comprehensive income	153,654	380,970

Total stockholders' equity	2,974,245	3,010,053
Total liabilities and stockholders' equity	\$ 8,159,956	\$ 7,844,210

* Amounts as of December 26, 2004 were derived from the December 26, 2004 audited financial statements.

See accompanying notes.

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(Unaudited)**

	September 25, 2005	September 26, 2004
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 69,896	\$ 121,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest in net loss of subsidiaries	(105,985)	(1,832)
Depreciation	900,948	860,763
Amortization	41,138	34,341
Reduction in provision for doubtful accounts	(2,042)	(2,270)
Benefit for deferred income taxes	(21,121)	(14,946)
Restructuring and other special charges, net	—	2,514
Foreign grant and subsidy income	(82,660)	(66,242)
Net loss (gain) on disposal of property, plant and equipment	1,395	(6,294)
Net gain realized on sale of available-for-sale securities	—	(7,188)
Compensation recognized under employee stock plans	743	835
Recognition of deferred gain on sale of building	(1,260)	(1,261)
Tax benefit on minority interest in net loss of subsidiaries	9,054	1,749
Changes in operating assets and liabilities:		
Increase in accounts receivable	(108,673)	(219,870)
Increase in accounts receivable from related party	(31,512)	(1,723)
Increase in inventories	(55,935)	(112,422)
Decrease in prepaid expenses and other current assets	20,883	43,468
Increase in other receivable from related party	(8,564)	—
Increase in other assets	(5,044)	(15,179)
Decrease in income taxes payable	(34,900)	(17,655)
Refund of customer deposits under long-term purchase agreements	(17,500)	(20,500)
Net increase in payables and accrued liabilities	351,164	143,621
Increase in accounts payable to related party	21,049	6,948
Decrease in accrued royalties payable to related party	(4,062)	(3,643)
Increase in amounts payable to Spansion Pension Trust	8,564	—
Net cash provided by operating activities	945,576	724,333
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,184,033)	(969,758)
Proceeds from sale of property, plant and equipment	7,132	24,347
Purchases of available-for-sale securities	(819,729)	(197,187)
Proceeds from sale and maturity of available-for-sale securities	560,771	130,807
Other	(9,125)	—
Net cash used in investing activities	(1,444,984)	(1,011,791)
Cash flows from financing activities:		
Proceeds from borrowings	93,978	105,184
Borrowings under revolving loans	77,489	—
Repayments of debt and capital lease obligations	(185,420)	(204,078)
Proceeds from foreign grants and subsidies	159,932	4,910
Proceeds from sale leaseback transactions	78,145	44,141
Proceeds from limited partners' contribution	54,401	90,888
Proceeds from issuance of stock	120,870	57,841
Other	(8,013)	—
Net cash provided by financing activities	391,382	98,886
Effect of exchange rate changes on cash and cash equivalents	(4,236)	(3,023)
Net decrease in cash and cash equivalents	(112,262)	(191,595)
Cash and cash equivalents at beginning of period	918,377	968,183
Cash and cash equivalents at end of period	\$ 806,115	\$ 776,588
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 52,231	\$ 61,174
Income taxes	\$ 38,588	\$ 30,369
Non-cash financing activities		
Equipment sale leaseback transaction	\$ 78,145	\$ 34,366
Capital lease	\$ 119,002	\$ —

[See accompanying notes.](#)

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ADVANCED MICRO DEVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 25, 2005

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Advanced Micro Devices, Inc. (the Company or AMD) have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the full fiscal year ending December 25, 2005. In the opinion of the Company's management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature. The unaudited interim 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 26, 2004.

The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December. The quarters and nine months ended September 25, 2005 and September 26, 2004 each consisted of 13 weeks and 39 weeks. Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Stock-Based Incentive Compensation Plans

The Company has elected to use the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), as permitted by Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), subsequently amended by SFAS 148, "Accounting for Stock-Based Compensation— Transition and Disclosure" to account for stock options issued to its employees under its 2004 Equity Incentive Plan and its prior stock option plans and amortizes deferred compensation, if any, ratably over the vesting period of the options. Compensation expense resulting from the issuance of fixed term stock option awards is measured as the difference between the exercise price of the option and the fair market value of the underlying share of common stock subject to the option on the award's grant date. The Company also makes pro forma fair value disclosures required by SFAS 123 which reflect the impact on net income (loss) and net income (loss) per share had the Company applied the fair value method of accounting for its stock-based awards to employees. The Company estimates the fair value of its stock-based awards to employees using a Black-Scholes option pricing model. The pro forma effects on net income (loss) and net income (loss) per share are as follows for the quarters and nine months ended September 25, 2005 and September 26, 2004.

	Quarter Ended		Nine Months Ended	
	September 25, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(In thousands except per share amounts)			
Net income - as reported	\$ 76,000	\$ 43,848	\$ 69,896	\$ 121,119
Plus: compensation expense recorded under APB 25	271	224	728	820
Less: SFAS 123 compensation expenses	(8,768)	(27,078)	(107,288)	(133,001)
Net income (loss) - pro forma	\$ 67,503	\$ 16,994	\$ (36,664)	\$ (11,062)
Basic net income per share—as reported	\$ 0.19	\$ 0.12	\$ 0.18	\$ 0.34
Diluted net income per share—as reported	\$ 0.18	\$ 0.12	\$ 0.17	\$ 0.32
Basic net income (loss) per share—pro forma	\$ 0.17	\$ 0.05	\$ (0.09)	\$ (0.03)
Diluted net income (loss) per share—pro forma	\$ 0.16	\$ 0.05	\$ (0.09)	\$ (0.03)

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On April 27, 2005, the Company accelerated the vesting of all employee stock options outstanding under the Company's 2004 Equity Incentive Plan and the Company's prior equity compensation plans that had exercise prices per share higher than the closing price of the Company's common stock on April 27, 2005, which was \$14.51. Options to purchase 12 million shares of the Company's common stock became exercisable immediately. Options held by non-employee directors were not included in the vesting acceleration. In connection with the modification of the terms of these options to accelerate their vesting, \$65 million was recorded as non-cash compensation expense on a pro forma basis in accordance with SFAS 123, and this amount is included in the pro forma table above for the nine months ended September 25, 2005. Because the exercise price of all the modified options was greater than the market price of the Company's underlying common stock on the date of their modification, no compensation expense was recorded in accordance with APB 25.

The primary purpose for modifying the terms of these options to accelerate their vesting was to eliminate the need to recognize remaining unrecognized non-cash compensation expense in the Company's statement of operations associated with these options as measured under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R is required to be adopted by the Company effective the beginning of the first quarter of 2006 and will require that compensation expense associated with stock options be recognized in the statement of operations, rather than only being disclosed in a pro forma footnote in the Company's consolidated financial statements.

The Company is currently evaluating the requirements of SFAS 123R and does not plan to adopt the new accounting standard prior to its required effective date. Although the effect of the adoption of SFAS 123R has not yet been determined, given the Company's historical SFAS 123 footnote disclosures the Company expects that the adoption of SFAS 123R will have a material effect on its financial statements. However, the Company has not yet finalized the valuation method to be used or the number of options to be used as a calculation base.

3. Related-Party Transactions

Fujitsu became a related party of the Company effective June 30, 2003 as a result of its 40 percent ownership interest in Spansion, the Company's majority-owned consolidated subsidiary. The following tables present the significant transactions between the Company and Fujitsu, directly and through its subsidiaries, including Spansion and certain of Spansion's subsidiaries, and balances receivable from or payable to Fujitsu as of, and for the periods, presented:

	Quarter Ended		Nine Months Ended	
	September 25, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Net sales to Fujitsu	\$ 258,889	\$ 250,899	\$ 688,929	\$ 861,030
Royalty fees due to Fujitsu	4,118	4,137	11,493	14,062
Service fees due to Fujitsu	4,566	8,158	15,952	25,400
Other purchases of goods and services from Fujitsu	17,845	17,084	50,536	48,341
Purchases of manufacturing services from Fujitsu	8,895	18,709	28,150	63,123
Commercial die purchases from Fujitsu	31,057	45,362	72,041	125,316
Cost of employees seconded from Fujitsu	90	3,465	7,012	9,997
Rental expense payments to Fujitsu	522	536	1,662	1,627

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	As of	
	September 25, 2005	December 26, 2004
	(In thousands)	
Accounts receivable from Fujitsu	\$ 204,383	\$ 172,871
Other receivable from Fujitsu	8,564	—
Accounts payable to Fujitsu	39,943	18,894
Accrued royalties payable to Fujitsu	4,118	8,180
Notes payable to Fujitsu	40,000	40,000

Effective December 27, 2004, Spansion and Fujitsu amended the Fujitsu Distribution Agreement to reduce the distribution margin from 7 percent to 6.5 percent. Effective April 1, 2005, Spansion and Fujitsu further amended the Fujitsu Distribution Agreement to reduce the distribution margin earned by Fujitsu on the sale of Spansion Flash memory products from a margin of generally 6.5 percent to a margin of generally 4.3 percent. The distribution margin earned by and payable to Fujitsu is accounted for as a reduction to net sales. Accordingly, the decrease in the distribution margin resulted in an increase in revenue from net sales to Fujitsu.

The royalty payable to Fujitsu represents the payments made by Spansion to Fujitsu for the use of specified intellectual property of Fujitsu.

The service fees to Fujitsu represent amounts paid by Spansion in exchange for services provided by Fujitsu, including information technology, research and development, quality assurance, insurance procurement, facilities, environmental and human resources services. These services are provided primarily to Spansion Japan Limited, Spansion's wholly owned subsidiary (Spansion Japan).

Other purchases of goods and services primarily relate to Spansion's purchases of power from Fujitsu in order to supply its wafer fabrication facilities in Japan. Fujitsu also provides manufacturing test and assembly services to Spansion on a contract basis. In addition, Spansion purchases commercial die from Fujitsu, which are packaged together with Spansion Flash memory products.

Prior to July 1, 2005, Fujitsu seconded certain employees to Spansion Japan. Spansion paid the employees seconded from Fujitsu directly.

In addition to the above transactions with Fujitsu, certain of Spansion Japan's employees were enrolled prior to September 1, 2005, in either a defined benefit pension plan or a lump-sum retirement benefit plan sponsored by Fujitsu. By agreement with Fujitsu, Spansion is required to fund those proportional benefit obligations attributable to the employees of Spansion Japan enrolled in these plans as of June 30, 2003. Until September 1, 2005, Spansion accounted for Spansion Japan's participation in these plans as multiemployer plans wherein the expense recorded for the plans was equal to the annual cash contributions. In addition, the Company also recorded an estimated accrued pension expense on its balance sheet based on the best available data and its understanding of the assets and liabilities that would be assigned to Spansion Japan when the withdrawal from the Fujitsu plans discussed below occurs.

Historically, the Fujitsu pension plans included a substitutional portion, which is based on the pay-related part of old-age pension benefits prescribed by the Japan Welfare Pension Insurance Law (JWPIL) and is similar to social security benefits in the United States. In 2001, the JWPIL was amended to allow employers to transfer the substitutional portion of employer pension plans back to the Japanese government. Fujitsu has announced that they will separate the substitutional portion from the Fujitsu pension plans and transfer the obligation and related plan assets to the Japanese government.

Through an arrangement with Fujitsu, Spansion Japan was scheduled to withdraw from the Fujitsu plans by no later than the end of 2005 and assume the pension obligation associated with its own employees. On June 29, 2005, Spansion Japan filed an application to form its own corporate pension plan with the Japanese Ministry of Health, Labor and Welfare. On September 1, 2005, Spansion Japan adopted the new Spansion Japan pension plan and changed the formula to a cash balance formula. On September 9, 2005, the plan was approved by the Japanese government. Spansion Japan transitioned into a non-contributory defined benefit pension plan for its employees.

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The effective date of the plan is September 1, 2005. Assets and obligations have been transferred from the Fujitsu Group Employee Pension Fund (“EPF”) to the newly adopted Spansion Japan pension plan.

Based on the preliminary actuarial valuation using a measurement date of September 1, 2005, as of September 25, 2005, the new Spansion Japan pension plan had Accumulated Benefit Obligation and Projected Benefit Obligation of \$82 million. As part of the transfer of benefits from the EPF, the new Spansion Japan pension plan also received \$49 million in pension assets directly from the EPF trust. In addition, Spansion Japan expects to contribute \$15 million to the new Spansion Japan pension plan during the fourth quarter of 2005.

The amount of pension cost and the unfunded pension liability related to these employees are not material to the Company’s consolidated financial statements. For the nine-month period ended September 25, 2005, the Company recorded pension cost of \$4 million, and as of September 25, 2005, the Company recorded a pension benefit obligation liability of \$35 million. Although the Company believes that the estimates and assumptions it has used in the preliminary actuarial valuation to record the pension cost and the related pension liability are reasonable, the actual amounts recorded could change when a full actuarial valuation is completed, which is expected to occur by end of 2005. However, the Company does not believe that such change would be material to its consolidated financial statements.

4. Financial Instruments

The following is a summary of the available-for-sale securities held by the Company as of September 25, 2005:

	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Market Value
(In thousands)				
Cash equivalents:				
Commercial paper	\$ 518,057	\$ —	\$ —	\$ 518,057
Money market funds	86,027	—	—	86,027
Time deposits	64,958	—	—	64,958
Total cash equivalents	\$ 669,042	\$ —	\$ —	\$ 669,042
Short-term investments:				
Auction rate preferred stocks	\$ 267,250	\$ —	\$ —	\$ 267,250
Commercial paper	231,956	—	—	231,956
Federal agency notes	36,846	—	—	36,846
Total short-term investments	\$ 536,052	\$ —	\$ —	\$ 536,052
Long-term investments:				
Equity investments (included in other assets)	\$ 3,942	\$ 2,680	\$ —	\$ 6,622
Grand Total	\$1,209,036	\$ 2,680	\$ —	\$1,211,716

Long-term equity investments consist of marketable equity securities that, while available for sale, the Company does not intend to use to fund current operations.

The Company did not realize any gain or loss from the sale of available-for-sale securities in the first nine months of 2005 compared to a net gain of \$7 million in the first nine months of 2004.

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At September 25, 2005 and December 26, 2004, the Company had \$13 million and \$14 million of investments classified as held to maturity, consisting of commercial paper and treasury notes used for long-term workers' compensation and leasehold deposits, which are classified as other long-term assets. The fair market value of these investments approximated their cost at September 25, 2005 and December 26, 2004.

5. Net Income (Loss) Per Common Share

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

	Quarter Ended		Nine Months Ended	
	September 25, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(In thousands except per share data)			
Numerator:				
Numerator for basic income per common share	\$ 76,000	\$ 43,848	\$ 69,896	\$ 121,119
Effect of assumed conversion of 4.50% convertible notes:				
Interest expense, net of tax	2,514	5,014	—	15,042
Profit sharing expense adjustment, net of tax	(251)	(501)	—	(1,504)
Numerator for diluted income per common share	\$ 78,263	\$ 48,361	\$ 69,896	\$ 134,657
Denominator:				
Denominator for basic income per share - weighted-average shares	399,025	355,254	395,839	353,412
Effect of dilutive securities:				
Employee stock options	17,315	7,709	13,747	10,506
4.50% convertible notes	27,341	54,613	—	54,613
Dilutive potential common shares	44,656	62,322	13,747	65,119
Denominator for diluted income per common share-adjusted weighted-average shares	443,681	417,576	409,586	418,531
Net income per common share:				
Basic	\$ 0.19	\$ 0.12	\$ 0.18	\$ 0.34
Diluted	\$ 0.18	\$ 0.12	\$ 0.17	\$ 0.32

Potential dilutive common shares totaling 21 million for the quarters ended September 25, 2005 and September 26, 2004 and 49 million and 21 million for the nine months ended September 25, 2005 and September 26, 2004 were not included in the net income per common share calculation, as 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 revenues and operating income before interest, taxes and minority interest. These performance measures include the allocation of expenses to the operating segments based on management's judgment.

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The Company's reportable segments include the Computation Products Group, which includes microprocessor products for desktop and mobile PCs, servers and workstations and chipset products, the Memory Products Group, which includes Flash memory products, and the Personal Connectivity Solutions Group, which includes primarily low-power, high-performance x86 and MIPS® architecture-based embedded microprocessors and products for global commercial and consumer markets. In addition to these three reportable segments, the Company also has the All Other category, which is not a reportable segment. It includes an operating segment as well as certain operating expenses and credits that are not allocated to any of the Company's operating segments because the CODM does not consider them in evaluating the operating performance of the Company's operating segments.

Beginning from the third quarter of 2005, the Company's All Other category also includes Personal Internet Communicator (PIC) products. From the third quarter of 2005, the CODM reviews the PIC operating segment separately. PIC is not a reportable segment because the operating results for the PIC operating segment constitute less than 10 percent of the combined profit of all the Company's operating segments. Prior to 2005, the Company did not generate revenues from sales of PIC products.

Prior period segment information has been reclassified to conform to the current period presentation because the Company previously included sales of PIC products in the Personal Connectivity Solutions Group.

The following table is a summary of net sales and operating income (loss) by segment with reconciliations to net income (loss) for the quarters and nine months ended September 25, 2005 and September 26, 2004:

	Quarter Ended		Nine Months Ended	
	September 25, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(In thousands)			
Computation Products Group				
Net sales	\$ 969,468	\$ 672,518	\$ 2,486,266	\$ 1,797,767
Operating income	208,706	89,479	410,421	214,266
Memory Products Group				
Net sales	515,639	537,608	1,425,362	1,838,585
Operating income (loss)	(49,581)	15,226	(248,930)	74,201
Personal Connectivity Solutions Group				
Net sales	35,432	29,333	94,771	101,377
Operating loss	(14,250)	(19,361)	(40,306)	(32,563)
All Other				
Net sales	2,216	—	2,902	—
Operating loss	(66,147)	(16,986)	(95,245)	(53,820)
Total				
Net sales	1,522,755	1,239,459	4,009,301	3,737,729
Operating income	78,728	68,358	25,940	202,084
Interest income and other, net	6,054	2,502	13,126	11,280
Interest expense	(30,615)	(25,148)	(80,513)	(83,258)
Minority interest in net income of subsidiaries	21,227	3,008	105,985	1,832
Provision (benefit) for income taxes	(606)	4,872	(5,358)	10,819
Net income	\$ 76,000	\$ 43,848	\$ 69,896	\$ 121,119

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7. Comprehensive Income (Loss)

Comprehensive income (loss) for the quarter and nine months ended September 25, 2005 was \$60 million and (\$157) million. The total comprehensive income for the quarter and nine months ended September 26, 2004 was \$38 million and \$74 million. The total comprehensive loss during nine months ended September 25, 2005 was due primarily to the net change in cumulative translation adjustments due to strengthening of the U.S. dollar against the European euro and the Japanese yen.

8. Guarantees

The Company accounts for and discloses guarantees in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

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

The following table summarizes the principal guarantees outstanding as of September 25, 2005 related to underlying liabilities that are already recorded on the Company's unaudited condensed consolidated balance sheet as of September 25, 2005 and their expected expiration dates by year. No incremental liabilities are recorded on the Company's unaudited condensed consolidated balance sheet for these guarantees.

	Amounts Guaranteed ⁽¹⁾	Remaining Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010 and Beyond
(In thousands)							
Spansion Japan term loan guarantee	\$ 51,269	\$ 6,409	\$25,634	\$19,226	\$ —	\$ —	\$ —
Spansion capital lease guarantees	48,621	12,249	33,108	3,264	—	—	—
Repurchase Obligations to Fab 36 partners ⁽²⁾	144,388	14,199	32,547	32,547	32,547	32,548	—
Total guarantees	\$ 244,278	\$ 32,857	\$91,289	\$55,037	\$32,547	\$32,548	\$ —

⁽¹⁾ Amounts represent the principal amount of the underlying obligations guaranteed and are exclusive of obligations for interest, fees and expenses.

⁽²⁾ This amount represents the silent partnership contributions received by AMD Fab 36 KG, a wholly owned subsidiary of AMD, as of September 25, 2005 from the unaffiliated limited partners under the Fab 36 partnership agreements. AMD Fab 36 Holding and AMD Fab 36 Admin are required to repurchase up to \$169 million of the partners' silent partnership contribution in annual installments beginning one year after the partner has contributed the full amount required under the partnership agreements. The Company guaranteed these obligations. As of September 25, 2005, Fab 36 Beteiligungs had contributed the full amount required under the partnership agreements, but Leipziger Messe had not contributed the full amount in accordance with the partnership agreements. Therefore, the condition precedent to the Company's repurchase obligations with respect to Leipziger Messe's silent partnership contribution had not been met. For purposes of this table, the Company assumed that Leipziger Messe will have contributed the full amount by December 2005.

Spansion Japan Term Loan Guarantee

In September 2003, the third-party loans of Fujitsu AMD Semiconductor Limited, the previous manufacturing joint venture between AMD and Fujitsu, or the Manufacturing Joint Venture, were refinanced from the proceeds of a term loan entered into between Spansion Japan, which owns the assets of the Manufacturing Joint Venture, and a Japanese financial institution. Under the agreement, the amounts borrowed bear an interest rate of TIBOR plus a spread that is determined by Fujitsu's current debt rating and Spansion Japan's non-consolidated net asset value as of the last day of its fiscal year. The interest rate was 0.86 percent as of September 25, 2005. Repayment occurs in equal, consecutive, quarterly principal installments ending in June 2007. As of September 25, 2005, \$85 million was outstanding under this term loan agreement. Fujitsu guaranteed 100 percent of the amounts outstanding under this

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facility. The Company agreed to reimburse Fujitsu for up to 60 percent of amounts paid by Fujitsu under its guarantee of this loan. In addition, Spansion Japan's assets are pledged to Fujitsu as security for the loan. The net book value of the pledged assets as of September 25, 2005 was \$264 million. Under this loan agreement, Spansion Japan is prevented from making distributions for dividends to Spansion in certain circumstances.

Spansion Capital Lease Guarantees

The Company has guaranteed certain capital lease obligations of Spansion and its subsidiaries totaling \$49 million as of September 25, 2005. The amount of the guarantees will be reduced by the actual amount of lease payments paid by Spansion over the terms of the leases.

Fab 36 Term Loan Guarantee

Pursuant to the terms of the partnership agreements, AMD Fab 36 Holding and AMD Fab 36 Admin are obligated to repurchase up to \$169 million of Leipziger Messe's and Fab 36 Beteiligungs' silent partnership contributions over time. Specifically, AMD Fab 36 Holding and AMD Fab 36 Admin are required to repurchase \$96 million of Leipziger Messe's silent partnership contributions in four installments of \$24 million each, commencing one year after Leipziger Messe has completed its aggregate partnership contributions, and Fab 36 Beteiligungs' silent partnership interest of \$72 million in annual 20 percent installments commencing in October 2005. AMD has guaranteed these obligations.

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

The following table summarizes the principal guarantees outstanding as of September 25, 2005, for which the related underlying liabilities are not recorded on the Company's unaudited condensed consolidated balance sheet as of September 25, 2005 and their expected expiration dates.

	Amounts Guaranteed ⁽¹⁾	Remaining Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010 and Beyond
	(in thousands)						
Spansion operating lease guarantees	\$ 11,879	\$ 796	\$ 8,008	\$ 2,050	\$ 1,025	\$—	\$ —
AMTC revolving loan guarantee	38,574	—	—	38,574	—	—	—
AMTC rental guarantee ⁽²⁾	125,988	—	—	—	—	—	125,988
Other	3,901	453	3,448	—	—	—	—
Total guarantees	\$ 180,342	\$ 1,249	\$ 11,456	\$ 40,624	\$ 1,025	\$—	\$ 125,988

⁽¹⁾ Amounts represent the principal amount of the underlying obligations guaranteed and are exclusive of obligations for interest, fees and expenses.

⁽²⁾ Amount of the guarantee diminishes as the rent is paid.

Spansion Operating Lease Guarantees

The Company has guaranteed certain operating leases entered into by Spansion and its subsidiaries totaling \$12 million as of September 25, 2005. The amounts guaranteed are reduced by the actual amount of lease payments paid by Spansion over the lease terms. No liability has been recognized for this guarantee under the provisions of FIN 45 because the guarantee is for a subsidiary's performance obligations.

Advanced Mask Technology Center and Maskhouse Building Administration Guarantees

The Advanced Mask Technology Center GmbH & Co. KG (AMTC) and Maskhouse Building Administration GmbH & Co., KG (BAC) are joint ventures formed by AMD, Infineon Technologies AG and DuPont Photomasks, Inc. for the purpose of constructing and operating an advanced photomask facility in Dresden, Germany. In April 2005 DuPont Photomasks, Inc. was acquired by Toppan Printing Co., Ltd. and became a wholly owned subsidiary of Toppan, named Toppan Photomasks, Inc. To finance the project, BAC and AMTC entered into a \$145 million revolving credit facility and a \$90 million term loan in December 2002. Also in December 2002, in order to occupy the photomask facility, AMTC entered into a rental agreement with BAC. With regard to these commitments by BAC and AMTC, as of September 25, 2005, the Company guaranteed up to \$39 million plus interest and expenses

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under the revolving loan, and up to \$19 million, initially, under the rental agreement. The obligations under the rental agreement guarantee diminish over time through 2011 as the term loan is repaid. However, under certain circumstances of default by the other tenant of the photomask facility under its rental agreement with BAC and certain circumstances of default by more than one joint venture partner under its rental agreement guarantee obligations, the maximum potential amount of the Company's obligations under the rental agreement guarantee is \$126 million. As of September 25, 2005, \$84 million was drawn under the revolving credit facility, and \$63 million was drawn under the term loan. The Company has not recorded any liability in its consolidated financial statements associated with the guarantees because they were issued prior to December 31, 2002, the effective date of FIN 45.

Warranties and Indemnities

The Company offers a three-year limited warranty to end users for certain of its boxed microprocessor products and generally offers a one-year limited warranty only to direct purchasers for all other products. Under limited circumstances, the Company may offer an extended limited warranty to direct purchasers of Flash memory products or of microprocessor products that are intended for systems targeted at the commercial and embedded end markets.

Changes in the Company's liability for product warranty during the nine months ended September 25, 2005 and September 26, 2004 were as follows:

	Nine Months Ended	
	September 25, 2005	September 26, 2004
	(In thousands)	
Balance, beginning of period	\$ 22,043	\$ 24,668
New warranties issued during the period	28,325	32,168
Settlements during the period	(23,838)	(12,131)
Changes in liability for pre-existing warranties during the period, including expirations	(7,544)	(15,944)
Balance, end of period	\$ 18,986	\$ 28,761

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.

9. Restructuring and Other Special Charges

2002 Restructuring Plan

In December 2002, the Company began implementing a restructuring plan (the 2002 Restructuring Plan) to further align its cost structure to the industry conditions at that time, including weak customer demand and industry-wide excess inventory.

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With the exception of the facility exit costs consisting primarily of remaining lease payments on abandoned facilities, net of estimated sublease income, which are payable through 2011, the Company has completed the activities associated with the 2002 Restructuring Plan.

The following table summarizes activities under the 2002 Restructuring Plan from December 26, 2004 through September 25, 2005:

	Facility Exit Costs
	(In thousands)
Accruals at December 26, 2004	\$ 105,676
First quarter 2005 cash payments	(5,243)
Accruals at March 27, 2005	\$ 100,433
Second quarter 2005 cash payments	(5,338)
Accruals at June 26, 2005	\$ 95,095
Third quarter 2005 cash payments	(4,920)
Accruals at September 25, 2005	\$ 90,175

As of September 25, 2005 and December 26, 2004, \$69 million and \$87 million of the total restructuring accruals of \$90 million and \$106 million were included in Other Liabilities (long-term) on the condensed consolidated balance sheets. (See Note 10)

10. Other Long-Term Liabilities

The Company's other long-term liabilities at September 25, 2005 and December 26, 2004 consisted of:

	September 25, 2005	December 26, 2004
	(In thousands)	
Fab 30/Fab 36 deferred grants and subsidies	\$ 275,789	\$ 274,150
Restructuring accrual (see Note 9)	69,098	86,680
Spansion pension liability (see Note 3)	35,300	25,890
Deferred gain on sale leaseback of building	20,547	21,807
Other	36,068	6,099
	\$ 436,802	\$ 414,626

11. Spansion Proposed Initial Public Offering

On April 13, 2005, Spansion filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering of its Class A common stock. The number of shares to be offered and the estimated price range for the common stock have not been determined. The Company does not know when, or if, an initial public offering will occur.

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In the event the proposed initial public offering is consummated, Spansion would receive the net proceeds from the offering, and the Company's ownership in Spansion would be reduced from its current ownership interest of 60 percent. At this time, the Company does not have enough information to quantify the potential financial impact of the proposed initial public offering, but the Company expects that it would have a material effect on the Company's financial condition and results of operations, including the following:

- The Company expects that its aggregate ownership interest in Spansion would be less than 50 percent and that it would no longer consolidate Spansion's results of operations and financial position in its consolidated financial statements;
- To the extent that Spansion's employees continue to hold unvested options to purchase AMD common stock, the Company would be required to account for these unvested options at then-current fair value each reporting period until the options are fully vested because Spansion's employees would no longer be considered employees of the "consolidated group";
- As of September 25, 2005, the Company guaranteed certain indebtedness of Spansion and its subsidiaries totaling \$112 million. Of this amount, \$100 million relates to underlying liabilities that are already recorded on the Company's unaudited condensed consolidated balance sheet, and no incremental liabilities are recorded for these guarantees because these guarantees are for the Company's majority-owned subsidiary. However, because the Company expects that it would no longer consolidate Spansion's results of operations and financial position, the Company would be required to record on its consolidated financial statements the fair value of those guarantees that were entered into or amended subsequent to December 31, 2002, the effective date of FIN 45. At this time, the Company has not finalized its evaluation of the fair value of these guarantees; and
- Depending on the valuation of Spansion's Class A common stock and the carrying value of the Company's interest in Spansion at the time of the initial public offering, the Company would realize either a gain or a loss upon the initial public offering, reflecting the reduction of its ownership interest in Spansion. The gain or loss would be calculated as the difference between Spansion's book value per share before and after the initial public offering multiplied by the number of shares owned by the Company.

Completion of the proposed initial public offering is subject to many conditions, including market conditions and regulatory approvals. Market conditions and other factors could result in, among other things, a delay in or withdrawal of the initial public offering or pursuit of alternative transactions.

Concurrent with and as a condition to consummating the proposed initial public offering, Spansion also currently intends to make a public offering of shares of mandatory convertible preferred stock and a debt offering pursuant to which senior unsecured notes in a private placement. Spansion intends to apply a portion of the net proceeds from the sale of the senior unsecured notes would be issued to repay a portion of its outstanding indebtedness, including certain indebtedness owed to the Company and to Fujitsu. To the extent that such repaid indebtedness was guaranteed by the Company or Fujitsu, the amount of Spansion debt guaranteed by the Company and Fujitsu would be reduced accordingly. Spansion has not determined the aggregate principal amount of the notes or the convertible preferred stock or the terms upon which the notes or the convertible preferred stock would be issued.

12. Debt and Capital Lease Obligation

Spansion Japan Revolving Loan Agreement

On September 20, 2005, Spansion Japan amended its revolving facility credit agreements with certain Japanese financial institutions and related ancillary agreements. The primary purpose of the amendment was to exclude Spansion Japan's non-Japanese yen-denominated accounts receivable due from Fujitsu Limited from the amounts held in trust pursuant to the terms of the accounts receivable trust agreement among the parties. As a result, pursuant to the amendment, such accounts receivable do not secure the amounts outstanding under the Spansion Japan revolving credit agreement. As a result of the exclusion of the accounts receivable described above, the aggregate loan amount available under the Spansion Japan revolving credit agreement was decreased from up to 15 billion yen to up to 10.5 billion yen (or \$93 million as of September 25, 2005). Specifically, Tranche A decreased from 6.0 billion yen to 4.2 billion yen (or \$37 million as of September 25, 2005), and Tranche B decreased from 9.0 billion yen to 6.3 billion yen (or \$56 million as of September 25, 2005). In addition, pursuant to the amendment, under certain circumstances, on December 24, 2005, either party can terminate the Spansion Japan revolving credit agreement or reduce the amounts available under Tranche A or Tranche B by giving the other party ten business days' prior written notice. Spansion Japan can draw under the facility until March 24, 2006. However, as described in more detail below, the total amount that Spansion Japan can draw is limited based on the value of Spansion Japan's accounts receivable from Fujitsu, which are pledged as security to the lenders.

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Amounts borrowed under tranche A bear interest at a rate equal to the Tokyo Interbank Offered Rate, or TIBOR, plus 0.55 percent. Amounts borrowed under tranche B bear interest at a rate of TIBOR plus 1.2 percent. Spansion Japan must first fully draw under tranche A prior to drawing amounts under tranche B. Borrowings must be used for working capital purposes and must be repaid no later than April 24, 2006.

As of September 25, 2005, 5.5 billion yen (\$49 million based on the exchange rate as of September 25, 2005) was outstanding under tranche A and no amounts were outstanding under tranche B. The amount outstanding under tranche A bore interest at a rate of 0.63 percent and was repaid by September 26, 2005. The amount is reflected as Notes Payable to Bank Under Revolving Loans in the Company's consolidated condensed balance sheet.

As security for amounts outstanding under this revolving facility, Spansion Japan pledged its accounts receivable from Fujitsu. The accounts receivable are held in trust pursuant to the terms of a trust agreement. Under the trust agreement, Spansion Japan is required to maintain the value of its accounts receivable at specified thresholds (as defined by the trust agreement), based upon the amounts outstanding under tranche A and tranche B. The trustee collects payments from Fujitsu into a separate trust account and releases these amounts to Spansion Japan less the specified threshold amounts that are required to be maintained. At any time when the accounts receivable balance in the trust account is less than the required threshold amount, Spansion Japan is required to do one of the following to cure the shortfall:

- provide additional cash to the trust; or
- repay a specified portion of the outstanding loans.

As of September 25, 2005, the amount of accounts receivable held in trust was \$93 million. Eight million of cash was also held in trust because the accounts receivable balance in the trust account was below the required threshold. The cash amount held in trust is recorded as restricted cash and included in the Company's Prepaid Expenses and Other Current Assets in the accompanying consolidated condensed balance sheet.

Spansion Japan Revolving Credit Facility

On September 20, 2005, Spansion Japan entered into an uncommitted revolving credit facility agreement with a Japanese financial institution in the aggregate principal amount of up to 5.0 billion yen (\$45 million as of September 25, 2005). Amounts borrowed under the facility bear interest at a rate equal to the TIBOR at the time of drawdown, plus a margin of 0.70 percent per annum. Borrowings must be used for working capital purposes, and each borrowing must be repaid one month after the initial drawdown date. The facility may be terminated by the financial institution with five days' written notice if it experiences increased costs in connection to any borrowings by Spansion Japan or if Spansion Japan gives five days' written notice of termination.

Pursuant to the terms of the facility, Spansion Japan agreed not to pledge any security to secure its obligations or any third party's obligations until the facility is terminated and all obligations are fulfilled by Spansion Japan. Amounts outstanding under the facility may become due and payable on demand upon the occurrence of specified events with respect to Spansion Japan, including: suspension of any payment by Spansion Japan; failure to pay any obligations under thereunder; filings or proceedings in bankruptcy; corporate reorganization procedures, corporate rearrangement, special liquidation or other similar legal procedures; a resolution for Spansion Japan's dissolution; the winding up of Spansion Japan's business; or if any attachment has been ordered with respect to Spansion Japan's accounts receivables.

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As of September 25, 2005, the amount outstanding under the revolving credit facility was 3.0 billion yen (\$27 million based on the exchange rate as of September 25, 2005). This amount bears interest at the rate of 0.75 percent and was repaid on October 25, 2005. The amount is reflected as Notes Payable to Bank Under Revolving Loans in the Company's consolidated condensed balance sheet.

Spansion Senior Secured Revolving Credit Facility

On September 19, 2005, Spansion entered into a new senior secured revolving credit facility with a certain domestic financial institution, as agent, and the lenders party thereto, in the aggregate amount of up to \$175 million.

The actual amounts available for borrowing under the revolving credit facility are based on 85 percent of Spansion's accounts receivable meeting eligibility requirements plus the lesser of 75 percent of the appraised fair market value of Spansion's Fab 25 facility in Austin, Texas, and the maximum real estate loan amount (as defined in the agreement) minus reserves that limit the availability of credit under the agreement from time to time established by the agent in its reasonable credit judgment. Amounts borrowed under the revolving credit facility bear interest at a rate equal to the "base rate," which is the prime rate publicly announced by the agent, or the London Interbank Offered Rate, or LIBOR, plus, in each case, a margin ranging from negative 0.25% to 0.50% for base rate loans and 1.25% to 2.0% for LIBOR loans. Borrowings under the revolving credit facility must be used to refinance existing indebtedness and for working capital purposes. The revolving credit facility will terminate and all outstanding borrowings must be repaid no later than September 19, 2010.

As of September 25, 2005, the amount outstanding under the revolving credit facility was \$60 million. This amount bears interest at the rate of 6.75 percent. Spansion used a portion of the amounts drawn to pay off in full the term loan agreement by and between Spansion and General Electric Capital Corporation, as agent, and the financial institutions named therein, dated as of July 11, 2003 ("July 2003 Spansion Term Loan").

Pursuant to the terms of the revolving credit facility agreement, and subject to certain exceptions, Spansion and its subsidiaries are not permitted, among other things, to:

- enter into any mergers, consolidations or sales of property except for Spansion's reorganization that would occur in connection with the proposed initial public offering, or sales of inventory, equipment and assets in the ordinary course of business;
- make any distributions to security holders except in certain circumstances;
- make investments, except for the purchase of inventory, equipment and intellectual property in the ordinary course of business, unless Spansion and its subsidiaries meet minimum liquidity requirements consisting of availability under the revolving credit facility and domestic cash of at least \$50 million prior to December 31, 2005 (or if earlier if Spansion consummates its proposed initial public offering) and \$200 million thereafter, provided, however, that investments are limited to no more than a total of \$50 million while the reduced minimum liquidity requirement is in place;
- incur additional debt other than the debt to be incurred concurrently with the proposed initial public offering (including the notes being offered in a private placement), capital leases, debt incurred by its foreign subsidiaries, and in limited cases, loans to subsidiaries;
- engage in transactions with affiliates unless in the normal course of business, negotiated at arms-length terms and the transactions are disclosed to the agent for the lenders;
- incur any new liens except for equipment leases and loans; and
- prepay any debt, except that debt of foreign subsidiaries may be prepaid by the applicable foreign subsidiary and Spansion may prepay any debt as long as after such repayment, Spansion meets minimum liquidity requirements consisting of availability under the revolving credit facility plus domestic cash of at least \$250 million.

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If the availability under the revolving credit facility is less than or equal to \$35 million during a fiscal quarter, Spansion will also be required to maintain EBITDA, as defined in the agreement, on a consolidated basis, on the last day of each of the fiscal quarter as follows:

<u>Period Ending</u>	<u>EBITDA</u>
	(In thousands)
12/25/2005	\$ 225,000
03/26/2006	\$ 300,000
07/02/2006	\$ 375,000
10/01/2006	\$ 450,000
12/31/2006	\$ 500,000

Beginning in 2007, the required EBITDA level will be determined by the agent based on current projections at that time of Spansion's financial condition, results of operations and cash flows.

As security for amounts outstanding under the revolving credit facility, Spansion pledged the stock of its domestic subsidiaries, the Fab 25 facility (other than production equipment contained therein) and all of its personal property. Spansion's equipment, inventory and intellectual property, as well as all assets and stock pledges of its foreign subsidiaries were excluded from the collateral securing the revolving credit facility.

Amounts outstanding under the revolving credit facility may become due and payable on demand upon the occurrence of specified events with respect to Spansion, including, among other things: failure to pay any obligations under the revolving credit facility that have become due; breach of any representation or warranty; failure to report certain financial information to the agent; failure to execute a guaranty in favor of the agent after the consummation of Spansion's proposed initial public offering and a joint agreement pursuant to which Spansion's parent company will become a party to this agreement; any default on third-party debt of outstanding principal amount exceeding \$25 million; filings or proceedings in bankruptcy; judgments or awards entered against Spansion of \$10 million or more that remain for 30 days after the entry thereof; termination, revocation or voidance of any liens securing the obligations under the revolving credit facility, for any reason other than the failure by the agent to perfect its liens; a change of control by which a person or group would acquire more than 30 percent of the combined voting power of all then-issued and outstanding voting interests of Spansion; and foreclosure on the Fab 25 facility.

Fab 36 Capital Lease Obligations

The Company's Dresden subsidiary, AMD Fab 36 Limited Liability Company & Co. KG, entered into energy supply contracts to provide the Company's manufacturing facility in Dresden, Germany, Fab 36 with utilities (gas, electricity, heating and cooling) to meet the energy demand for its manufacturing needs. The Company accounted for certain fixed payments due under these energy supply arrangements as capital leases pursuant to EITF 01-8, "Determining Whether an Arrangement Contains a Lease" and SFAS 13, "Accounting for Leases." As of September 25, 2005, \$118 million was outstanding related to these capital lease obligations, which is payable in monthly installments through 2020.

13. Subsequent Event

Redemption of the 4.50% Notes

On October 27, 2005, the Company issued a notice of redemption to the holders of the 4.50% Notes. The notice provides that the Company will redeem on December 5, 2005 all outstanding principal 4.50% Notes (which was \$200 million as of October 26, 2005). Holders of the 4.50% Notes will receive 101.80% of principal amount of the 4.50% Notes plus accrued and unpaid interest, if any, to, but excluding, the redemption date unless previously converted at the option of the holder.

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IBM “S” Process Development Agreement

On October 27, 2005, the Board of Directors of the Company approved entry by the Company into the Second Amended and Restated “S” Process Development Agreement (the “Development Agreement”) with International Business Machines Corporation (“IBM”), which the parties executed in August 2005. The rights and obligations set forth in the Development Agreement became effective upon approval by the Company’s Board of Directors. Under the Development Agreement, the Company and IBM agreed to continue to jointly develop new process technologies, including 32-nanometer, 22-nanometer and certain other advanced technologies, to be implemented on silicon wafers and to conduct laboratory-based research of emerging technologies. Furthermore, if the Company and IBM jointly develop bump technology, which is the technology associated with connecting an integrated circuit to a chip package, during the term of the Development Agreement, these technologies will be licensed to the Company under the terms of the Development Agreement.

In addition, the Development Agreement extends the licenses that have previously been granted to the Company with respect to 32-nanometer and more advanced technologies, grants the Company certain additional licenses to manufacture wafers for third parties and allows the Company to sublicense the jointly developed process technology in certain circumstances, including to a third-party foundry and a joint manufacturing facility owned by the Company and a third-party foundry.

The continuation of capital purchases by IBM necessary for process development projects under the Development Agreement past December 31, 2008 is conditioned upon the approval of IBM’s board of directors. If IBM’s board of directors does not approve this Development Agreement by September 30, 2007, either party has the right to terminate the Development Agreement effective December 31, 2008 without liability. In addition, the Development Agreement may be extended further by the mutual agreement of the parties, and can also be terminated immediately by either party if the other party permanently ceases doing business, becomes bankrupt or insolvent, liquidates or undergoes a change of control, or can be terminated by either party upon 30 days written notice upon a failure of the other party to perform a material obligation thereunder.

The Development Agreement also extends the joint development relationship for an additional three years, from December 31, 2008 to December 31, 2011. During the extended term, the Company will continue to pay fees for the additional joint development projects. Pursuant to the Development Agreement, from September 25, 2005 through the fiscal quarter ending December 25, 2011, the Company would pay IBM between \$518 million and \$578 million for its share of the costs of the development projects. The actual amounts to be paid to IBM are dependent upon the number of partners (including the Company and IBM) engaged in related development projects under the Development Agreement. The fees for the joint development projects are generally payable on a quarterly basis over the term of the Development Agreement. In addition, the Company agreed to pay IBM specified royalties upon the occurrence of certain events, including in the event the Company sublicenses the jointly developed process technologies to certain third parties or if the Company bumps wafers for a third party.

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

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report include forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "pro forma," "estimates," or "anticipates" or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. The forward-looking statements relate to, among other things: the potential initial public offering of Spansion's Class A common stock and related offering of shares of mandatory convertible preferred stock and debt offering; our sales, operating results and anticipated cash flows; capital expenditures; research and development expenses; marketing, general and administrative expenses; the development and timing of the introduction of new products and technologies, including the ORNAND architecture; Spansion's ability to implement 300-millimeter wafer manufacturing capacity; continued customer and market acceptance of our microprocessor products; continued customer and market acceptance of Spansion™ Flash memory products based on MirrorBit™ and floating gate technology, including the ORNAND architecture; our ability to remain competitive and maintain or increase our market position; our ability to maintain and develop key relationships with our existing and new customers; the ability to produce our microprocessor and Flash memory products in the volumes and mix required by the market, either in our own facilities or at foundries; our ability to maintain the level of investment in research and development and capacity that is required to remain competitive; our ability to transition to advanced manufacturing process technologies, including 65-nanometers for microprocessors and 90-nanometers for Flash memory, in a timely and effective way; our ability to achieve cost reductions in the amounts and in the timeframes anticipated; the timing of our process technology transitions in our wafer fabrication facilities, and the timing of the production ramp at these facilities and our ability to gain market share in high-growth global markets such as China, Latin America, India and Eastern Europe.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this report and our audited consolidated financial statements and related notes as of December 26, 2004 and December 28, 2003, and for each of the three years in the period ended December 26, 2004 as filed in our Annual Report on Form 10-K for the year ended December 26, 2004. Certain prior period amounts have been reclassified to conform to the current period presentation.

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Overview

We design, manufacture and market industry-standard digital integrated circuits, or ICs, that are used in diverse product applications such as desktop and mobile personal computers, or PCs, workstations, servers, communications equipment, such as mobile phones, and automotive and consumer electronics. Our products consist primarily of microprocessors and Flash memory devices. We also sell embedded microprocessors for personal connectivity devices and other consumer markets, including for the Personal Internet Communicator, or PIC, a consumer device that we believe will help provide affordable Internet access to first time technology users in high-growth markets such as Brazil, the Caribbean, China, India, Mexico and Russia. The PIC is manufactured by third-parties and is designed to be branded, marketed and sold by local service providers such as telecommunications companies and government-sponsored communications programs.

We review and assess operating performance using segment revenues and operating income before interest, taxes and minority interest. These performance measures include the allocation of expenses to the operating segments based on management judgment.

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We have three reportable business segments:

- the Computation Products segment, which includes microprocessor products for desktop and mobile PCs, servers and workstations and chipset products;
- the Memory Products segment, which includes Spansion Flash memory products; and
- the Personal Connectivity Solutions segment, which includes primarily low-power, high- performance x86 and MIPS architecture-based embedded microprocessors and products for global commercial and consumer markets.

In addition to our reportable segments, we also have the All Other category that is not a reportable segment. It includes an operating segment as well as certain operating expenses and credits that are not allocated to any of our operating segments because our Chief Executive Officer, who is our Chief Operating Decision Maker, does not consider these operating expenses and credits in evaluating the operating performance of our operating segments.

Beginning from the third quarter of 2005, our All Other category also includes our PIC products. From the third quarter of 2005, our CODM reviews the PIC operating segment separately. PIC is not a reportable segment because the operating results for the PIC operating segment constitute less than 10 percent of the combined profit of all our operating segments. Prior to 2005, we did not generate revenues from sales of PIC products.

Prior period segment information has been reclassified to conform to the current period presentation because we previously included sales of PIC products in the Personal Connectivity Solutions Group.

During the third quarter of 2005, we continued to improve our performance in the Computation Products segment and improved both our net sales and our operating performance in the Memory Products segment. Computation Products net sales increased 26 percent compared to the second quarter of 2005 and 44 percent compared to the third quarter of 2004 primarily due to increased demand for our AMD64-based processors. In Memory Products, net sales increased 12 percent compared to the second quarter of 2005 and decreased 4 percent compared to the third quarter of 2004. The improvement in Memory Products net sales compared to the second quarter of 2005 was due primarily to increased unit shipments.

In the near term, we believe critical success factors for AMD include our ability to:

- continue to increase market acceptance of our AMD64 technology;
- strengthen our relationships with key customers and establish relationships with new customers that are industry leaders in their markets;
- successfully develop and transition to the latest manufacturing process technologies, including 65-nanometers for our microprocessors and 90-nanometers for our Flash memory products;
- begin production at Fab 36, our 300-millimeter manufacturing facility in Dresden, Germany, and at a foundry on a timely basis and accelerate the production ramp at these facilities in accordance with market requirements;
- develop and introduce new products on a timely basis and achieve efficient and timely volume production of these products;
- control costs;
- Continue to increase market acceptance of products incorporating MirrorBit technology; and
- expand our participation in high-growth global markets, including China, Eastern Europe, India and Latin America.

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

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our revenue reserves, inventories, asset impairments, restructuring charges, 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 materially consistent with management's expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

Management believes there have been no significant changes during the quarter ended September 25, 2005 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 26, 2004.

RESULTS OF OPERATIONS

We use a 52- to 53-week fiscal year ending on the last Sunday in December. The quarters ended September 25, 2005, June 26, 2005 and September 26, 2004 each included 13 weeks. The nine months ended September 25, 2005 and September 26, 2004 each included 39 weeks.

The following is a summary of our net sales and operating income (loss) by segment and category for the periods presented below:

	Quarter Ended			Nine Months Ended	
	September 25, 2005	June 26, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(in millions)				
Net sales					
Computation Products Group	\$ 969	\$ 767	\$ 672	\$ 2,486	\$ 1,797
Memory Products Group	516	463	538	1,425	1,839
Personal Connectivity Solutions Group	36	30	29	95	101
All Other	2	—	—	3	—
Total Net Sales	\$ 1,523	\$ 1,260	\$ 1,239	\$ 4,009	\$ 3,737
Operating income (loss)					
Computation Products Group	\$ 209	\$ 110	\$ 89	\$ 411	\$ 214
Memory Products Group	(50)	(90)	15	(249)	74
Personal Connectivity Solutions Group	(14)	(12)	(19)	(40)	(33)
All Other	(66)	(15)	(17)	(96)	(53)
Total Operating Income (Loss)	\$ 79	\$ (7)	\$ 68	\$ 26	\$ 202

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Computation Products Group

Computation Products Group (CPG) net sales of \$969 million in the third quarter of 2005 increased 26 percent compared to net sales of \$767 million in the second quarter of 2005 primarily as a result of a 27 percent increase in unit shipments. Unit shipments increased due to greater demand for our AMD64-based processors and our Sempron processors. Average selling prices remained relatively flat compared to the second quarter of 2005. Geographically, sales increased in Greater China, India and Russia.

Computation Products Group net sales of \$969 million in the third quarter of 2005 increased 44 percent compared to net sales of \$672 million in the third quarter of 2004 primarily as a result of a 41 percent increase in unit shipments. Unit shipments increased due to greater demand for our AMD64-based processors and our Sempron processors. Average selling prices remained relatively flat compared to the third quarter of 2004.

Computation Products Group net sales of \$2,486 million in the first nine months of 2005 increased 38 percent compared to net sales of \$1,797 million in the first nine months of 2004 as a result of a 31 percent increase in unit shipments and a six percent increase in average selling prices. Unit shipments increased due to greater demand for our AMD64-based processors and our Sempron processors. The increase in average selling prices was primarily due to increased sales of our higher priced AMD64-based processors, which contributed to a richer product mix.

Computation Products Group operating income of \$209 million in the third quarter of 2005 improved by \$99 million from operating income of \$110 million in the second quarter of 2005, primarily as a result of a 26 percent increase in net sales.

Computation Products Group operating income of \$209 million in the third quarter of 2005 improved by \$120 million compared to operating income of \$89 million in the third quarter of 2004, primarily as a result of a 44 percent increase in net sales, partially offset by a 32 percent increase in operating expenses.

Computation Products Group operating income of \$410 million in the first nine months of 2005 improved by \$196 million compared to operating income of \$214 million in the first nine months of 2004, primarily as a result of a 38 percent increase in net sales, partially offset by a 31 percent increase in operating expenses.

Memory Products Group

Memory Products Group net sales of \$516 million in the third quarter of 2005 increased 12 percent compared to net sales of \$463 million in the second quarter of 2005. The increase in net sales was primarily attributable to an increase of 15 percent in unit shipments, partially offset by a three percent decrease in average selling prices. Unit shipments increased due to increased demand, especially for Flash memory products based on MirrorBit technology, which increased 35 percent from the second quarter of 2005 and represented 24 percent of Memory Product net sales in the third quarter of 2005.

Memory Products Group net sales of \$516 million in the third quarter of 2005 decreased four percent compared to net sales of \$538 million in the third quarter of 2004. The decrease in net sales was primarily attributable to a 32 percent decrease in average selling prices, partially offset by an increase of 40 percent in unit shipments. The decrease in net sales was also mitigated by a decrease in the distribution margin payable by Spansion to Fujitsu under the Fujitsu Distribution Agreement, which added \$4 million to Memory Products net sales in the third quarter of 2005. The distribution margin earned by Fujitsu on the sale of Spansion Flash memory products during the third quarter of 2004 was generally seven percent. The distribution margin earned by Fujitsu on the sale of Spansion Flash memory products during the third quarter of 2005 was generally 4.3 percent. Average selling prices decreased from the third quarter of 2004 as a result of adverse market conditions, including aggressive pricing due in most cases to oversupply of products in the NOR Flash memory market.

Memory Products Group net sales of \$1,425 million in the first nine months of 2005 decreased 23 percent compared to net sales of \$1,839 million in the first nine months of 2004. The decrease in net sales was primarily attributable to a 32 percent decrease in average selling prices, partially offset by an increase of 14 percent in unit shipments. Average selling prices decreased from the first nine months of 2004 as a result of adverse market conditions, including aggressive pricing due in most cases to oversupply of products in the NOR Flash memory market. The decrease in net sales for the period was mitigated by the reductions in the distribution margin payable by Spansion to Fujitsu under the Fujitsu Distribution Agreement. The distribution margin was reduced from a margin of generally seven percent to a margin of generally 6.5 percent as of December 27, 2004, and was subsequently reduced further from generally 6.5 percent to generally 4.3 percent as of April 1, 2005. These reductions added \$16 million to Memory Products net sales.

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Memory Products Group operating loss of \$50 million in the third quarter of 2005 decreased by \$40 million compared to operating loss of \$90 million in the second quarter of 2005. The decrease in operating loss was due primarily to a 12 percent increase in net sales.

Memory Products Group operating loss in the third quarter of 2005 was \$50 million compared to operating income of \$15 million in the third quarter of 2004. The decline in operating results was due primarily to a decrease in average selling prices of 32 percent partially offset by an increase in unit shipments of 40 percent.

Memory Products Group operating loss in the first nine months of 2005 was \$249 million compared to operating income of \$74 million in the first nine months of 2004. The decline in operating results was primarily due to a 23 percent decrease in net sales and a four percent increase in operating expenses partially offset by the reductions in the distribution margin payable to Fujitsu described above, which added \$16 million to Memory Products net sales.

Personal Connectivity Solutions Group

Personal Connectivity Solutions Group net sales of \$36 million in the third quarter of 2005 increased 20 percent compared to the second quarter of 2005 primarily due to increased sales of embedded processors.

Personal Connectivity Solutions Group net sales of \$36 million in the third quarter of 2005 increased 24 percent compared to the third quarter of 2004 primarily due to increased sales of embedded processors, particularly our MIPS architecture-based embedded microprocessors.

Personal Connectivity Solutions Group net sales of \$96 million in the first nine months of 2005 decreased five percent compared to net sales of \$101 million in the first nine months of 2004. Increased sales of embedded processors, particularly our MIPS architecture-based embedded microprocessors, were more than offset by decreased sales of AMD Geode microprocessors and certain "end of life" embedded and networking products.

Personal Connectivity Solutions Group operating loss of \$14 million in the third quarter of 2005 increased slightly compared to an operating loss of \$12 million in the second quarter of 2005.

Personal Connectivity Solutions Group operating loss of \$14 million in the third quarter of 2005 decreased by \$5 million compared to \$19 million in the third quarter of 2004. The decrease in operating loss was primarily due to the 24 percent increase in net sales described above.

Personal Connectivity Solutions Group operating loss of \$40 million in the first nine months of 2005 increased by \$7 million compared to \$33 million in the first nine months of 2004 primarily due to the five percent decrease in net sales described above.

All Other Category

Beginning in the third quarter of 2005, our PIC products are included under the All Other category. In previous periods, our PIC products were included under our Personal Connectivity Solutions segment.

All Other net sales of \$2 million in the third quarter of 2005 and \$3 million in the first nine months of 2005 represented sales of PIC products. We did not have revenue from PIC products prior to 2005.

All Other operating loss of \$66 million in the third quarter of 2005 increased by \$51 million compared to an operating loss of \$15 million in the second quarter of 2005 primarily due to an increase of \$48 million in corporate bonus and profit sharing expenses in the third quarter of 2005.

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All Other operating loss of \$66 million in the third quarter of 2005 increased by \$49 million compared to an operating loss of \$17 million in the third quarter of 2004, primarily due to an increase of \$38 million in corporate bonus and profit sharing expenses in the third quarter of 2005.

All Other operating loss of \$96 million in the first nine months of 2005 increased from \$53 million in the first nine months of 2004 primarily due to an increase in corporate bonus and profit sharing expenses in the first nine months of 2005 of \$29 million.

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

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

	Quarter Ended			Nine Months Ended	
	September 25, 2005	June 26, 2005	September 26, 2004	September 25, 2005	September 26, 2004
	(in millions except for percentages)				
Cost of sales	\$ 896	\$ 766	\$ 738	\$ 2,470	\$ 2,290
Gross margin percentage	41%	39%	40%	38%	39%
Research and development	\$ 289	\$ 273	\$ 231	\$ 815	\$ 682
Marketing, general and administrative	259	229	202	699	561
Restructuring and other special charges (recoveries), net	—	—	—	—	3
Interest income and other, net	(6)	(3)	(3)	(13)	(11)
Interest expense	31	26	25	81	83
Income tax provision (benefit)	(1)	(3)	5	(5)	11

Gross Margin

Gross margin of 41 percent in the third quarter of 2005 improved from 39 percent in the second quarter of 2005. The improvement in gross margin was primarily due to an improvement in the gross margin for Memory Products. Gross margin for Memory Products increased in the third quarter of 2005 as compared to the second quarter of 2005 due to a 15 percent increase in unit shipments, partially offset by a three percent decrease in average selling prices. Gross margin for Memory Products also was favorably impacted by three factors: a greater percentage of MirrorBit products shipped; a greater percentage of higher density products shipped; and increased utilization of Spansion's manufacturing facilities.

Gross margin of 41 percent in the third quarter of 2005 improved slightly from 40 percent in the third quarter of 2004. The improvement in gross margin from the third quarter of 2004 was primarily due to an improvement in the gross margin for Computation Products, partially offset by a decline in the gross margin for Memory Products. Gross margin for Computation Products increased due to an increase in unit shipments of 41 percent. Gross margin for Memory Products declined due primarily to a decrease of average selling prices of 32 percent partially offset by an increase of 40 percent in unit shipments.

Gross margin of 38 percent in the first nine months of 2005 declined slightly compared to 39 percent in the first nine months of 2004. The decline in the gross margin for Memory Products in the first nine months of 2005 was partially offset by an improvement in the gross margin for Computation Products. The decline in gross margin for Memory Products in the first nine months of 2005 was primarily due to a decrease in net sales of 23 percent relative to a decrease in cost of sales of only 7 percent. Cost of sales declined at a lower rate than net sales because many of our costs are fixed and cannot be reduced in proportion to the reduced revenues. The improvement in gross margin for Computation Products in the first nine months of 2005 was primarily due to a 38 percent increase in net sales described above.

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We record grants and allowances that we receive from the State of Saxony and the Federal Republic of Germany for Fab 30 or Fab 36, and we recorded the interest subsidies we received for Fab 30, as long-term liabilities on our financial statements. We amortize these amounts as they are earned as a reduction to operating expenses. We record the amortization of the production related grants and allowances as a credit to cost of sales. The credit to cost of sales totaled \$18 million in the third quarter of 2005, \$18 million in the second quarter of 2005 and \$17 million in the third quarter of 2004. The credit to cost of sales totaled \$54 million in the first nine months of 2005 and \$48 million in the first nine months of 2004. The fluctuations in the recognition of these credits have not significantly impacted our gross margins.

We are currently capitalizing construction and facilitation costs related to Fab 36. Once Fab 36 begins producing revenue-generating products, which we anticipate will be in the first quarter of 2006, we will begin depreciating these costs to cost of sales.

Expenses

Research and development expenses of \$289 million in the third quarter of 2005 increased 6 percent compared to \$273 million in the second quarter of 2005 and increased 25 percent compared to \$231 million in the third quarter of 2004. Research and development expenses of \$815 million in the first nine months of 2005 increased 20 percent compared to \$682 million in the first nine months of 2004.

Research and development expenses in the third quarter of 2005 increased from the second quarter of 2005 primarily due to an increase in corporate bonus and profit sharing expense payable to research and development personnel.

Research and development expenses in the third quarter of 2005 increased from the third quarter of 2004 primarily due to start-up costs of \$27 million associated with the Fab 36 project, an increase in corporate bonus and profit sharing expense payable to research and development personnel of \$7 million and increased product engineering costs for new generations of our microprocessors.

Research and development expenses in the first nine months of 2005 increased from the first nine months of 2004 primarily due to start-up costs of \$70 million associated with the Fab 36 project, increased product engineering costs for new generations of our microprocessors and an increase of \$16 million in research and development activities for Spansion Flash memory products.

From time to time, we also apply for and obtain subsidies from the State of Saxony, the Federal Republic of Germany and the European Union for certain research and development projects. We record the amortization of the research and development related grants and allowances as well as the research and development subsidies as a reduction of research and development expenses when all conditions and requirements set forth in the subsidy grant are met. The credit to research and development expenses was \$11 million in the third quarter of 2005, \$7 million in the second quarter of 2005 and \$9 million in the third quarter of 2004. The credit to research and development expenses totaled \$33 million in the first nine months of 2005 and \$18 million in the first nine months of 2004.

Marketing, general and administrative expenses of \$259 million in the third quarter of 2005 increased 13 percent compared to \$229 million in the second quarter of 2005 and increased 28 percent compared to \$202 million in the third quarter of 2004. Marketing, general and administrative expenses of \$699 million in the first nine months of 2005 increased 25 percent compared to \$561 million in the first nine months of 2004.

Marketing, general and administrative expenses increased in the third quarter of 2005 compared to the second quarter of 2005 primarily due to an increase in corporate bonus and profit sharing expense of \$12 million payable to marketing, general and administrative personnel and an increase in marketing development funds provided to our customers under our market development programs of \$8 million.

Marketing, general and administrative expenses increased in the third quarter of 2005 compared to the third quarter of 2004 primarily due to an increase in marketing development funds of \$23 million, increased spending for corporate sponsorships of \$16 million, an increase in corporate bonus and profit sharing expense of \$9 million payable to marketing, general and administrative personnel and an increase in legal expenses of \$9 million.

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Marketing, general and administrative expenses increased in the first nine months of 2005 compared to the first nine months of 2004 primarily due to an increase in marketing development funds of \$81 million, increased spending for corporate sponsorships of \$35 million, an increase in corporate bonus and profit sharing expense of \$7 million payable to marketing, general and administrative personnel and an increase in legal expense of \$16 million.

Effects of Our 2002 Restructuring Plan

In December 2002, we began implementing the 2002 Restructuring Plan to further align our cost structure to the industry conditions at that time, including weak customer demand and industry-wide excess inventory.

With the exception of the facility exit costs consisting primarily of remaining lease payments on abandoned facilities, net of estimated sublease income, which are payable through 2011, we have completed the activities associated with the 2002 Restructuring Plan.

The following table summarizes activities under the 2002 Restructuring Plan from December 26, 2004 through September 25, 2005:

	Facility Exit Costs
	(In thousands)
Accruals at December 26, 2004	\$ 105,676
First quarter 2005 cash payments	(5,243)
Accruals at March 27, 2005	\$ 100,433
Second quarter 2005 cash payments	(5,338)
Accruals at June 26, 2005	\$ 95,095
Third quarter 2005 cash payments	(4,920)
Accruals at September 25, 2005	\$ 90,175

Interest Income and Other, Net

Interest income and other, net, of \$6 million in the third quarter of 2005 increased from \$3 million in the second quarter of 2005 and the third quarter of 2004. Interest income from our cash and investments in the third quarter of 2005 of \$10 million increased from \$7 million in the second quarter of 2005 and \$4 million in the third quarter of 2004 primarily as a result of higher interest rates and higher average investment balances.

Interest income and other, net, in the first nine months of 2005 of \$13 million increased from \$11 million in the first nine months of 2004. Interest income from our cash and investments in the first nine months of 2005 was \$24 million compared with \$10 million in the first nine months of 2004 primarily as a result of higher interest rates and higher average investment balances. Interest income and other, net, in the first nine months of 2004 included a gain of \$7 million from sales of third-party securities that we held as equity investments, offset by a loss of \$6 million during the second quarter of 2004 in connection with our foreign currency forward contracts.

Interest Expense

Interest expense of \$31 million in the third quarter of 2005 increased from \$26 million in the second quarter of 2005 and \$25 million in the third quarter of 2004. The increase was primarily due to \$7 million of interest expense incurred in the third quarter of 2005 in connection with a capital lease between AMD Fab 36 Limited Liability Company and Co. KG and a local supplier for the supply of energy to Fab 36.

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Interest expense of \$81 million in the first nine months of 2005 decreased from \$83 million in the first nine months of 2004 for the following reasons: we capitalized an additional \$7 million of interest expense in the first nine months of 2005 in connection with our Fab 36 project, we prepaid our Fab 30 term loan in November 2004, which decreased interest expense by \$23 million, and we exchanged \$201 million of our 4.50% Notes for our common stock during the fourth quarter of 2004, which decreased interest expense by \$8 million. These decreases in interest expense were offset by additional interest expense of \$7 million on the Fab 36 capital lease mentioned above and \$36 million of interest incurred on the 7.75% Senior Notes due 2012 which we issued in October 2004.

Income Taxes

We recorded income tax benefits of \$0.6 million, or 1 percent of pre-tax income, in the third quarter of 2005 and \$3 million, or 38 percent of pre-tax loss, in the second quarter of 2005 and an income tax provision of \$5 million, or 10 percent of pre-tax income, in the third quarter of 2004. The income tax benefits recorded in the second and third quarters of 2005 were primarily for foreign tax benefits on losses by certain foreign subsidiaries. The income tax provision recorded in the third quarter of 2004 was primarily for taxes due on income generated by certain foreign subsidiaries. For 2005, the effective tax rate method was used for all taxable subsidiaries except Spansion Japan, where we used the cut-off method for 2005. Use of the cut-off method for Spansion Japan resulted in a smaller credit provision as a result of a valuation allowance recorded against Spansion Japan's net operating losses during the third quarter of 2005. For 2004, the effective tax rate method was used for all material subsidiaries.

The effective tax benefit rate for the nine months ended September 25, 2005 was 8 percent. The tax benefit of \$5 million for the nine months ended September 25, 2005 was primarily for foreign tax benefits on losses by certain foreign subsidiaries. The effective tax rate for the nine months ended September 26, 2004 was 8 percent. The tax provision of \$11 million for the nine months ended September 26, 2004 was primarily for taxes due on income generated by certain foreign subsidiaries.

Other Items

Foreign Operations

International net sales were 78 percent in the third quarter of 2005, 76 percent in the second quarter of 2005 and 77 percent in the third quarter of 2004. During the third quarter of 2005, 15 percent of our net sales were denominated in currencies other than the U.S. dollar, primarily the Japanese yen, as compared to 16 percent during the second quarter of 2005 and 21 percent during the third quarter of 2004. Sales denominated in foreign currencies consist primarily of sales by Spansion to Fujitsu, which are denominated in yen.

As a result of our foreign operations, we have net sales, costs, assets and liabilities that are denominated in foreign currencies. For example:

- a significant portion of our manufacturing costs for our microprocessor products is denominated in euro while sales of those products are denominated primarily in U.S. dollars;
- certain manufacturing costs for our Spansion Flash memory products are denominated in yen;
- certain manufacturing costs for both our Spansion Flash memory products and our microprocessor products are denominated in Chinese yuan renminbi as well as other foreign currencies such as the Thai baht and the Singapore dollar;
- some fixed asset purchases are denominated in euro and yen;
- some of the sales of our Flash memory products in Japan are denominated in yen; and
- certain costs of our Fab 36 project is denominated in euro.

As a consequence, movements in exchange rates could cause our expenses to increase as a percentage of net sales, affecting our profitability and cash flows. We use foreign currency forward and option contracts to reduce our exposure to currency fluctuations. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results. The net impact on our operating results from changes in foreign currency rates individually and in the aggregate has not been material, principally as a result of our foreign currency forward contracts and option contracts referenced above.

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FINANCIAL CONDITION

We have a substantial amount of debt. As of September 25, 2005, we had consolidated debt of \$2.0 billion.

Our cash, cash equivalents and short-term investments at September 25, 2005 totaled \$1.3 billion, which included \$119 million in cash, cash equivalents and short-term investments held by Spansion. Spansion's operating agreement governs its ability to use this cash balance for operations or to distribute it to us and Fujitsu. Pursuant to the operating agreement, and subject to restrictions contained in third-party loan agreements, Spansion must first distribute any cash balance to us and Fujitsu in an amount sufficient to cover each party's estimated tax liability, if any, related to Spansion's taxable income for each fiscal year. Any remaining cash balance after the tax liability distribution would be used by Spansion to fund its operations in accordance with its budget. If any cash remains, it must be used to repay Spansion's outstanding debt to us and Fujitsu. Any remaining cash after these distributions is distributed at the discretion of Spansion's Board of Managers to us and Fujitsu, pro rata, based on each party's membership interest at the time of distribution, which currently is 60 percent for AMD and 40 percent for Fujitsu.

Net Cash Provided by Operating Activities

Net cash provided by operating activities in the first nine months of 2005 was \$946 million. Our net income for the period was adjusted for non-cash charges, which were primarily depreciation and amortization. Accounts receivable increased in the first nine months of 2005 primarily due to the increase in net sales for Computation Products. Accounts payable and accrued liabilities increased in the first nine months of 2005 primarily due to purchases of equipment for Fab 36 and purchases of raw materials.

Net cash provided by operating activities in the first nine months of 2004 was \$724 million. Our net income for the period was adjusted for non-cash charges, which were primarily depreciation and amortization. The net changes in accounts payables and accrued liabilities in the first nine months of 2004 included refunds of customer deposits under long-term purchase agreements of \$21 million and royalty payments to a third party of \$39 million under a cross-license agreement. Accounts receivable increased in the first nine months of 2004 by \$236 million due to an increase in net sales of 62 percent. In addition, inventories increased in the first nine months of 2004 by \$112 million in anticipation of increased seasonal demand for our microprocessor and Flash memory products during the remainder of 2004. Substantially all of the increase in inventories was related to Flash memory products based on 110-nanometer technology and AMD64-based microprocessors.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$1,445 million in the first nine months of 2005. Cash was used primarily to purchase short-term investments and property, plant and equipment, including \$574 million for completing the construction and continuing with the facilitization of Fab 36.

Net cash used in investing activities was \$1,012 million in the first nine months of 2004. Cash was used primarily to purchase short-term investments and property, plant and equipment, including \$301 million for the continuing construction of Fab 36.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities was \$391 million in the first nine months of 2005, primarily from capital investment grants and allowances from the Federal Republic of Germany and the State of Saxony for the Fab 36 project, proceeds from an equipment sale leaseback transaction, proceeds from amounts borrowed under various Spansion credit facilities and sales of stock under our Employee Stock Purchase Plan and upon employee stock option exercises. These amounts were partially offset by payments on outstanding debt and capital lease obligations.

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Net cash provided by financing activities was \$99 million in the first nine months of 2004, primarily from \$74 million of silent partnership contributions and \$91 million of limited partnership contributions in AMD Fab 36 KG from the unaffiliated limited partners, amounts borrowed by our subsidiaries under short-term loans, proceeds from an equipment sale leaseback transaction and sales of stock under our Employee Stock Purchase Plan and upon employee stock option exercises. These amounts were partially offset by payments on debt and capital lease obligations.

Liquidity

We believe that cash flows from operations and current cash balances, together with currently available credit facilities (see “Revolving Credit Facilities,” below) and external financing, will be sufficient to fund operations and currently planned capital investments in the short-term (next twelve months) and long-term. We also believe we have sufficient financing arrangements in place to fund the Fab 36 project through 2007. See “Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements,” below. Should additional funding be required, such as to meet payment obligations of our long-term debt when due, we may need to raise the required funds through bank borrowings, or from issuances of additional debt or equity securities, which may be issued from time to time under an effective registration statement, through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933 or a combination of one or more of the foregoing. We believe that, in the event of such requirements, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, we cannot be certain that such funding will be available in quantities or on terms favorable to us.

Revolving Credit Facilities

AMD Revolving Credit Facility

Our revolving credit facility provides for a secured revolving line of credit of up to \$100 million that expires in July 2007. We can borrow, subject to amounts set aside by the lenders, up to 85 percent of our eligible accounts receivable from OEMs and 50 percent of our eligible accounts receivable from distributors. As of September 25, 2005, no borrowings were outstanding under our revolving credit facility.

Pursuant to the terms of our revolving credit facility, we have to comply with, among other things, the following financial covenants if our net domestic cash (as defined in our revolving credit facility) declines below \$125 million:

- restrictions on our ability to pay cash dividends on our common stock;
- maintain an adjusted tangible net worth (as defined in our revolving credit facility) as follows:

<u>Measurement Date</u>	<u>Amount</u>
	(in millions)
Last day of each fiscal quarter in 2005	\$ 1,850
Last day of each fiscal quarter thereafter	\$ 2,000

- achieve EBITDA (earnings before interest, taxes, depreciation and amortization) of \$1,050 million, measured at the end of each fiscal quarter on a rolling four-fiscal quarter basis.

As of September 25, 2005, net domestic cash, as defined, totaled \$1.1 billion and the preceding financial covenants were not applicable. Our obligations under our revolving credit facility are secured by all of our accounts receivable, inventory, general intangibles (excluding intellectual property) and the related proceeds, excluding Spansion’s accounts receivable, inventory and general intangibles.

Contractual Cash Obligations and Guarantees

The following table summarizes our principal contractual cash obligations as of September 25, 2005, and is supplemented by the discussion following the table.

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Principal contractual cash obligations as of September 25, 2005 were:

	Total	Remaining Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010 and beyond
				(in thousands)			
4.75% Convertible Debentures	\$ 500,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 500,000
4.50% Convertible Notes	201,500	—	—	201,500	—	—	—
7.75% Notes	600,000	—	—	—	—	—	600,000
Repurchase Obligations to Fab 36 Partners ⁽¹⁾	144,388	14,199	32,547	32,547	32,547	32,548	—
Spansion Senior Secured Revolving Credit Facility	60,015	—	—	—	—	—	60,015
Spansion Japan Term Loan	85,447	10,681	42,724	32,042	—	—	—
Spansion Japan Revolving Loan	48,954	48,954	—	—	—	—	—
Spansion Japan Revolving Facility	26,702	26,702	—	—	—	—	—
Fujitsu Cash Note	40,000	10,000	30,000	—	—	—	—
AMD Penang Term Loan	5,231	383	1,531	1,531	1,531	255	—
Spansion China Loan	19,630	19,630	—	—	—	—	—
Capital Lease Obligations	277,531	24,130	94,886	48,916	4,778	5,187	99,634
Other Long-term Liabilities	22,363	—	3,445	4,895	4,895	2,962	6,166
Operating Leases ⁽²⁾	399,959	19,468	78,325	59,661	46,709	38,349	157,447
Unconditional Purchase Commitments ⁽²⁾⁽³⁾	1,264,140	75,458	333,907	319,419	197,058	61,069	277,229
Total principal contractual cash obligations	\$ 3,695,860	\$ 249,605	\$ 617,365	\$ 700,511	\$ 287,518	\$ 140,370	\$ 1,700,491

⁽¹⁾ This amount represents the silent partnership contributions received by our subsidiary AMD Fab 36 Limited Liability Company & Co. KG, or AMD Fab 36 KG, as of September 25, 2005 from the unaffiliated limited partners, Fab 36 Beteiligungs and Leipziger Messe, under the Fab 36 partnership agreements. AMD Fab 36 Holding GmbH, our wholly owned subsidiary that owns substantially all of our limited partnership interest in AMD Fab 36 KG, and AMD Fab 36 Admin GmbH, our indirect wholly owned subsidiary that owns the remainder of our limited partnership interest in AMD Fab 36 KG, are required to repurchase up to \$169 million of the unaffiliated limited partners' silent partnership contributions in annual installments beginning one year after the partner has contributed the full amount required under the partnership agreements. As of September 25, 2005, Fab 36 Beteiligungs had contributed the full amount required under the partnership agreements, but Leipziger Messe had not contributed the full amount in accordance with the partnership agreements. Therefore, the condition precedent to our repurchase obligations with respect to Leipziger Messe's silent partnership contribution had not been met. For purposes of this table, we assumed that Leipziger Messe will have contributed the full amount by December 2005. See "Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements," below.

⁽²⁾ Lease and purchase obligations that are cancelable upon notice and without significant penalties are not included in the amounts above.

⁽³⁾ We have unconditional purchase commitments for goods and services where payments are based, in part, on the volume or the types of services we require. In those cases, where determinable, we only included the minimum volume or purchase commitment in the table above.

4.75% Convertible Senior Debentures Due 2022

On January 29, 2002 we issued \$500 million of our 4.75% Convertible Senior Debentures due 2022 (the 4.75% Debentures) in a private offering pursuant to Rule 144A and Regulation S of the Securities Act.

The interest rate payable on the 4.75% Debentures will reset on August 1, 2008, August 1, 2011 and August 1, 2016 to a rate equal to the interest rate payable 120 days prior to the reset dates on 5-year U.S. Treasury Notes, plus 43 basis points. The interest rate cannot be less than 4.75 percent and cannot exceed 6.75 percent. Holders have the right to require us to repurchase all or a portion of our 4.75% Debentures on February 1, 2009, February 1, 2012, and February 1, 2017. The holders of the 4.75% Debentures also have the ability to require us to repurchase the 4.75% Debentures in the event that we undergo specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100 percent of the principal amount of the 4.75%

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Debentures plus accrued and unpaid interest. The 4.75% Debentures are convertible by the holders into our common stock at a conversion price of \$23.38 per share at any time. At this conversion price, each \$1,000 principal amount of the 4.75% Debentures will be convertible into 43 shares of our common stock. Issuance costs incurred in the amount of \$14 million are amortized ratably, which approximates the effective interest method, over the term of the 4.75% Debentures, as interest expense.

Since February 5, 2005, the 4.75% Debentures have been redeemable by us for cash at our option at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest, provided that we may not redeem the 4.75% Debentures prior to February 5, 2006, unless the last reported sale price of our common stock is at least 130 percent of the then-effective conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date of the redemption notice. As of September 25, 2005, we would not have been able to redeem the 4.75% Debentures because the requirement set forth above was not met.

The redemption prices for the specified periods are as follows:

<u>Period</u>	<u>Price as a Percentage of Principal Amount</u>
Beginning on February 5, 2005 through February 4, 2006	102.375%
Beginning on February 5, 2006 through February 4, 2007	101.583%
Beginning on February 5, 2007 through February 4, 2008	100.792%
Beginning on February 5, 2008	100.000%

We may elect to purchase or otherwise retire our 4.75% Debentures 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 that market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations.

4.50% Convertible Senior Notes Due 2007

On November 25, 2002, we issued \$402.5 million of 4.50% Convertible Senior Notes due 2007 (the 4.50% Notes) in a registered offering. During the fourth quarter of 2004, we exchanged an aggregate of \$201 million of these 4.50% Notes for 29,391,261 shares of our common stock. Accordingly, as of September 25, 2005, \$201.5 million of our 4.50% Notes were outstanding. Interest on the 4.50% Notes is payable semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2003. Beginning on December 4, 2005, the remaining 4.50% Notes will be redeemable by us at our option for cash at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest, provided that we may not redeem the 4.50% Notes unless the last reported sale price of our common stock is at least 150 percent of the then-effective conversion price for at least 20 trading days within a period of 30 trading days ending within five trading days of the date of the redemption notice.

The redemption prices for the specified periods are as follows:

<u>Period</u>	<u>Price as a Percentage of Principal Amount</u>
Beginning on December 4, 2005 through November 30, 2006	101.800%
Beginning on December 1, 2006 through November 30, 2007	100.900%
On December 1, 2007	100.000%

The remaining 4.50% Notes are convertible at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date of December 1, 2007, unless previously redeemed or repurchased, into shares of common stock at a conversion price of \$7.37 per share, subject to adjustment in certain circumstances. At this conversion price, each \$1,000 principal amount of the remaining 4.50% Notes will be convertible into 135 shares of our common stock. Six million of the original issuance costs associated with the remaining 4.50% Notes continue to be amortized ratably over the term of the 4.50% Notes, as interest expense, approximating the effective interest method.

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Holders have the right to require us to repurchase all or a portion of our remaining 4.50% Notes in the event that we undergo specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100 percent of the principal amount of the 4.50% Notes plus accrued and unpaid interest.

We may elect to purchase or otherwise retire the remainder of our 4.50% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer when we believe that market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations.

On October 27, 2005 we issued a notice of redemption to the holders of the 4.50% Notes. The notice provides that we will redeem on December 5, 2005 all outstanding principal 4.50% Notes (which was \$200 million as of October 26, 2005). Holders of the 4.50% Notes will receive 101.80% of principal amount of the 4.50% Notes plus accrued and unpaid interest, if any, to, but excluding, the redemption date unless previously converted at the option of the holder.

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 (the 7.75% 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. Prior to November 1, 2008, we may redeem some or all of the 7.75% Notes at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a “make-whole” premium, as defined in the agreement. Thereafter, we may redeem the 7.75% Notes for cash at the following specified prices plus accrued and unpaid interest:

<u>Period</u>	<u>Price as Percentage of Principal Amount</u>
Beginning on November 1, 2008 through October 31, 2009	103.875%
Beginning on November 1, 2009 through October 31, 2010	101.938%
Beginning on November 1, 2010	100.000%

In addition, on or prior to November 1, 2007, we may redeem up to 35 percent of the 7.75% Notes with the proceeds of certain sales of our equity securities at 107.75 percent of the principal amount thereof, plus accrued and unpaid interest.

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% 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 except Spansion and its subsidiaries, from:

- incurring additional indebtedness;
- paying dividends and making other restricted payments;
- making certain investments, including investments in our unrestricted subsidiaries;

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- 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 or merging or selling our assets as an entirety or substantially as an entirety.

Issuance costs incurred in connection with this transaction in the amount of \$13 million are being amortized ratably over the term of the 7.75% Notes as interest expense, approximating the effective interest method.

We may elect to purchase or otherwise retire 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 that 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

We are facilitating Fab 36, which is located adjacent to Fab 30. Fab 36 is owned by a German limited partnership named AMD Fab 36 Limited Liability Company & Co. KG, or AMD Fab 36 KG. We control the management of AMD Fab 36 KG through a wholly owned Delaware subsidiary, AMD Fab 36 LLC, which is a general partner of AMD Fab 36 KG. AMD Fab 36 KG is our indirect consolidated subsidiary. We expect that Fab 36 will produce future generations of our microprocessor products, and that it will be in production in the first quarter of 2006.

AMD, Leipziger Messe GmbH, a nominee of the State of Saxony, Fab 36 Beteiligungs GmbH & Co. KG, an investment consortium arranged by M+W Zander Facility Engineering GmbH, the general contractor for the project, and a consortium of banks are providing financing for the project. Leipziger Messe and Fab 36 Beteiligungs are the unaffiliated limited partners in AMD Fab 36 KG. We also anticipate receiving up to approximately \$654 million in grants and allowances from federal and state German authorities for the Fab 36 project, depending on the level of capital investments by AMD Fab 36 KG. We currently expect that capital expenditures for Fab 36, from commencement of the project through 2007, will be approximately \$2.5 billion in the aggregate.

The funding to construct and facilitate Fab 36 consists of:

- equity contributions from us of a total of \$705 million under the partnership agreements, of which \$210 million remains to be contributed as of September 25, 2005; revolving loans from us of up to \$904 million, and guarantees from us for amounts owed by AMD Fab 36 KG and its affiliates to the lenders and unaffiliated limited partners;
- investments of up to a total of up to \$386 million from Leipziger Messe and Fab 36 Beteiligungs, of which \$58 million remains to be invested as of September 25, 2005;
- loans of up to \$844 million from a consortium of banks;
- up to \$654 million of subsidies consisting of grants and allowances, from the Federal Republic of Germany and the State of Saxony, depending on the level of capital investments by AMD Fab 36 KG, of which \$198 million of cash has been received as of September 25, 2005; and
- a loan guarantee from the Federal Republic of Germany and the State of Saxony of 80 percent of the losses sustained by the lenders referenced above after foreclosure on all other security.

As of September 25, 2005, we had contributed \$495 million of equity in AMD Fab 36 KG and \$42 million of revolving loans were outstanding. These amounts have been eliminated in our consolidated financial statements.

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On April 21, 2004, AMD, AMD Fab 36 KG, AMD Fab 36 LLC, AMD Fab 36 Holding GmbH, our wholly owned subsidiary that owns substantially all of our limited partnership interest in AMD Fab 36 KG, and AMD Fab 36 Admin GmbH, our indirect wholly owned subsidiary that owns the remainder of our limited partnership interest in AMD Fab 36 KG, (collectively referred to as the AMD companies) entered into a series of agreements (the partnership agreements) with the unaffiliated limited partners of AMD Fab 36 KG, Leipziger Messe and Fab 36 Beteiligungs, relating to the rights and obligations with respect to their capital contributions in AMD Fab 36 KG. The partnership has been established for an indefinite period of time. A partner may terminate its participation in the partnership by giving twelve months advance notice to the other partners. The termination becomes effective at the end of the year following the year during which the notice is given. However, other than for good cause, a partner's termination would not be effective before December 31, 2015.

Also on April 21, 2004, AMD Fab 36 KG entered into a term loan agreement and other related agreements (the Fab 36 Loan Agreements) with a consortium of banks led by Dresdner Bank AG, a German financial institution, to finance the purchase of equipment and tools required to operate Fab 36. The consortium of banks agreed to make available up to \$844 million in loans to AMD Fab 36 KG upon its achievement of specified milestones, including attainment of "technical completion" at Fab 36, which requires certification by the banks' technical advisor that AMD Fab 36 KG has a wafer fabrication process suitable for high-volume production of advanced microprocessors and has achieved specified levels of average wafer starts per week and average wafer yields, as well as cumulative capital expenditures of \$1.2 billion. We currently anticipate that AMD Fab 36 KG will attain these milestones and first be able to draw on the loans in 2006. The amounts borrowed under the Fab 36 Loan Agreements are repayable in quarterly installments commencing in September 2007 and terminating in March 2011.

AMD Fab 36 KG pledged substantially all of its current and future assets as security under the Fab 36 Loan Agreements, we pledged our equity interest in AMD Fab 36 Holding and AMD Fab 36 LLC, AMD Fab 36 Holding pledged its equity interest in AMD Fab 36 Admin and its partnership interest in AMD Fab 36 KG, and AMD Fab 36 Admin and AMD Fab 36 LLC pledged all of their partnership interests in AMD Fab 36 KG. We guaranteed the obligations of AMD Fab 36 KG to the lenders under the Fab 36 Loan Agreements. We also guaranteed repayment of grants and allowances by AMD Fab 36 KG, should such repayment be required pursuant to the terms of the subsidies provided by the federal and state German authorities.

Pursuant to the terms of the guarantee between us and the lenders, we have to comply with specified adjusted tangible net worth and EBITDA financial covenants if the sum of our and our subsidiaries' cash, cash equivalents and short-term investments, less the amount outstanding under any third-party revolving credit facility or term loan agreement with an original maturity date for amounts borrowed of up to one year (group consolidated cash), declines below the following amounts:

Amount (in thousands)	if Moody's Rating is at least		if Standard & Poor's Rating is at least
\$500,000	B1 or lower	and	B+ or lower
425,000	Ba3	and	BB-
400,000	Ba2	and	BB
350,000	Ba1	and	BB+
300,000	Baa3 or better	and	BBB-or better

As of September 25, 2005, group consolidated cash was greater than \$500 million, and therefore, the preceding financial covenants were not applicable.

The partnership agreements set forth each limited partner's aggregate capital contribution to AMD Fab 36 KG and the milestones for such contributions. Pursuant to the terms of the partnership agreements, AMD, through AMD Fab 36 Holding and AMD Fab 36 Admin, agreed to provide an aggregate of \$705 million, of which \$210 million remains to be contributed as of September 25, 2005, Leipziger Messe agreed to provide an aggregate of \$241 million and Fab 36 Beteiligungs agreed to provide an aggregate of \$145 million. The capital contributions of Leipziger Messe and Fab 36 Beteiligungs are comprised of limited partnership contributions and silent partnership contributions, collectively referred to as the partnership contributions or interests. These contributions are due at various dates upon the achievement of milestones relating to the construction and operation of Fab 36.

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The partnership agreements also specify that the unaffiliated limited partners will receive a guaranteed rate of return of between 11 percent and 13 percent per annum on their total partnership contributions depending upon the monthly wafer output of Fab 36. We guaranteed these payments by AMD Fab 36 KG.

In April 2005, we amended the partnership agreements in order to restructure the proportion of Leipziger Messe's silent partnership and limited partnership contributions. Although the total aggregate amount that Leipziger Messe has agreed to provide remained unchanged, the portion of its contribution that constitutes limited partnership interests was reduced by \$60 million while the portion of its contribution that constitutes silent partnership interests was increased by a corresponding amount. In this report, we refer to this additional silent partnership contribution as the New Silent Partnership Amount.

Pursuant to the terms of the partnership agreements and subject to the prior consent of the Federal Republic of Germany and the State of Saxony, AMD Fab 36 Holding and AMD Fab 36 Admin have a call option over the partnership interests held by Leipziger Messe and Fab 36 Beteiligungs, first exercisable three and one-half years after the relevant partner has completed its capital contribution and every three years thereafter. Also, commencing five years after completion of the relevant partner's capital contribution, Leipziger Messe and Fab 36 Beteiligungs each have the right to sell their partnership interest to third parties (other than competitors), subject to a right of first refusal held by AMD Fab 36 Holding and AMD Fab 36 Admin, or to put their partnership interest to AMD Fab 36 Holding and AMD Fab 36 Admin. The put option is thereafter exercisable every three years. Leipziger Messe and Fab 36 Beteiligungs also have a put option in the event they are outvoted at AMD Fab 36 KG partners' meetings with respect to certain specified matters such as increases in the partners' capital contributions beyond those required by the partnership agreements, investments from the partners' significantly in excess of the business plan, or certain dispositions of the limited partnership interests of AMD Fab 36 Holding and AMD Fab 36 Admin. The purchase price under the put option is the partner's capital account balance plus accumulated or accrued profits due to such limited partner. The purchase price under the call option is the same amount, plus a premium of \$4.2 million to Leipziger Messe and a premium of \$2.5 million to Fab 36 Beteiligungs. The right of first refusal price is the lower of the put option price or the price offered by the third party that triggered the right. We guaranteed the payments under the put options.

In addition, AMD Fab 36 Holding and AMD Fab 36 Admin are obligated to repurchase Leipziger Messe's and Fab 36 Beteiligungs' silent partnership contributions over time. This mandatory repurchase obligation does not apply to the New Silent Partnership Amount. Specifically, AMD Fab 36 Holding and AMD Fab 36 Admin are required to repurchase \$96 million of Leipziger Messe's silent partnership contributions in four installments of \$24 million each, commencing one year after Leipziger Messe has completed its aggregate partnership contributions, and Fab 36 Beteiligungs' silent partnership contributions of \$72 million in annual 20 percent installments commencing in October 2005. On September 30, 2005, AMD Fab 36 Holding and AMD Fab 36 Admin repurchased \$14 million of Fab 36 Beteiligungs' silent partnership contributions.

For accounting and financial reporting purposes under United States generally accepted accounting principles, we classified the portion of the silent partnership contribution that is mandatorily redeemable as debt, based on its fair value at the time of issuance because of the mandatory redemption features described in the prior paragraph. Each accounting period, we increase the carrying value of this debt towards our ultimate redemption value of the silent partnership contributions by the guaranteed annual rate of return of between 11 percent to 13 percent. We classify this periodic accretion to redemption value as interest expense.

The limited partnership contributions that AMD Fab 36 KG expects to receive from Leipziger Messe and Fab 36 Beteiligungs and the New Silent Partnership Portion described above are not mandatorily redeemable, but rather are subject to redemption outside of the control of AMD Fab 36 Holding and AMD Fab 36 Admin. Upon consolidation, we initially record these contributions as minority interest, based on their fair value. Each accounting period, we increase the carrying value of this minority interest toward our ultimate redemption value of these contributions by the guaranteed rate of return of between 11 percent and 13 percent. We classify this periodic accretion of redemption value as an additional minority interest allocation. No separate accounting is required for the put and call options because they are not freestanding instruments and not considered derivatives under SFAS 133, Accounting for Derivative Instruments and Hedging Activities.

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As of September 25, 2005, AMD Fab 36 KG received \$145 million of silent partnership contributions and \$183 million of limited partnership contributions, which includes a New Silent Partnership Amount of \$48 million, from the unaffiliated limited partners. These contributions were recorded as debt and minority interest, respectively, in the accompanying consolidated balance sheet.

In addition to support from us and the consortium of banks referred to above, the Federal Republic of Germany and the State of Saxony have agreed to support the Fab 36 project 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 of up to \$654 million, depending on the level of capital investments by AMD Fab 36 KG.

In connection with the receipt of subsidies for the Fab 36 project, AMD Fab 36 KG is required to attain a certain employee headcount by December 2007 and maintain this headcount through December 2012. We record the subsidies as long-term liabilities on our financial statements and amortize them to operations ratably starting from December 2004 through December 2012. Currently, we amortize these amounts as a reduction to research and development expenses. At such time as Fab 36 begins producing revenue-generating products, which we expect to be in the first quarter of 2006, we will amortize these amounts as a reduction to cost of sales. Noncompliance with the covenants contained in the subsidy grant documents could result in forfeiture of all or a portion of the future amounts to be received, as well as the repayment of all or a portion of amounts received to date.

As of September 25, 2005, AMD Fab 36 KG received cash allowances of \$68 million for investments made in 2003 and 2004 as well as cash grants of \$130 million consisting of both grants for investments made in 2003 and 2004 and a prepayment for investments planned in 2005 and the first half of 2006.

The Fab 36 Loan Agreements also require that we:

- provide funding to AMD Fab 36 KG if cash shortfalls occur, including funding shortfalls in government subsidies resulting from any defaults caused by AMD Fab 36 KG or its affiliates; and
- guarantee 100 percent of AMD Fab 36 KG's obligations under the Fab 36 Loan Agreements until the loans are repaid in full.

Under the Fab 36 Loan Agreements, AMD Fab 36 KG, AMD Fab 36 Holding and AMD Fab 36 Admin are generally prevented from paying dividends or making other payments to us. In addition, AMD Fab 36 KG would be in default under the Fab 36 Loan Agreements if we or any of the AMD companies fail to comply with certain obligations thereunder 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:

- failure of any limited partner to make contributions to AMD Fab 36 KG as required under the partnership agreements or our 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 or AMD or their ability to perform under the Fab 36 Loan Agreements;
- filings or proceedings in bankruptcy or insolvency with respect to us, AMD Fab 36 KG or any limited partner;
- occurrence of a change in control (as defined in the Fab 36 Loan Agreements) of AMD;
- 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

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- AMD Fab 36 KG's noncompliance with certain financial covenants, including minimum tangible net worth, minimum interest cover ratio, loan to fixed asset value ratio and a minimum cash covenant.

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

The occurrence of a default under the Fab 36 Loan Agreements would permit the lenders to accelerate the repayment of all amounts outstanding under the Fab 36 Loan Agreements. In addition, the occurrence of a default under these agreements could result in a cross-default under our loan agreements, including the indentures governing our 4.75% Debentures, 4.50% Notes and 7.75% Notes. We cannot assure you that we would be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on us.

Generally, the amounts under the Fab 36 Loan Agreements and the partnership agreements are denominated in euros. We report these amounts in U.S. dollars, which are subject to change based on applicable exchange rates. We used the exchange rate at September 25, 2005, of 0.830 euro to one U.S. dollar, to translate the amounts denominated in euros into U.S. dollars. However, with respect to amounts of limited partnership and other equity contributions, investment grants, allowances and subsidies received by AMD Fab 36 KG through September 25, 2005, we used the historical exchange rates that were in effect at the time AMD Fab 36 KG received these amounts to convert amounts denominated in euros into U.S. dollars.

Spansion Japan Revolving Loan Agreement

On September 20, 2005, Spansion Japan amended its revolving credit facility agreements with certain Japanese financial institutions and related ancillary agreements. The primary purpose of the amendment was to exclude Spansion Japan's non-Japanese yen-denominated accounts receivable due from Fujitsu Limited from the amounts held in trust pursuant to the terms of the accounts receivable trust agreement among the parties. As a result, pursuant to the amendment, such accounts receivable do not secure the amounts outstanding under the Spansion Japan revolving credit agreement. As a result of the exclusion of the accounts receivable described above, the aggregate loan amount available under the Spansion Japan revolving credit agreement was decreased from up to 15 billion yen to up to 10.5 billion yen (or \$93 million as of September 25, 2005). Specifically, Tranche A decreased from 6.0 billion yen to 4.2 billion yen (or \$37 million as of September 25, 2005), and Tranche B decreased from 9.0 billion yen to 6.3 billion yen (or \$56 million as of September 25, 2005). In addition, pursuant to the amendment, under certain circumstances, on December 24, 2005 either party can terminate the Spansion Japan revolving credit agreement or reduce the amounts available under Tranche A or Tranche B by giving the other party ten business days prior written notice.

Spansion Japan can draw under the facility until March 24, 2006. However, as described in more detail below, the total amount that Spansion Japan can draw is limited based on the value of Spansion Japan's accounts receivable from Fujitsu, which are pledged as security to the lenders.

Amounts borrowed under tranche A bear interest at a rate equal to the Tokyo Interbank Offered Rate, or TIBOR, plus 0.55 percent. Amounts borrowed under tranche B bear interest at a rate of TIBOR plus 1.2 percent. Spansion Japan must first fully draw under tranche A prior to drawing amounts under tranche B. Borrowings must be used for working capital purposes and must be repaid no later than April 24, 2006.

As of September 25, 2005, 5.5 billion yen (\$49 million based on the exchange rate as of September 25, 2005) was outstanding under tranche A and no amount was outstanding under tranche B. The amount outstanding under tranche A bore interest at a rate of 0.63 percent and was repaid on September 26, 2005.

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Pursuant to the terms of the revolving facility credit agreement, Spansion Japan is not permitted to make distributions, including declaring any dividends other than those to be declared after the end of each fiscal quarter and is required to comply with the following financial covenants under accounting principles generally accepted in Japan:

- ensure that assets exceed liabilities as of the end of each fiscal year and each six-month (mid-year) period;
- maintain an adjusted tangible net worth (as defined in the agreement) at an amount not less than 60 billion yen (\$534 million as of September 25, 2005) as of the last day of each fiscal quarter;
- maintain total net income plus depreciation of 21.125 billion yen (\$188 million as of September 25, 2005) as of the last day of fiscal year 2005; and
- ensure that as of each of the last day of the third and fourth quarter of fiscal 2005, the ratio of (a) net income plus depreciation to (b) the sum of interest expenses plus the amount of scheduled debt repayments plus maintenance capital expenditures for its facilities located in Aizu-Wakamatsu, Japan, for such period, is not less than 120 percent.

In addition, Spansion Japan cannot, without the consent of the majority lenders (as defined in the agreement), enter into any consolidation or merger, or transfer, lease or otherwise dispose of all or substantially all of its assets or business, or remove any equipment from its Aizu-Wakamatsu facilities or transfer or otherwise dispose of these facilities, in a manner that may substantially affect Spansion Japan's ability to make repayments under this agreement. Spansion Japan cannot obtain any loans from a third party or provide a guarantee or any loans to a third party that may substantially affect Spansion Japan's ability to make repayments under this agreement.

As of September 25, 2005, Spansion Japan was in compliance with these covenants.

In addition, if Spansion Japan's minimum cash balance is less than one billion yen (\$9 million as of September 25, 2005), Spansion Japan is prohibited from:

- subject to ordinary course of business and certain other exceptions, entering into any merger, reorganization or consolidation, or transferring, leasing or otherwise disposing of all or any part of its assets, or entering into any agreement concerning such transactions;
- making certain distributions, including declaring any dividends other than those to be declared after the end of each fiscal quarter, and redeeming, repurchasing, retiring or otherwise acquiring its capital stock or any option for such capital stock; or
- changing its capital structure (including capital reduction) in a way that may substantially affect Spansion Japan's ability to meet its obligations under the agreement.

Because during the term of this agreement Spansion Japan has maintained a cash balance that has been greater than one billion yen, these covenants have not been applicable.

As security for amounts outstanding under the revolving facility, Spansion Japan pledged its accounts receivable from Fujitsu. The accounts receivable are held in trust pursuant to the terms of a trust agreement. Under the trust agreement, Spansion Japan is required to maintain the value of its accounts receivable at specified thresholds (as defined by the trust agreement), based upon the amounts outstanding under tranche A and tranche B. The trustee collects payments from Fujitsu into a separate trust account and releases these amounts to Spansion Japan, subject to the specified threshold amounts required to be maintained by Spansion Japan. At any time when the accounts receivable balance in the trust account is less than the required threshold amount, Spansion Japan is required to do one of the following to cure the shortfall:

- provide additional cash to the trust; or
- repay a specified portion of the outstanding loans.

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Amounts outstanding under the revolving credit facility may be accelerated and become due and payable on demand upon the occurrence of specified events with respect to Spansion Japan, including: filings or proceedings in bankruptcy, failure to pay any obligations under the revolving credit facility that have become due, failure to pay other third-party indebtedness where such debt exceeds 200 million yen (\$2 million as of September 25, 2005), or if the value of the accounts receivable from Fujitsu held in trust is below the required thresholds and such shortfall is not remedied within three business days. In addition, amounts outstanding under the revolving credit facility may become automatically due and payable upon the occurrence of specified events with respect to Fujitsu including: suspension of any payment by Fujitsu, filings or proceedings in bankruptcy or corporate reorganization, failure of any check or note issued by Fujitsu to clear for payment, default by Fujitsu with respect to payments to Spansion Japan or other obligations under the distribution agreement with us, and default by Fujitsu with respect to other third-party indebtedness where such debt exceeds 1.0 billion yen (\$9 million as of September 25, 2005).

As of September 25, 2005, the amount of accounts receivable held in trust was \$93 million. Eight million of cash was also held in trust because the accounts receivable balance in the trust account was below the required threshold. The cash amount held in trust is recorded as restricted cash and included in our Prepaid Expenses and Other Current Assets in the accompanying consolidated condensed balance sheet.

Because borrowings under the Spansion Japan revolving loan agreement are denominated in yen, the U.S. dollar amounts stated above are subject to change based on applicable exchange rates. We used the exchange rate as of September 25, 2005 of 112.35 yen to one U.S. dollar to translate the amounts denominated in yen into U.S. dollars.

Spansion Japan Revolving Credit Facility

On September 20, 2005, Spansion Japan entered into an uncommitted revolving credit facility agreement with a Japanese financial institution in the aggregate principal amount of up to 5.0 billion yen (\$45 million as of September 25, 2005). Amounts borrowed under the facility bear interest at a rate equal to the TIBOR at the time of drawdown, plus a margin of 0.70 percent per annum. Borrowings must be used for working capital purposes and each borrowing must be repaid one month after the initial drawdown date. The facility may be terminated by the financial institution with five days' written notice if it experiences increased costs in connection to any borrowings by Spansion Japan, or if Spansion Japan gives five days' written notice of termination.

Pursuant to the terms of the facility, Spansion Japan agreed not to pledge any security to secure its obligations or any third party's obligations until the facility is terminated and all obligations are fulfilled by Spansion Japan. Amounts outstanding under the facility may become due and payable on demand upon the occurrence of specified events with respect to Spansion Japan, including: suspension of any payment by Spansion Japan; failure to pay any obligations under thereunder; filings or proceedings in bankruptcy; corporate reorganization procedures, corporate rearrangement, special liquidation or other similar legal procedures; a resolution for Spansion Japan's dissolution; the winding up of Spansion Japan's business; or if any attachment has been ordered with respect to Spansion Japan's accounts receivables.

As of September 25, 2005, the amount outstanding under the revolving credit facility was 3.0 billion yen (\$27 million based on the exchange rate as of September 25, 2005). This amount bears interest at the rate of 0.75 percent and was repaid by October 25, 2005. The amount is reflected as Notes Payable to Bank Under Revolving Loans in our consolidated condensed balance sheet.

Spansion Japan Term Loan and Guarantee

In September 2003, the third-party loans of Fujitsu AMD Semiconductor Limited, the previous manufacturing venture between us and Fujitsu which we refer to as the Manufacturing Joint Venture, were refinanced from the proceeds of a term loan entered into between Spansion Japan, which owns the assets of the Manufacturing Joint Venture, and a Japanese financial institution. Under the agreement, the amounts borrowed bear an interest rate of TIBOR plus a spread that is determined by Fujitsu's current debt rating and Spansion Japan's non-consolidated net asset value as of the last day of its fiscal year. The interest rate was 0.86 percent as of September 25, 2005.

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Repayment occurs in equal, consecutive, quarterly principal installments ending in June 2007. As of September 25, 2005, \$85 million was outstanding under this term loan agreement. Fujitsu guaranteed 100 percent of the amounts outstanding under this facility. We agreed to reimburse Fujitsu for up to 60 percent of the amount paid by Fujitsu under its guarantee. In addition, Spansion Japan's assets are pledged to Fujitsu as security for the loan. The net book value of the pledged assets as of September 25, 2005 was \$264 million. Under this loan agreement, Spansion Japan is prevented from making distributions for dividends to Spansion in certain circumstances.

Under this loan agreement, Spansion Japan is prevented from making distributions or dividends in certain situations. In addition, Spansion Japan is required to comply with the following financial covenants under accounting principles generally accepted in Japan:

- ensure that assets exceed liabilities as of the end of each fiscal year and each six-month period during such fiscal year;
- maintain an adjusted tangible net worth (as defined in the loan agreement), as of the last day of each fiscal quarter, of not less than 60 billion yen (\$534 million based on the exchange rate as of September 25, 2005);
- maintain total net income plus depreciation, as of the last day of each fiscal period, as follows:

<u>Period</u>	<u>Amount</u>
	(in thousands)
Fiscal 2005	\$ 188,000
Fiscal 2006	\$ 174,000

- ensure that as of the last day of any fiscal quarter, the ratio of (a) net income plus depreciation to (b) the sum of (i) interest expense for such period plus (ii) scheduled amortization of debt for borrowed money (as defined in the loan agreement) for such period, including lease rentals plus (iii) maintenance capital expenditures for Spansion Japan's existing and after acquired real property and improvements at its manufacturing facilities located in Aizu-Wakamatsu, Japan, is not less than 120 percent for fiscal 2005 and fiscal 2006.

In addition, Spansion Japan is subject to other covenants, including those that are applicable when Spansion Japan's minimum cash balance is less than one billion yen and events of default that would cause all of the amounts outstanding under this agreement to become immediately due and payable that are substantially similar to the covenants and events of default in the Spansion Japan Revolving Loan Agreement described above.

As of September 25, 2005, Spansion Japan was in compliance with these covenants.

Because most amounts under the Spansion Japan Term Loan are denominated in yen, the U.S. dollar amounts are subject to change based on applicable exchange rates. We used the exchange rate as of September 25, 2005 of 112.35 yen to one U.S. dollar to translate the amounts denominated in yen into U.S. dollars.

Spansion Senior Secured Revolving Credit Facility

On September 19, 2005, Spansion entered into a new senior secured revolving credit facility with a certain domestic financial institution, as agent, and the lenders party thereto, in the aggregate amount of up to \$175 million.

The actual amounts available for borrowing under the revolving credit facility are based on 85 percent of Spansion's accounts receivable meeting eligibility requirements plus the lesser of 75 percent of the appraised fair market value of Spansion's Fab 25 facility in Austin, Texas, and the maximum real estate loan amount (as defined in the agreement) minus reserves that limit the availability of credit under the agreement from time to time established by the agent in its reasonable credit judgment. Amounts borrowed under the revolving credit facility bear interest at a rate equal to the "base rate," which is the prime rate publicly announced by the agent, or the London Interbank Offered Rate, or LIBOR, plus, in each case, a margin ranging from -negative 0.25% to 0.50% for base rate loans and 1.25% to 2.0% for LIBOR loans. Borrowings under the revolving credit facility must be used to refinance existing indebtedness and for working capital purposes. The revolving credit facility will terminate and all

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outstanding borrowings must be repaid no later than September 19, 2010.

As of September 25, 2005, the amount outstanding under the revolving credit facility was \$60 million. This amount bears interest at the rate of 6.75 percent. Spansion used a portion of the amounts drawn to pay off in full the term loan agreement by and between Spansion and General Electric Capital Corporation, as agent, and the financial institutions named therein, dated as of July 11, 2003 (“July 2003 Spansion Term Loan.”).

Pursuant to the terms of the revolving credit facility agreement, and subject to certain exceptions, Spansion and its subsidiaries are not permitted, among other things, to:

- enter into any mergers, consolidations or sales of property except for Spansion’s reorganization that would occur in connection with the proposed initial public offering, or sales of inventory, equipment and assets in the ordinary course of business;
- make any distributions to its security holders except in certain circumstances;
- make investments, except for the purchase of inventory, equipment and intellectual property in the ordinary course of business, unless Spansion and its subsidiaries meet minimum liquidity requirements consisting of availability under the revolving credit facility and domestic cash of at least \$50 million prior to December 31, 2005 (or earlier if Spansion consummates its proposed initial public offering) and \$200 million thereafter, provided, however, that investments are limited to no more than a total of \$50 million while the reduced minimum liquidity requirement is in place;
- incur additional debt other than the debt to be incurred concurrently with the proposed initial public offering (including the notes being offered in a private placement), capital leases, debt incurred by its foreign subsidiaries, and in limited cases, loans to subsidiaries;
- engage in transactions with affiliates unless in the normal course of business, negotiated at arms-length terms and the transactions are disclosed to the agent for the lenders;
- incur any new liens except for equipment leases and loans; and
- prepay any debt, except that debt of foreign subsidiaries may be prepaid by the applicable foreign subsidiary and Spansion may prepay any debt as long as after such repayment, Spansion meets minimum liquidity requirements consisting of availability under the revolving credit facility plus domestic cash of at least \$250 million.

If the availability under the revolving credit facility is less than or equal to \$35 million during a fiscal quarter, Spansion will also be required to maintain EBITDA, as defined in the agreement, on a consolidated basis, on the last day of each of the fiscal quarter as follows:

<u>Period Ending</u>	<u>EBITDA</u>
	(In thousands)
12/25/2005	\$ 225,000
03/26/2006	\$ 300,000
07/02/2006	\$ 375,000
10/01/2006	\$ 450,000
12/31/2006	\$ 500,000

Beginning in 2007, the required EBITDA level will be determined by the agent based on current projections at that time of Spansion’s financial condition, results of operations and cash flows.

As security for amounts outstanding under the revolving credit facility, Spansion pledged the stock of its domestic subsidiaries, the Fab 25 facility (other than production equipment contained therein) and all of its personal property. Spansion’s equipment, inventory and intellectual property, as well as all assets and stock pledges of its foreign subsidiaries were excluded from the collateral securing the revolving credit facility.

Amounts outstanding under the revolving credit facility may become due and payable on demand upon the occurrence of specified events with respect to Spansion, including, among other things: failure to pay any obligations under the revolving credit facility that have become due; breach of any representation or warranty; failure to report certain financial information to the agent; failure to execute a guaranty in favor of the agent after the consummation of Spansion’s proposed initial public offering and a joint agreement pursuant to which Spansion’s parent company will become a party to this agreement; any default on third-party debt of outstanding principal

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amount exceeding \$25 million; filings or proceedings in bankruptcy; judgments or awards entered against Spansion of \$10 million or more that remain for 30 days after the entry thereof; termination, revocation or voidance of any liens securing the obligations under the revolving credit facility, for any reason other than the failure by the agent to perfect its liens; a change of control by which a person or group would acquire more than 30 percent of the combined voting power of all then-issued and outstanding voting interests of Spansion; and foreclosure on the Fab 25 facility.

July 2003 Spansion Term Loan and Guarantee

On September 19, 2005, Spansion used funds from its new senior secured revolving credit facility (see "Spansion Senior Secured Revolving Credit Facilities" above for detail) to repay the outstanding principal and interest under the July 2003 Spansion Term Loan in full and the lenders released their security interest in Spansion's property.

Fujitsu Cash Note

In connection with the Spansion reorganization in June 2003, Fujitsu loaned Spansion \$40 million pursuant to the terms of an unsecured promissory note. The note bears interest at LIBOR plus four percent, to be paid quarterly. The interest rate cannot exceed seven percent. The interest rate adjusts each calendar quarter based on the LIBOR rate. All amounts outstanding under this note become due and payable upon the occurrence of a payment default. As of September 25, 2005, the interest rate was seven percent and the remaining principal balance on this note was \$40 million. The proceeds from this note were used to fund Spansion's working capital needs.

As of September 30, 2005, Spansion amended the payment terms of this note such that it is required to repay 75 percent of the principal amount on March 31, 2006 and any remaining amounts on June 30, 2006, provided that upon (i) its reorganization into Spansion Inc. prior to completion of its proposed initial public offering, Spansion is required to pay all accrued and unpaid interest and (ii) completion of the proposed initial public offering and the concurrent offerings, Spansion would pay the outstanding principal and interest on this note in full.

AMD Penang Term Loan

On January 29, 2004, our subsidiary in Malaysia, AMD Export Sdn. Bhd., or AMD Penang, entered into a term loan agreement with a local financial institution. Under the terms of the loan agreement, AMD Penang was eligible to borrow up to 30 million Malaysian Ringgit (\$8 million as of September 25, 2005). The loan bears a fixed annual interest rate of 5.9 percent and is payable in equal, consecutive, monthly principal and interest installments through February 2009. The total amount outstanding as of September 25, 2005 was \$5 million.

Spansion China Loan

During the second quarter of 2004, Spansion (China) Limited, a subsidiary of Spansion, entered into two revolving loan agreements with a local financial institution. Under the terms of the revolving foreign exchange loan agreement, Spansion China could borrow in U.S. dollars up to an amount of \$18 million to be secured by Spansion China's land use right and buildings on the land. Under the terms of the revolving Renminbi (RMB) loan agreement, Spansion China could borrow up to RMB 120 million (\$15 million as of September 25, 2005) to be secured by Spansion China's assembly and test facility and its land use rights. The interest rate on the U.S. dollar denominated loans is LIBOR plus one percent and the interest rate on the RMB denominated loans is fixed at 4.779 percent or 5.022 percent depending on the period the borrowings occur. The maximum term of each loan is 12 months from the date of each draw-down. As of September 25, 2005, Spansion China had \$7 million outstanding under the RMB-denominated loan agreement and \$12 million outstanding under the USD-denominated loan agreement. These amounts must be repaid by December 2005.

Capital Lease Obligations

As of September 25, 2005, we had aggregate outstanding capital lease obligations of \$278 million. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2020. Leased assets consist principally of machinery and equipment. We guaranteed \$49 million of Spansion's and its subsidiaries' aggregate outstanding capital lease obligations as of September 25, 2005.

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In addition, AMD Fab 36 KG entered into energy supply contracts to provide Fab 36 with utilities (gas, electricity, heating and cooling) to meet the energy demand for its manufacturing needs. We accounted for certain fixed payments due under these energy supply arrangements as capital leases pursuant to EITF 01-8, "Determining Whether an Arrangement Contains a Lease" and SFAS 13, "Accounting for Leases." As of September 25, 2005 \$118 million was outstanding related to these capital lease obligations, which is payable in monthly installments through 2020.

Other Long-Term Liabilities

One component of Other Long-Term Liabilities that requires us to make cash payments is a net restructuring accrual of \$69 million relating to the net future operating lease payments on certain facilities that were included in our 2002 Restructuring Plan. We will make these payments through 2011. We included these amounts in the operating lease total in the table above. The other components of Other Long-Term Liabilities do not require us to make cash payments and primarily consist of \$276 million of deferred grants and subsidies related to the Fab 30 and Fab 36 projects and a \$21 million deferred gain as a result of the sale and leaseback of our corporate marketing, general and administrative facility in Sunnyvale, California in 1998.

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 2021. We lease certain of our manufacturing and office equipment for terms ranging from one to five years. Our total future non-cancelable lease obligations as of September 25, 2005, were \$400 million, of which \$90 million was recorded as a liability for certain facilities that were included in our 2002 Restructuring Plan.

Unconditional Purchase Commitments

Total non-cancelable purchase commitments as of September 25, 2005, were \$1.3 billion for periods through 2020. These purchase commitments include \$852 million related to contractual obligations for Fab 30 and Fab 36 related to wafer purchase and purchases of energy and gas and up to \$220 million representing future payments to IBM pursuant to our joint development agreement. As IBM's services are being performed ratably over the life of the agreement, we expense the payments as incurred. In October 2005, our Board of Directors approved an amendment of this agreement, which, among other things, extended its termination date through December 2011. However, capital purchases by IBM necessary for the continued development of process development projects past December 31, 2008 are conditioned upon the approval of IBM's board of directors. If such approval is not received by September 30, 2007, either party has the right to terminate the agreement effective December 31, 2008 without liability. We anticipate that under this amended agreement, from September 25, 2005 through December 25, 2011, we would pay fees to IBM of between \$518 million and \$578 million in connection with joint development projects. In addition, unconditional purchase commitments also include \$57 million for software maintenance agreements that require periodic payments through 2009. As a result, we have not recorded any liabilities relating to the software maintenance agreements. The remaining commitments primarily consist of non-cancelable contractual obligations to purchase raw materials, natural resources and office supplies. Purchase orders for goods and services that are cancelable without significant penalties are not included in the amount set forth in the table above.

Guarantees of Indebtedness Recorded on Our Unaudited Condensed Consolidated Balance Sheet

The following table summarizes the principal guarantees outstanding as of September 25, 2005 related to underlying liabilities that are already recorded on our unaudited condensed consolidated balance sheet as of September 25, 2005 and their expected expiration dates by year. No incremental liabilities are recorded on our unaudited condensed consolidated balance sheet for these guarantees. For more information on these guarantees, see "Contractual Cash Obligations and Guarantees," above.

	Amounts Guaranteed ⁽¹⁾	Remaining Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010 and Beyond
	(In thousands)						
Spansion Japan term loan guarantee	\$ 51,269	\$ 6,409	\$25,634	\$19,226	\$ —	\$ —	\$ —
Spansion capital lease guarantees	48,621	12,249	33,108	3,264	—	—	—
Repurchase Obligations to Fab 36 partners ⁽²⁾	144,388	14,199	32,547	32,547	32,547	32,548	—
Total guarantees	\$ 244,278	\$ 32,857	\$91,289	\$55,037	\$32,547	\$32,548	\$ —

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- (1) Amounts represent the principal amount of the underlying obligations guaranteed and are exclusive of obligations for interest, fees and expenses.
- (2) This amount represents the silent partnership contributions received by AMD Fab 36 KG, as of September 25, 2005 from the unaffiliated limited partners under the Fab 36 partnership agreements. AMD Fab 36 Holding and AMD Fab 36 Admin are required to repurchase up to \$169 million of the partners' silent partnership contributions in annual installments beginning one year after the partner has contributed the full amount required under the partnership agreements. We guaranteed these obligations. As of September 25, 2005, Fab 36 Beteiligungs had contributed the full amount required under the partnership agreements, but Leipziger Messe had not contributed the full amount. Therefore, the condition precedent to our repurchase obligations with respect to Leipziger Messe's silent partnership contribution had not been met. For purposes of this table, we assumed that Leipziger Messe will have contributed the full amount by December 2005. See "Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreement," above.

Guarantees of Indebtedness Not Recorded on Our Unaudited Condensed Consolidated Balance Sheet

The following table summarizes the principal guarantees outstanding as of September 25, 2005 for which the related underlying liabilities are not recorded on our unaudited condensed consolidated balance sheet as of September 25, 2005 and their expected expiration dates:

	Amounts Guaranteed ⁽¹⁾	Remaining Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010 and Beyond
	(in thousands)						
Spansion operating lease guarantees	\$ 11,879	\$ 796	\$ 8,008	\$ 2,050	\$ 1,025	\$—	\$ —
AMTC revolving loan guarantee	38,574	—	—	38,574	—	—	—
AMTC rental guarantee ⁽²⁾	125,988	—	—	—	—	—	125,988
Other	3,901	453	3,448	—	—	—	—
Total guarantees	\$ 180,342	\$ 1,249	\$ 11,456	\$ 40,624	\$ 1,025	\$—	\$ 125,988

- (1) Amounts represent the principal amount of the underlying obligations guaranteed and are exclusive of obligations for interest, fees and expenses.

- (2) Amount of the guarantee diminishes as the rent is paid.

Spansion Operating Lease Guarantees

We guaranteed certain operating leases entered into by Spansion and its subsidiaries totaling \$12 million as of September 25, 2005. The amounts guaranteed are reduced by the actual amount of lease payments paid by Spansion over the lease terms. No liability has been recognized for these guarantees under the provisions of FIN 45 because the guarantees are for the performance obligations of a subsidiary.

AMTC and BAC Guarantees

The Advanced Mask Technology Center GmbH & Co. KG (AMTC) and Maskhouse Building Administration GmbH & Co., KG (BAC) are joint ventures formed by us, Infineon Technologies AG and DuPont Photomasks, Inc. for the purpose of constructing and operating an advanced photomask facility in Dresden, Germany. In April 2005 DuPont Photomasks, Inc. was acquired by Toppan Printing Co., Ltd. and became a wholly owned subsidiary of Toppan, named Toppan Photomasks, Inc. To finance the project, BAC and AMTC entered into a \$145 million revolving credit facility and a \$90 million term loan in December 2002. Also in December 2002, in order to occupy the photomask facility, AMTC entered into a rental agreement with BAC. With regard to these commitments by BAC and AMTC, as of September 25, 2005, we guaranteed up to \$39 million plus interest and expenses under the revolving loan, and up to \$19 million, initially, under the rental agreement. The obligations under the rental agreement guarantee diminish over time through 2011 as the term loan is repaid. However, under certain circumstances of default by the other tenant of the photomask facility under its rental agreement with BAC and certain circumstances of default by more than one joint venture partner under its rental agreement guarantee

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obligations, the maximum potential amount of our obligations under the rental agreement guarantee is \$126 million. As of September 25, 2005, \$84 million was drawn under the revolving credit facility, and \$63 million was drawn under the term loan. We have not recorded any liability in our consolidated financial statements associated with the guarantees because they were issued prior to December 31, 2002, the effective date of FIN 45.

Other Financial Matters

Spansion

During the four-year period commencing on June 30, 2003, we are obligated to provide Spansion with additional funding to finance operations shortfalls, if any. Generally, Spansion is first required to seek any required financing from external sources, either on a non-recourse basis to us or with guarantees based on our pro-rata ownership interest. However, if such third-party financing is not available, we must provide funding to Spansion equal to our pro-rata ownership interest in Spansion, which is currently 60 percent. At this time, we believe that Spansion will be able to obtain external financing when needed. However, there is no assurance that external financing will be available when needed and currently we cannot estimate the amount of additional funding, if any, that we will be required to provide during this four-year period.

In the event the initial public offering of Spansion is consummated, AMD and Fujitsu will no longer be obligated to provide Spansion with additional funding.

Other

Spansion - Proposed Initial Public Offering

On April 13, 2005, Spansion filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering of its Class A common stock. The number of shares to be offered and the estimated price range for the common stock have not been determined. We do not know when, or if, an initial public offering will occur.

In the event the proposed initial public offering is consummated, Spansion would receive the net proceeds from the offering, and our ownership in Spansion would be reduced from our current ownership of 60 percent. At this time, we do not have enough information to quantify the potential financial impact of the proposed initial public offering, but we expect that it would have a material effect on our financial condition and results of operations, including the following:

- We expect that our aggregate ownership interest in Spansion would be less than 50 percent and that we would no longer consolidate Spansion's results of operations and financial position in our consolidated financial statements;
- To the extent that Spansion's employees continue to hold unvested options to purchase AMD common stock, we would be required to account for these unvested options at then-current fair value each reporting period until the options are fully vested because Spansion's employees would no longer be considered employees of the "consolidated group";
- As of September 25, 2005, we guaranteed certain indebtedness of Spansion and its subsidiaries totaling \$112 million. Of this amount, \$100 million relates to underlying liabilities that are already recorded on our unaudited condensed consolidated balance sheet, and no incremental liabilities are recorded for these guarantees because these guarantees are for our majority-owned subsidiary. However, because we expect that we would no longer consolidate Spansion's results of operations and financial position, we would be required to record on our consolidated financial statements the fair value of those guarantees that were entered into or amended subsequent to December 31, 2002, the effective date of FIN 45. At this time, we have not finalized our evaluation of the fair value of these guarantees; and
- Depending on the valuation of Spansion's Class A common stock and the carrying value of our interest in Spansion at the time of the initial public offering, we would realize either a gain or a loss upon the initial public offering, reflecting the reduction of our ownership interest in Spansion. The gain or loss would be calculated as the difference between Spansion's book value per share before and after the initial public offering multiplied by the number of shares owned by us.

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Completion of the proposed initial public offering is subject to many conditions, including market conditions and regulatory approvals. Market conditions and other factors could result in, among other things, a delay in or withdrawal of the initial public offering or pursuit of alternative transactions.

Concurrent with and as a condition to consummating the proposed initial public offering, Spansion also currently intends to make a public offering of shares of mandatory convertible preferred stock and a debt offering pursuant to which senior unsecured notes would be issued in a private placement. Spansion intends to apply a portion of the net proceeds from the sale of the senior unsecured notes to repay a portion of its outstanding indebtedness, including certain indebtedness owed to us and to Fujitsu. To the extent that such repaid indebtedness was guaranteed by us or Fujitsu, the amount of Spansion debt guaranteed by us and Fujitsu would be reduced accordingly. Spansion has not determined the aggregate principal amount of the notes or the convertible preferred stock or the terms upon which the notes or the convertible preferred stock would be issued.

Outlook

For the fourth quarter of 2005, we expect Computation Products net sales to increase between seven to 13 percent compared with the third quarter of 2005.

For the fourth quarter of 2005, we expect Memory Products net sales to increase significantly compared with the third quarter of 2005. In addition, for the fourth quarter of 2005, for Memory Products, we expect: gross margin to improve compared with the third quarter of 2005; research and development expenses in terms of gross dollars to be relatively stable or increase slightly compared with the third quarter of 2005; and marketing, general and administrative expenses to increase slightly in terms of gross dollars compared with the third quarter of 2005.

Assuming the completion of Spansion's initial public offering, concurrent offering of mandatory convertible preferred stock and private placement of senior unsecured notes, Spansion expects its capital expenditures for fiscal 2006 would be between \$800 million and \$950 million and its anticipated effective tax rate for fiscal 2006 would be approximately 30 percent.

In addition, for the fourth quarter of 2005, we expect marketing, general and administrative expenses and research and development expenses to increase by approximately eight percent in the aggregate compared to the third quarter of 2005, primarily due to the continued ramp of Fab 36 development activities and additional seasonal marketing expenses.

Supplementary Stock-Based Incentive Compensation Disclosures

Section I. Option Program Description

Our stock option programs are intended to attract, retain and motivate highly qualified employees. On April 29, 2004, our stockholders approved the 2004 Equity Incentive Plan (the 2004 Plan), which had previously been approved by our Board of Directors. Stock options available for grant under our equity compensation plans that were in effect before April 29, 2004, (the Prior Plans), including those that were not approved by our stockholders, were consolidated into the 2004 Plan. As of April 29, 2004, equity awards are made only from the 2004 Plan. Under our Prior Plans key employees generally were, and under the 2004 Plan key employees generally are, granted nonqualified stock options (NSOs) to purchase our common stock. Generally, options vest and become exercisable over a four-year period from the date of grant and expire five to ten years after the date of grant. Any incentive stock options (ISOs) granted under the Prior Plans or the 2004 Plan have exercise prices of not less than 100 percent of the fair market value of the common stock on the date of grant. Exercise prices of NSOs range from \$0.01 to the fair market value of the common stock on the date of grant. Beginning in 2006, we plan to grant employees Restricted Stock Units.

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Under the 2004 Plan, we can also grant up to a total of 9 million shares where the exercise price is less than the fair market value of our common stock on the date of grant. These types of grants can consist of the following awards:

Restricted Stock. Restricted stock can be granted to any employee or consultant. Restricted stock that vests based on continued service does not fully vest for three years from the date of grant. Restricted stock that vests based on performance does not vest for at least one year from the date of grant.

Restricted Stock Units. Restricted stock units are awards that obligate us to issue a specific number of shares of our common stock in the future if the vesting terms and conditions are satisfied and may be payable in cash or in shares of our common stock. Restricted stock units based on continued service may not vest for three years from the date of grant. Restricted stock units that are performance based may not vest for at least one year from the date of grant.

Discount Stock Options. Discount stock options may be subject to the same requirements and conditions as are applicable to regular NSOs described above except that the fixed exercise price may be granted at up to 85 percent of fair market value on the date of grant, if the discount is in lieu of a portion of salary or cash bonus. Options cannot be exercised until they become vested. Options expire not later than 10 years after the date of grant. We have not granted any discount stock options under the 2004 Plan.

Section II. General Option and Award Information

The following is a summary of stock option activity for the quarter ended September 25, 2005 and fiscal year ended December 26, 2004:

	Nine Months Ended September 25, 2005		Year Ended December 26, 2004	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
(in thousands except share price)				
Options:				
Outstanding at beginning of period	53,684	\$ 13.58	40,969	\$ 12.92
Granted	6,621	\$ 17.15	26,121	\$ 14.54
Canceled	(919)	\$ 14.91	(3,425)	\$ 23.20
Exercised	(8,456)	\$ 10.79	(9,981)	\$ 10.08
Outstanding at end of period	50,930	\$ 14.44	53,684	\$ 13.58
Exercisable at end of period	41,371	\$ 14.68	32,250	\$ 13.72
Available for grant at beginning of period	23,901		29,613	
Available for grant at end of period	17,840		23,901	

In-the-money and out-of-the-money stock option and award information as of September 25, 2005, was as follows:

As of End of Quarter	Exercisable		Unexercisable		Total	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
(in thousands except share price)						
In-the-Money	38,121	\$ 13.32	9,530	N/A ⁽³⁾	47,651	\$ 13.33
Out-of-the-Money ⁽¹⁾	3,250	\$ 30.63	29	N/A ⁽³⁾	3,279	\$ 30.57
Total Options Outstanding	41,371	\$ 14.68	9,559	N/A ⁽³⁾	50,930 ⁽²⁾	\$ 14.44

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- (1) Out-of-the-money stock options have an exercise price equal to or above \$22.98, the closing price of AMD's common stock, on September 23, 2005, the last trading day of the third quarter of 2005.
- (2) Includes 75,755 shares outstanding from treasury stock as non-plan grants.
- (3) Weighted average exercise price information is not available.

Section III. Distribution and Dilutive Effect of Options and Awards

Options and awards granted to employees, including officers, and non-employee directors were as follows:

Section III. Distribution and Dilutive Effect of Options

	YTD 2005	2004	2003
Net grants ⁽¹⁾ during the period as % of outstanding shares ⁽²⁾	1.42%	5.79%	-4.87%
Grants to listed officers ⁽³⁾ during the period as % of total awards granted	11.03%	3.59%	11.77%
Grants to listed officers during the period as % of outstanding shares	0.18%	0.24%	0.19%
Cumulative options and awards held by listed officers as % of total options and awards outstanding	13.53%	11.94%	22.90%

- (1) Grants are net of canceled awards.
- (2) Outstanding shares as of September 25, 2005, December 26, 2004 and December 28, 2003.
- (3) The "listed officers" are those executive officers listed in the summary compensation table in our proxy statements for our annual meeting of stockholders held in 2005, 2004 and 2003.

Section IV. Executive Options and Awards

Options and awards granted to listed officers for the quarter ended September 25, 2005 were as follows:

Name ⁽¹⁾	2005 Option and Award Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Awards Per Grant	Percent of Total Awards Granted to Employees as of September 25, 2005	Exercise Price Per Share	Expiration Date	5%	10%
Hector de J. Ruiz	125,000	1.97%	\$ 16.66	2/3/2012	\$ 847,787	\$ 1,975,703
	125,000	1.97%	\$ 14.16	4/28/2012	\$ 720,568	\$ 1,679,229
Henri Richard	31,250	0.49%	\$ 16.66	2/3/2012	\$ 211,947	\$ 493,926
	6,250	0.10%	\$ 14.16	4/28/2012	\$ 36,028	\$ 83,961
	10,000	0.16%	\$ 14.16	4/28/2012	\$ 57,645	\$ 134,338
	6,250	0.10%	\$ 20.10	7/27/2012	\$ 51,142	\$ 119,182
Robert Rivet	50,000 ⁽²⁾	N/A	\$ 0.00	N/A	N/A	N/A
	31,250	0.49%	\$ 16.66	2/3/2012	\$ 211,947	\$ 493,926
	30,000	0.47%	\$ 14.16	4/28/2012	\$ 172,936	\$ 403,015
Derrick R. Meyer	30,000	0.47%	\$ 20.10	7/27/2012	\$ 245,481	\$ 572,076
	37,500	0.59%	\$ 16.66	2/3/2012	\$ 254,336	\$ 592,711
	37,500	0.59%	\$ 14.16	4/28/2012	\$ 216,170	\$ 503,769
	37,500	0.59%	\$ 20.10	7/27/2012	\$ 306,852	\$ 715,095
Iain Morris	12,500	0.20%	\$ 16.66	2/3/2012	\$ 84,779	\$ 197,570
	17,500	0.28%	\$ 14.16	4/28/2012	\$ 100,879	\$ 235,092
	17,500	0.28%	\$ 20.10	7/27/2012	\$ 143,197	\$ 333,711

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- (1) The “listed officers” are those executive officers listed in the summary compensation table in our proxy statement for our annual meeting of stockholders held on April 28, 2005.
- (2) The Awards represented by this grant consist of Restricted Stock Units.

Option exercises during the quarter ended September 25, 2005 and option values for listed officers for this period were as follows:

Name ⁽¹⁾	Shares Acquired on Exercise	Value Realized ⁽²⁾	Number of Securities Underlying Unexercised Options at September 25, 2005		Values of Unexercised In-the Money Options at September 25, 2005	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Hector de J. Ruiz	145,837	\$ 1,557,540	4,234,734	569,429	\$ 27,466,525	\$ 5,223,917
Henri Richard	18,760	\$ 129,339	234,539	69,201	\$ 2,070,457	\$ 703,619
Robert Rivet	25,000	\$ 204,800	676,391	208,609	\$ 4,914,160	\$ 2,195,652
Derrick R. Meyer	50,000	\$ 644,090	572,150	138,800	\$ 4,627,788	\$ 1,187,681
Iain Morris	—	\$ —	56,110	78,890	\$ 458,277	\$ 605,097

- (1) The “listed officers” are those executive officers listed in the summary compensation table in our proxy statement for our annual meeting of stockholders held on April 28, 2005.
- (2) Value for these purposes is based solely on the difference between market value of underlying shares on the applicable date, which is either the date of exercise or fiscal year-end, and exercise price of options.

Section V. Equity Compensation Plan Information

The number of shares issuable upon exercise of outstanding options granted to employees and non-employee directors, as well as the number of shares remaining available for future issuance under our 2004 Plan as of September 25, 2005, are summarized in the following table:

	Nine Months Ended September 25, 2005		
	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders	33,629	(in thousands except share price) \$ 15.71	17,840
Equity compensation plans not approved by stockholders	17,301 ⁽¹⁾	\$ 11.96	—
TOTAL	50,930		17,840

- (1) Includes 75,755 shares to be granted from treasury stock as non-plan grants.

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Risk Factors

If we cannot generate sufficient operating cash flow or obtain external financing, we may be unable to make all of our planned capital expenditures or fulfill our obligations.

For the nine months ended September 25, 2005 our capital expenditures were \$1.2 billion and in the fourth quarter of 2005 we plan to make approximately \$0.4 billion in capital expenditures. Our ability to fund capital expenditures in accordance with our business plan depends on generating sufficient cash flow from operations and the availability of external financing.

Moreover, as of September 25, 2005, under the partnership agreement for AMD Fab 36 KG, our German subsidiaries, AMD Fab 36 Holding and AMD Fab 36 Admin, were obligated to invest \$210 million into AMD Fab 36 KG. In addition, under the revolving credit agreement among AMD, AMD Fab 36 Holding and AMD Fab 36 KG, we or AMD Fab 36 Holding are required to provide up to \$904 million to AMD Fab 36 KG. Loans provided to AMD Fab 36 KG under this revolving credit agreement are unsecured and subordinated to the rights of the consortium of banks that will also be providing financing to AMD Fab 36 KG.

We are also obligated through June 30, 2007 to provide Spansion with additional funding to finance operational cash flow needs. Generally, Spansion must seek any required financing from external sources. However, if third-party financing is not available, either on a non-recourse basis to us or with guarantees based on our pro rata ownership interest, we must provide funding to Spansion equal to our pro rata ownership interest in Spansion, which is currently 60 percent. An inability to meet our funding obligations for Spansion could, among other things, result in additional equity in Spansion being issued to Fujitsu or third parties, which would reduce our ownership in and control over Spansion, Spansion's curtailing its capital expenditure plans or abandoning projects.

Our capital expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and may decrease our cash balances. The timing and amount of our capital requirements cannot be precisely determined at this time and will depend on a number of factors, including demand for products, product mix, changes in semiconductor industry conditions and market competition. We regularly assess markets for external financing opportunities, including debt and equity. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. Our inability to obtain needed debt and/ or equity financing or to generate sufficient cash from operations may require us to abandon projects or curtail capital expenditures. If we curtail capital expenditures or abandon projects, we could be materially adversely affected. For example, if we abandon the Fab 36 project, we will have to write off related costs that we capitalized and we will be required to continue to make payments or otherwise be liable pursuant to then-existing contracts that we cannot terminate at will or without significant penalties.

We have a substantial amount of indebtedness that could adversely affect our financial position.

As of September 25, 2005, we had consolidated debt of \$2.0 billion. In addition, we guaranteed \$180 million of obligations, which are not reflected on our balance sheet. 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;

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- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

We and our subsidiaries may be able to incur substantially more debt, including secured debt, in the future.

Subject to the restrictions in the agreements governing our existing indebtedness, we and our subsidiaries may incur significant additional debt, including secured debt, in the future. In particular, as of September 25, 2005, we and our subsidiaries would have had the following additional borrowings available:

- Up to \$100 million under our revolving credit facility. Amounts borrowed under this facility are secured by all of our accounts receivable, inventory, general intangibles (excluding intellectual property) and the related proceeds, excluding Spansion's accounts receivable, inventory and general intangibles.
- Spansion Japan had up to 7 billion yen (\$62 million as of September 25, 2005) available under credit facilities.
- Spansion had up to \$115 million available under its senior secured revolving credit facility, which it entered into on September 19, 2005.
- AMD Fab 36 KG will have the ability, subject to achieving certain milestones, to borrow up to \$844 million (based on an exchange rate of 0.830 euro to one U.S. dollar as of September 25, 2005) from a consortium of banks under the Fab 36 Loan Agreements.

Although the terms of the agreements governing our existing indebtedness contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of important exceptions, and debt incurred in compliance with these restrictions could be substantial.

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 continue 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 and capital expenditure requirements. If we are not able to generate sufficient cash flow from operations or to borrow sufficient funds to service our debt due to a failure to meet drawdown conditions or due to borrowing base restrictions or otherwise, we may be required to sell assets or equity, reduce capital expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or equity or borrow more funds on terms acceptable to us, if at all.

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

The indenture governing our 7.75% Notes contains various covenants that limit our ability to:

- incur additional indebtedness;
- pay dividends and make other restricted payments;
- make certain investments, including investments in our unrestricted subsidiaries (which consists of Spansion and its subsidiaries);
- create or permit certain liens;

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

In addition:

- The Fab 36 Loan Agreements contain restrictive covenants, including a prohibition on the ability of AMD Fab 36 KG and its affiliated limited partners to pay us dividends and other payments, and also require us to maintain specified financial ratios when group consolidated cash is below specified amounts.
- Our revolving credit facility contains restrictive covenants, including a prohibition on our ability to pay dividends, and also requires us to maintain specified financial ratios and satisfy other financial condition tests when our net domestic cash is below specified amounts.
- The senior secured credit facility agreement among Spansion, Bank of America and the financial institutions party thereto contains restrictive covenants, including a prohibition on Spansion's ability to pay dividends and also requires Spansion to maintain specified EBITDA if the availability under the revolving credit facility is less than or equal to \$35 million during a fiscal quarter.

Our ability to satisfy the covenants, financial ratios and tests of our debt instruments can be affected by events beyond our control. We cannot assure you that we will meet those requirements. A breach of any of these covenants, financial ratios or tests could result in a default under the applicable agreement.

In addition, our agreements contain cross-default provisions whereby a default under one agreement would likely result in cross default under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness that results in acceleration of the maturity date or any failure to repay debt when due in an amount in excess of \$50 million would cause a cross default under the indenture governing our 7.75% Notes. Similarly, a default with respect to any indebtedness in excess of \$25 million would cause a cross-default under the indentures governing our 4.75% Debentures and 4.50% Notes. The occurrence of a default under any of these borrowing arrangements would permit the applicable lenders or note holders to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable and would permit the lenders to terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against any collateral granted to them to secure that indebtedness. If the lenders under any of the credit facilities or the note holders or the trustee under the indentures governing our 4.75% Debentures, 4.50% Notes and 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.

We must achieve further market acceptance of our 64-bit technology, AMD64, or we will be materially adversely affected.

Our AMD Opteron processors are critical to our strategy of increasing market share in the server category of the microprocessor market. Similarly, our AMD Turion 64 processors are critical to our strategy of increasing market share in the mobile category of the microprocessor market, and particularly the "thin and light" category. Accordingly, we are making substantial investments in our roadmaps and our platforms for our processors for mobile and server computers. Increasing market acceptance of these processors, our AMD Athlon 64 processors for desktops, and the AMD64 technology on which they are based is subject to risks and uncertainties including:

- the continued support of operating system and application program providers for our 64-bit instruction set, including timely development of 64-bit applications;
- our ability to produce these processors in a timely manner on advanced process technologies, in the volume and with the performance and feature set required by customers; and
- the availability, performance and feature set of motherboards, memory and chipsets designed for these processors.

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If we are unable to achieve further market acceptance of our AMD64 technology, we would be materially adversely affected.

We cannot be certain that our substantial investments in research and development of process technologies will lead to timely improvements in technology and equipment used to fabricate our products or that we will have sufficient resources to invest in the level of research and development that is required to remain competitive.

We make substantial investments in research and development for process technologies in an effort to design and manufacture leading-edge microprocessors. We cannot be certain that we will be able to develop, or obtain or successfully implement leading-edge process technologies needed to manufacture future generations of our products profitably or on a timely basis. Furthermore, we cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive.

For example, we have a joint development agreement with IBM, pursuant to which we work together to develop new process technologies. In October 2005, our Board of Directors approved an amendment of this agreement, which, among other things, extended its termination date through December 2011. However, capital purchases by IBM necessary for the continued development of process development projects past December 31, 2008 are conditioned upon the approval of IBM's board of directors. If such approval is not received by September 30, 2007, either party has the right to terminate the agreement effective December 31, 2008 without liability. We anticipate that under this amended agreement, from September 25, 2005 through December 25, 2011, we would pay fees to IBM of between \$518 million and \$578 million in connection with joint development projects. In addition, from the beginning of 2002 through September 25, 2005, we paid \$302 million to IBM in connection with agreements and services related to license grants and research and development activities.

If this agreement were to be terminated, we would either have to resume certain research and development activities internally or find an alternative partner. In either case, our research and development costs could increase, and we could experience delays or other setbacks in the development of new process technologies, any of which would materially adversely affect us. Moreover, the successful and timely development and implementation of silicon-on-insulator technology and the achievement of other milestones set forth in the joint development agreement are critical to our ability to timely commence manufacturing at Fab 36 using 65-nanometer and more advanced process technology.

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 connection with constant and rapid technological change, wide fluctuations in supply and demand, continuous new product introductions, price erosion and declines in general economic conditions. Our historical financial results have also been subject to substantial fluctuations. 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:

- the cyclical nature of supply/demand imbalances in the semiconductor industry;
- a decline in demand for end-user products that incorporate our semiconductors;
- excess inventory levels in the channels of distribution, including our customers;
- excess production capacity; and
- substantial declines in average selling prices, most recently for our Spansion Flash memory products.

For example, in 2001 and 2002, we implemented restructuring plans due to weak customer demand associated with the downturn in the semiconductor industry. Similarly, in the fourth quarter of 2004 and the first and second quarters of 2005, declining average selling prices contributed to lower than expected Memory Products net sales. If these conditions in the semiconductor industry occur, we would be materially adversely affected.

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

The Computation Products segment of our business is dependent upon the market for computers, including mobile and desktop PCs, and servers. Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. Depending on the growth rate of computers sold, sales of our microprocessors may not grow and may even decrease. If demand for computers is below our expectations, we could be materially adversely affected. In addition, potential market share increases by customers who exclusively purchase microprocessors from Intel Corp., such as Dell, Inc., could further materially adversely affect us.

The Memory Products segment of our business is dependent to a large degree upon demand for mobile telephones, consumer electronics such as set top boxes and DVD players, automotive electronics, industrial electronics such as networking equipment, and PC peripheral equipment such as printers. Sales of Spansion products also depend on OEMs including increasing amounts of NOR Flash memory content in their products. In fiscal 2004 and in the first nine months of fiscal 2005, demand from the wireless category of the Flash memory market drove a majority of sales for the Memory Products segment. If demand for these products, or NOR Flash memory content in these products, is below our expectations, or if the functionality of successive generations of these products does not require increasing NOR Flash memory density, we would be materially adversely affected.

The growth of our business is also dependent on continued demand for our products from high-growth global markets. In the first nine months of fiscal 2005, sales of our products to high-growth markets such as China, Eastern Europe and India increased compared to the same period in 2004 and these markets are an important area of growth for us. If demand from these markets is below our expectations, sales of our products may not grow, and may even decrease, which would have a material adverse effect on us.

Intense competition in the microprocessor and Flash memory markets could materially adversely affect us.

With respect to our microprocessor products, our competitor is Intel Corporation. Microprocessor products compete on performance, quality, reliability, cost, selling price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition 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.

Our principal competitors in the Flash memory market are Intel Corporation, Samsung Electronics Co., Ltd., STMicroelectronics, Silicon Storage Technology, Inc., Macronix International Co., Ltd., Toshiba Corporation, Sharp Electronics Corp. and Renesas Technology Corp. The basis of competition in the Flash memory market is cost, selling price, performance, quality and customer relationships. In particular, in the past, our competitors have aggressively priced their products in order to increase market share, which resulted in decreased average selling prices for our products and adversely impacted our results of operations. In addition, recent capital investments by competitors have resulted in substantial industry manufacturing capacity, which may further contribute to a competitive pricing environment.

Also, we and certain of our competitors have licensed Flash memory technology called NROM technology from a third party. NROM technology has similar characteristics to our MirrorBit technology which may allow these competitors to develop new Flash memory technology that is competitive with our MirrorBit technology.

We may not be able to compete effectively if we fail to reduce our manufacturing costs and develop, introduce and sell on a timely basis, new products or enhanced versions of existing products at competitive prices.

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

Intel has dominated the market for microprocessors used in desktop and mobile PCs for many years. Intel is also a dominant competitor in the server category of the microprocessor market and a significant competitor in the Flash memory market. Intel's 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.

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These aggressive activities can result in lower unit sales and average selling prices for our products, particularly microprocessors and Flash memory products, and adversely affect our margins and profitability. As long as Intel remains in this dominant position, we may be materially adversely affected by Intel's:

- business practices, including pricing and allocation strategies and actions, such as aggressive pricing for Flash memory products and microprocessors to increase market share;
- product mix and introduction schedules;
- product bundling, marketing and merchandising strategies;
- exclusivity payments to its current and potential customers and distribution 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 other information technology companies; and
- strong brand, and marketing and advertising expenditures in support of the brand.

For example, with respect to the microprocessor market, Intel exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand program and other marketing programs. Because of its dominant position in the microprocessor market, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the microprocessor market requires of Intel's competitors. Intel also dominates the PC system platform, which includes core logic chipsets, graphics chips, motherboards and other components necessary to assemble a PC system. As a result, PC OEMs 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.

We expect Intel to maintain its dominant position in the microprocessor market, to continue to be a significant competitor in the Flash memory market and to continue to invest heavily in research and development, new manufacturing facilities and other technology companies. 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. Moreover, Intel currently manufactures certain of its microprocessor products on 300-millimeter wafers whereas we expect to make production shipments of products manufactured using 300-millimeter wafers in the first quarter of 2006. We also expect Intel to ship products manufactured using 65-nanometer process technology before we do. To the extent Intel manufactures its microprocessor products on larger wafers and smaller process technologies earlier than we do, we may be more vulnerable to Intel's aggressive marketing and pricing strategies for microprocessor products, which may result in market share gains for Intel. Intel's dominant position in the microprocessor 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.

We depend on third-party companies for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components.

Our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors because our patent-cross license agreement with Intel does not extend to Intel's proprietary bus interface protocol. Accordingly, we depend on third-party companies for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components that support our microprocessor offerings. In recent years, many of these third-party designers and manufacturers have lost significant market share to Intel or exited the business. If we are unable to secure sufficient support for our microprocessor products from these designers and manufacturers, our business would be materially adversely affected.

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

On June 27, 2005, we filed an antitrust complaint against Intel Corporation and Intel's Japanese subsidiary, Intel Kabushiki Kaisha, collectively, Intel, in the United States District Court for the District of Delaware under Section 2

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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 in effect limit the ability and/or incentive of Intel's customers' in dealing with AMD. Also, on June 30, 2005, our subsidiary in Japan, AMD Japan K.K., filed an action in Japan against Intel K.K. in the Tokyo High Court and the Tokyo District Court for damages arising from violations of Japan's Antimonopoly Act.

If our antitrust lawsuits against Intel are ultimately unsuccessful, our business, including our ability to increase market share in the microprocessor market, could be materially adversely affected. For additional information regarding our antitrust lawsuits against Intel, see Item 1 "Legal Proceedings" in Part II of this report.

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

Collectively, our top five OEM and distributor customers (including Fujitsu) accounted for 45 percent of our total net revenues in the third quarter of 2005. Excluding Fujitsu, our top five OEM and distributor customers accounted for 31 percent of our total net revenues in the third quarter of 2005. In addition, sales of Spansion Flash memory products in the wireless market have historically been concentrated in a limited group of customers. If one of these customers decided to stop buying our products, or if one of these customers were materially to reduce its operations or its demand for our products, we would be materially adversely affected.

If we fail to keep pace with new product designs and improvements or if we pursue technologies that do not become commercially accepted, customers may not buy our products and we may be adversely affected.

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 are delayed in developing or qualifying new products or technologies, such as high-performance, low-power processors, we could be materially adversely affected. For example, during the second half of fiscal 2004 and the first quarter of fiscal 2005 we experienced a delay in qualifying and introducing a new Spansion Flash memory product based on MirrorBit technology for wireless applications. The delay, which was due to our having to re-design the product in order to achieve higher performance specifications under all temperature conditions, contributed to lower than anticipated Memory Products net sales during the second half of fiscal 2004 and the first half of fiscal 2005 and caused us to lose market share in the wireless category of the Flash memory market. We are also in the process of transitioning a majority of our Flash memory products from floating gate technology to MirrorBit technology. If we experience any substantial difficulty with this transition, we would be materially adversely affected.

If Spansion's initial public offering is not consummated, we may be materially adversely affected.

Spansion, our majority-owned subsidiary, intends to reorganize into a corporate structure and conduct an initial public offering of its Class A common stock, as well as a concurrent offering of its mandatory convertible preferred stock and a private placement of senior unsecured notes, each of which is conditional upon the consummation of the others. The purpose of the reorganization and concurrent offerings is so that Spansion can establish itself as a standalone public company, access the public markets in order to raise capital for capital expenditures, which for fiscal 2006 are projected to be between \$800 million and \$950 million, working capital and other corporate purposes.

Upon consummation of Spansion's proposed initial public offering and related offerings, we would no longer be obligated to provide funding to Spansion for capital expenditures and operational cash flow needs under its limited liability company operating agreement. In addition, Spansion's results of operations would no longer be consolidated for financial reporting purposes with our financial statements.

Spansion's ability to consummate the offerings is subject to, among other things, completion of regulatory review and favorable market conditions. If Spansion is unable to consummate the offerings, Spansion would be unable to access the public markets to raise needed capital for its planned capital expenditures. In this case, Spansion is first required to seek any required financing from external sources, either on a non-recourse basis to us or with guarantees based on our pro-rata ownership interest. However, if Spansion is unable to procure this capital from external third-party sources, we would remain obligated until June 30, 2007 to provide funding to Spansion equal to our pro-rata ownership interest in Spansion, which is currently 60 percent, for capital expenditures and operational cash flow needs in accordance with its limited liability company operating agreement. Such funding obligations would be a substantial drain on our cash flow and may decrease our cash balances. An inability to meet our funding obligations for Spansion could, among other things, result in additional equity in Spansion being issued to Fujitsu or third parties, Spansion's curtailing its capital expenditure plans or abandoning projects, all of which could materially adversely affect Spansion and us.

Moreover, if Spansion is unable to consummate the offerings, we would continue to consolidate Spansion's results of operations for financial reporting purposes, which may have a negative impact on the price of our common stock.

If Spansion's cost reduction efforts are not effective, we could be materially adversely affected.

The operating loss for our Memory Products segment was \$248 million for the first nine months of fiscal 2005. As a result, Spansion is undertaking a number of actions in an effort to significantly reduce its expenses. These actions include streamlining operations and continuing to align manufacturing utilization to the level of demand for Spansion Flash memory products, controlling increasing testing costs and working with us and Fujitsu to reduce

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costs under services agreements. We cannot assure you that any of these actions will occur as anticipated or at all, or that Spansion will be able to achieve significant cost reductions. If Spansion's cost reduction efforts are unsuccessful, we would be materially adversely affected.

A lack of market acceptance of MirrorBit technology could have a material adverse effect on us.

Market acceptance of products based on our MirrorBit technology is a critical factor impacting our ability to increase revenues and market share as well as to enter new markets. MirrorBit technology is a memory cell architecture that enables Flash memory products to store two bits of data in a single memory cell thereby doubling the density or storage capacity of each memory cell. If adoption of our MirrorBit technology occurs at a slower rate than we anticipate, our ability to compete will be reduced, and we would be materially adversely affected. If we do not achieve market acceptance of this product and subsequent versions, we would be materially adversely affected.

Spansion Flash memory products are based on NOR architecture, and a significant market shift to NAND architecture could materially adversely affect us.

Flash memory products are generally based either on NOR architecture or NAND architecture. To date, our Flash memory products have been based on NOR architecture, which are typically produced at a higher cost-per-bit than NAND-based products. We do not currently manufacture products based on NAND architecture. During 2003 and 2004, industry sales of NAND-based products grew at higher rates than sales of NOR-based products, resulting in NAND vendors in aggregate gaining a greater share of the overall Flash memory market and NOR vendors in aggregate losing overall market share. This trend has continued in 2005. For the first six months of 2005, sales of NAND-based Flash memory products represented a majority of the Flash memory products sold in the overall Flash memory market. We expect this trend to continue in the future. Moreover, the removable storage category of the Flash memory market, which is currently the second largest category after wireless, and is predominantly served by NAND vendors, is expected to be the fastest growing portion of the Flash memory market for the foreseeable future. As mobile phones and other consumer electronics become more advanced, they will require higher density Flash memory to meet the increased data storage requirements associated with music downloads, photos and videos. Because storage requirements will increase to accommodate data-intensive applications, OEMs may increasingly choose NAND-based products over NOR-based products for their applications. Moreover, some NAND vendors are manufacturing on 300-millimeter wafers or are utilizing more advanced manufacturing process technologies than we are today, which result in an ability to offer products with a lower cost-per bit at a given product density. If NAND vendors continue to increase their share of the Flash memory market, our market share may decrease, which would materially adversely affect us.

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If we fail to successfully develop products based on our new ORNAND architecture, or if there is a lack of market acceptance of products based on our ORNAND architecture, our future operating results would be materially adversely affected.

As mobile phones become more advanced, they will require higher density Flash memory to meet increased data storage requirements. We intend to position ourselves to address the increasing demand for higher density Flash memory within the wireless category of the Flash memory market by offering products based on our ORNAND architecture, which we are currently developing. The success of our ORNAND architecture requires that we timely and cost effectively develop, manufacture and market ORNAND-based products that are competitive with NAND-based Flash memory products in the wireless category of the Flash memory market. We expect to begin commercial shipments of ORNAND-based products to customers in 2006. However, if we fail to develop and commercialize our ORNAND architecture on a timely basis or if our ORNAND-based products fail to achieve acceptance in the wireless market, our future operating results would be materially adversely affected.

If Spansion is unable to timely and efficiently implement 300-millimeter wafer capacity for the manufacture of Spansion Flash memory products, our business, results of operations or financial condition could be materially adversely affected.

Spansion intends to develop manufacturing capacity on 300-millimeter wafers for its Spansion Flash memory products. Their goal is to have this capacity in 2007. The timing for implementing 300-millimeter capacity will depend in part on the demand for Spansion Flash memory products and the ability to fund the construction of such a facility if Spansion chooses to develop capacity internally. If Spansion is delayed in having this capacity or is unable to timely and efficiently ramp production on 300-millimeter wafers, Spansion would not achieve anticipated cost savings and capacity associated with this technology and we could be materially adversely affected.

We are required to reach agreement with Fujitsu regarding certain actions of Spansion, and our interests may not be aligned.

We own 60 percent of Spansion while Fujitsu owns the remaining 40 percent. Although we are entitled to appoint a majority of the board of managers, which generally manages the affairs of Spansion, certain actions by Spansion require Fujitsu's consent for as long as Fujitsu maintains specific levels of ownership in Spansion. In addition, based upon designated thresholds of Fujitsu's percentage interest in Spansion, certain actions require the affirmative vote of at least a majority of the managers appointed by Fujitsu. These actions, which primarily represent protective rights for Fujitsu as a minority member, include:

- major investments, acquisitions and dispositions of assets, and any public offering of Spansion's equity interests;
- a merger or consolidation resulting in the transfer of more than 50% of the equity interests;
- settlement of major legal proceedings and other actions;
- approval of certain material contracts between us and Spansion;
- changes to the equity capital structure of the Spansion, including the potential initial public offering of Spansion common stock; and
- winding-up Spansion or one of its material subsidiaries.

There can be no guarantee that our interests and those of Fujitsu will be aligned with respect to such decisions and we may be unable to take steps that we believe are desirable. In addition, a reduction in our percentage interest may result in our inability to appoint a majority of Spansion's board of managers, which could result in the loss of effective control of Spansion, although the results of operations of Spansion may continue to impact significantly our results of operations for as long as Spansion is a consolidated subsidiary, and we still may be required to make loans to, and guarantee indebtedness of, Spansion prior to its proposed initial public offering.

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 net sales 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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Manufacturing capacity constraints and manufacturing capacity utilization rates may have a material adverse effect on us.

There may be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with third parties, could have a material adverse effect on us. For example, in the first half of fiscal 2004, we were not able to meet demand for certain of our lower density embedded Spansion Flash memory products because in fiscal 2003 we underestimated demand for these products and were unable to install additional wafer fabrication capacity on a timely basis. We believe this adversely impacted our relationships with customers who received reduced allocations, or did not receive allocations, of our embedded products and we believe our competitors were able to take advantage of this situation to increase their market share. More recently, in the third quarter of fiscal 2005, Spansion experienced capacity constraints for final test and assembly of certain products. While Spansion is working internally and with subcontractors to realign and increase capacity to meet anticipated demand, Spansion does not expect to be able to do so in the short term.

In November 2004, we entered into sourcing and manufacturing technology agreements with Chartered Semiconductor Manufacturing whereby Chartered agreed to become an additional manufacturing source of our AMD64-based microprocessors. We expect that Chartered will begin production in 2006. The ability of Chartered to begin production on a timely basis depends on several factors beyond our control, including obtaining the necessary governmental permits to transfer the required technology to Singapore and Chartered's ability to implement our technology at their facilities on a timely basis.

In addition, the additional capacity gained through the use of 300- millimeter wafers at Fab 36 plays a fundamental role in our growth plans for the next several years. We plan to add production output at Fab 36 on a steady year-to-year basis, thereby giving Fab 36 the potential to ship as many as 100 million units in 2008. If we are not able to achieve our production plans at Fab 36 on a timely basis, we may not have sufficient manufacturing capacity to meet demand for our products. If we cannot obtain sufficient manufacturing capacity to meet demand for our products, either in our own facilities or through foundry or similar arrangements we could be materially adversely affected.

Industry overcapacity could cause us to under-utilize our manufacturing facilities and have a material adverse effect on us.

Semiconductor companies with their own manufacturing facilities and specialist semiconductor foundries, which are subcontractors that manufacture semiconductors designed by others, have added significant capacity in recent years and are expected to continue to do so. In the past, capacity additions sometimes exceeded demand requirements leading to oversupply situations and downturns in the industry. Fluctuations in the growth rate of industry capacity relative to the growth rate in demand for our products contribute to cyclicalities in the semiconductor market, which may in the future put pressure on our average selling prices and materially adversely affect us.

It is difficult to predict future growth or decline in the markets we serve, making it very difficult to estimate requirements for production capacity. If our target markets do not grow as we anticipate, we may under-utilize our manufacturing facilities, which may result in write-downs or write-offs of inventories and losses on products whose demand is lower than we anticipate. We intend to migrate the manufacture of our AMD64-based processors from Fab 30 to Fab 36 and Chartered. Accordingly, our ability to fully utilize the capacity of Fab 30 will depend on demand for our low-power embedded microprocessors for the embedded and consumer electronics markets, which historically has not grown in line with the demand for our AMD64-based processors.

In addition, during periods of industry overcapacity, such as was recently experienced by our Memory Products business, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when our industry is operating closer to capacity, which can exacerbate the difficulty in forecasting capacity requirements. Many of our costs are fixed. Accordingly, during periods in which we under-utilize our manufacturing facilities as a result of reduced demand for certain of our products, our costs cannot be reduced in proportion to the reduced revenues for such a period. When this occurs, our operating results are materially adversely affected. We are substantially increasing our manufacturing capacity by facilitating Fab 36, transitioning to smaller manufacturing process technologies and larger wafers and making significant capital investments in our existing manufacturing facilities. If the increase in demand for our products is not consistent with our expectations, we may underutilize manufacturing facilities. This has in the past had, and in the future may have, a material adverse effect on us.

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Unless we maintain manufacturing efficiency, our future profitability could be materially adversely affected.

Manufacturing our products involves highly complex processes that require advanced equipment. Our manufacturing efficiency is an important factor in our profitability, and we cannot be sure that we will be able to maintain or increase our manufacturing efficiency to the same extent as our competitors. We continuously modify manufacturing processes in an effort to improve yields and product performance and decrease costs. We may fail to achieve acceptable yields or experience product delivery delays as a result of, among other things, capacity constraints, construction delays, delays in the development of new process technologies, changes in our process technologies, upgrades or expansion of existing facilities, or impurities or other difficulties in the manufacturing process.

Improving our manufacturing efficiency in future periods is dependent on our ability to:

- develop advanced product and process technologies;
- successfully transition to advanced process technologies;
- ramp product and process technology improvements rapidly and effectively to commercial volumes across our facilities; and
- achieve acceptable levels of manufacturing wafer output and yields, which may decrease as we implement more advanced technologies.

For example, we plan to begin 65-nanometer production by the end of 2006. Our goal is to be substantially converted to 65-nanometer in Fab 36 by mid-2007. During periods when we are implementing new process technologies, 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 earlier than we do. Our results of operations would also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

If we lose Microsoft Corporation's support for our products, our ability to sell our microprocessors 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. If we fail to retain the support of Microsoft, our ability to market our microprocessors would be materially adversely affected.

If we are unable to comply with the covenants in the subsidy grant documents that we receive from the State of Saxony, the Federal Republic of Germany and/or the European Union for Fab 30, Fab 36 or other research and development projects we may undertake in Germany, we may forfeit or have to repay our subsidies, which could materially adversely affect us.

We receive capital investment grants and allowances from the State of Saxony and the Federal Republic of Germany for Fab 36. We have also received capital investment grants and allowances as well as interest subsidies from these governmental entities for Fab 30. From time to time, we also apply for and obtain subsidies from the State of Saxony, the Federal Republic of Germany and the European Union for certain research and development projects at Fab 30 and Fab 36. The subsidy grant documents typically contain covenants that must be complied with, and noncompliance with the conditions of the grants, allowances and subsidies could result in the forfeiture of all or a portion of any future amounts to be received, as well as the repayment of all or a portion of amounts received to date. If we are unable to comply with all of the covenants in the grant documents, we may be materially adversely affected.

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

Our microprocessors 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.

One or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of product replacements or product returns may be substantial, and our reputation with our customers would be damaged. In addition, we could incur substantial costs to implement modifications to fix defects. Any of these problems could materially adversely affect us.

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

Our manufacturing operations depend upon obtaining deliveries of equipment and 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 the equipment that we purchase is complex, it is difficult for us to substitute one supplier for another or one piece of equipment for another. Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers.

For example, we are largely dependent on one supplier for our 200-millimeter and 300-millimeter silicon-on-insulator (SOI) wafers. Although there are alternative sources available, we have not qualified these sources and we do not believe that they currently have sufficient capacity to meet our requirements for 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 IC packages we purchase. Similarly, we purchase commercial memory die, such as SRAM, pSRAM, 1pSDRAM and NAND from third-party suppliers and incorporate these die into Spansion multi chip package products. Our production of Spansion Flash memory products was constrained in first half of fiscal 2004 because of difficulties in procuring adequate supply of pSRAM. Some of our major suppliers with respect to the Spansion Flash memory business, including Samsung, are also our competitors in the Flash memory market. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure certain of these materials, we may have to reduce our manufacturing operations. Such a reduction has in the past and could in the future have a material adverse effect on us.

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.

We outsource to third parties certain supply-chain logistics functions, including physical distribution of our products, and co-source some information technology services.

We rely on a third-party provider to deliver our products to our customers and to distribute materials for our manufacturing facilities. In addition, we rely on a third-party provider 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

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that these providers will fulfill their respective responsibilities in a timely manner in accordance with the contract terms, in which case our internal operations, the distribution of our products to our customers and the distribution of materials for our facilities 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.

In addition, we decided to outsource or co-source these functions to third parties primarily to lower our operating expenses and to create a more variable cost structure. However, if the costs related to administration, communication and coordination of these third-party providers are greater than we expect, then we will not realize our anticipated cost savings.

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

Sales of our products are typically made pursuant to individual purchase orders. We generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. We base our inventory levels on customers' estimates of demand for their products, which are difficult to predict. This difficulty may be compounded when we sell to OEMs indirectly through distributors, as our forecasts for demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. 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. 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. Currently, we rely on Fujitsu to act as the sole distributor of Spansion Flash memory products in Japan. In addition, our third party distributors have been a significant factor in our ability to increase sales of our products in certain high growth global markets. Accordingly, 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 or 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 an unexpected 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.

Our operations in foreign countries are subject to political and economic risks, which could have a material adverse effect on us.

All of our wafer fabrication capacity for microprocessors is located in Germany and a majority of our wafer fabrication capacity for Spansion Flash memory is located in Japan. Nearly all product assembly and final testing of our products is performed at manufacturing facilities in China, Malaysia, Singapore and Thailand and by third parties in Taiwan and Japan. We also depend on foreign foundry suppliers for the production of certain of our embedded microprocessors for personal connectivity devices and we depend on an international joint venture for the manufacture of optical photomasks for use in the manufacture of our microprocessors. In addition, we have international sales operations and as part of our business strategy, we are continuing to seek expansion of product sales in high growth markets. Our international sales as a percentage of our total consolidated net sales were 78 percent in the third quarter of 2005, 76 percent in the second quarter of 2005, 78 percent in the first quarter of 2005 and 77 percent in the third quarter of 2004.

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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 concerns, natural disasters or general economic factors, could have a material adverse effect on our business. Any of the above risks, should they occur, could 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. For example, China's economy has been growing at a fast pace over the past several years, and the Chinese government has recently introduced various measures to slow down the pace of economic growth. We believe some of these measures negatively impacted demand for our Flash memory products in the second half of 2004. If Chinese authorities are not able to stage an orderly slowdown of the economic growth, China's economy may suffer. If economic conditions decline, whether in China or worldwide, we could be materially adversely affected.

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.

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 adversely affect us.

As a result of our foreign operations, we have sales, costs, assets and liabilities that are denominated in foreign currencies, primarily the European Union euro and the Japanese yen. For example:

- a significant portion of our manufacturing costs for our microprocessor products is denominated in euro while sales of those products are denominated primarily in U.S. dollars;

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- certain manufacturing costs for our Spansion Flash memory products are denominated in yen;
- certain manufacturing costs for both our Spansion Flash memory products and our microprocessor products are denominated in Chinese yuan renminbi as well as other foreign currencies such as the Thai baht and the Singapore dollar;
- some fixed asset purchases are denominated in euro and yen;
- some of the sales of our Flash memory products in Japan are denominated in yen; and
- certain costs of our Fab 36 project are denominated in euro.

As a consequence, movements in exchange rates could cause our U.S. dollar-denominated expenses to increase as a percentage of net sales, affecting our profitability and cash flows. Whenever we believe appropriate, we cover a portion of our foreign currency exchange exposure to protect against fluctuations in currency exchange rates. We determine our total foreign currency exchange exposure using projections of long-term expenditures for items such as equipment and materials used in manufacturing. We cannot assure you that these activities will eliminate 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, even where revenues and expenses are matched, we must translate euro and yen denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar versus the euro or yen will affect our reported results of operations and the value of our assets and liabilities in our consolidated balance sheet, even if our results of operations or the value of those assets and liabilities has not changed in their original currency. These transactions could significantly affect the comparability of our results between financial periods and/or result in significant changes to the carrying value of our assets, liabilities and shareholders' equity.

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 products, which adversely affects demand for our products. In addition, our inability to control gray marketing 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 thereunder 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. Foreign laws may provide less intellectual property protection than afforded in the United States. If we cannot adequately protect our technology or other intellectual property in the United States and abroad, we would be materially adversely affected.

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We are party to intellectual property litigation and may become a party to other intellectual property 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 have been notified, or third parties may bring 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 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, increase the costs of selling some of our products, or 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. Tessera, Inc. recently filed a lawsuit against us and Spansion alleging infringement of certain of Tessera's patents and has sought to enjoin such alleged infringement and to recover damages. 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 the intellectual property rights of us and others can always be avoided or successfully concluded.

We are subject to a variety of environmental laws that could result in liabilities.

Our operations and properties are subject to various U.S. 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. From time to time, our facilities are subject to investigation by governmental regulators. 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, 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. Two of our manufacturing sites are, or are located within, a federal Superfund site. Although we have not yet been, we could be named a potentially responsible party at these or other Superfund or other contaminated sites in the future. The costs associated with such sites could be material. 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 recently began imposing stricter requirements regarding reduced lead content in semiconductor packaging. While we have budgeted for foreseeable environmental expenditures, we cannot assure you that environmental laws will not change or become more stringent 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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Future litigation proceedings may materially adversely affect us.

From time to time we are a defendant or plaintiff in various legal actions. 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. In addition, future litigation may result in injunctions against future product sales. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could have a material adverse effect on us.

Our 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.

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. For example, our corporate headquarters are located near major earthquake fault lines in California and three of our four wafer fabrication facilities for Spansion Flash memory products are located near major earthquake fault lines in Japan. Our assembly and test facilities are located in China, Malaysia, Singapore and Thailand. 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.

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 26, 2004. We experienced no significant changes in market risk during the first nine months of 2005 except as follows: During the first nine months of 2005, the U.S dollar has strengthened against the European euro and Japanese yen. As a result, the cumulative translation adjustment balance has been reduced significantly for the period. Such decrease is primarily due to the translation impact of the functional currency used to account for the net assets of our subsidiaries in Germany and Japan to our reporting currency, which is the U.S. dollar. However, this translation impact does not affect our earnings or our cash flows as this is recorded as a component of stockholders' equity in our balance sheet. As foreign currencies move relative to the U.S. dollar, we expect to continue to have this translation adjustment impact, which will either increase or decrease our total stockholders' equity balance. In addition, we cannot give any assurance as to the effect that future changes in foreign currency rates will have on our consolidated financial position, results of operations or cash flows.

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 25, 2005, 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 has been no change in our internal control over financial reporting during the fiscal quarter ended September 25, 2005 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

AMD v. Intel Corporation and Intel Kabushiki Kaisha, Civil Action No. 05-441, in the United States District Court for the District of Delaware.

On June 27, 2005, we filed an antitrust complaint against Intel Corporation and Intel Kabushiki Kaisha, collectively “Intel,” 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. The 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 in effect limit Intel’s customers’ ability and/or incentive to deal with AMD. The complaint alleges anti-competitive business practices, including:

- Forcing major customers into Intel-exclusive deals in return for outright cash payments, discriminatory pricing or marketing subsidies conditioned on the exclusion of AMD;
- Forcing other major customers into partial exclusivity agreements by conditioning rebates, allowances and market development funds on customers’ agreement to severely limit or forego entirely purchases from AMD;
- Establishing a system of discriminatory and retroactive incentives triggered by purchases at such high levels as to have the intended effect of denying customers the freedom to purchase any significant volume of processors from AMD;
- Establishing and enforcing quotas among key retailers, effectively requiring them to stock overwhelmingly or exclusively computers with Intel microprocessors, and thereby artificially limiting consumer choice;
- Forcing PC makers and technology partners to boycott AMD product launches or promotions;
- Abusing its market power by forcing on the industry technical standards and products that have as their main purpose the handicapping of AMD in the marketplace.

We have requested the following findings and remedies:

- A finding that Intel is wrongfully maintaining its monopoly in the x86 microprocessor market in violation of Section 2 of the Sherman Act and treble damages to AMD in an amount to be proven at trial, pursuant to Section 4 of the Clayton Act, 15 U.S.C. § 15(a);
- A finding that Intel has made secret payments and allowance of rebates and discounts, and that Intel secretly and discriminatorily extended to certain purchasers special services or privileges, all in violation of California Business & Professions Code § 17045, and treble damages for AMD’s resulting lost profits in an amount to be proven at trial;
- A finding that Intel has intentionally interfered with valuable business relationships of AMD to AMD’s economic detriment and damages to AMD in an amount to be proven at trial for its resulting losses, as well as punitive damages, as permitted by law;
- Injunctive relief prohibiting Intel from engaging in any further conduct unlawful under Section 2 of the Sherman Act or Section 17045 of the California Business and Professions Code;
- An award to AMD of such other, further and different relief as may be necessary or appropriate to restore and maintain competitive conditions in the x86 microprocessor market; and
- An award of attorneys’ fees and costs.

Intel filed its answer on September 1, 2005.

Other Related Proceedings

On June 30, 2005, our Japanese subsidiary, AMD Japan K.K., or AMD Japan, filed an action in Japan against Intel Corporation’s Japanese subsidiary, Intel Kabushiki Kaisha, or Intel K.K., in the Tokyo High Court and the Tokyo District Court for damages arising from violations of Japan’s Antimonopoly Act.

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Through its suit in the Tokyo High Court, AMD Japan seeks US\$50 million in damages, following on the Japan Fair Trade Commission's (JFTC) findings in its March 8, 2005 Recommendation, or the JFTC Recommendation, that Intel K.K. committed violations of Japan's Antimonopoly Act. The JFTC Recommendation concluded that Intel K.K. interfered with AMD Japan's business activities by providing large amounts of funds to five Japanese PC manufacturers (NEC, Fujitsu, Toshiba, Sony, and Hitachi) on the condition that they refuse to purchase AMD's microprocessors. The suit alleges that as a result of these illegal acts, AMD Japan suffered serious damages, losing all of its sales of microprocessors to Toshiba, Sony, and Hitachi, while sales of microprocessors to NEC and Fujitsu also fell precipitously.

The first hearing in the Tokyo High Court case is scheduled for December 16, 2005.

Through its suit in the Tokyo District Court, AMD Japan seeks US\$55 million in damages for various anticompetitive acts in addition to those covered in the scope of the JFTC Recommendation. The suit alleges that these anticompetitive acts also had the effect of interfering with AMD Japan's right to engage in normal business and marketing activities.

The first hearing in the Tokyo District case was held on September 8, 2005. The second hearing is scheduled for December 16, 2005.

Tessera, Inc. v. Advanced Micro Devices, Inc. and Spansion LLC, Civil Action No. 05-04063, in the United States District Court for the Northern District of California.

On October 7, 2005, Tessera, Inc., or Tessera, filed a complaint for patent infringement against us and Spansion in the United States District Court for the Northern District of California under the patent laws of the United States of America, 35 U.S.C. section 1, et seq., including 35 U.S.C. section 271. The complaint alleges that Spansion's ball grid array and multichip packages infringe the following Tessera patents: United States Patent No. 5,679,977, United States Patent No. 5,852,326, United States Patent No. 6,433,419 and United States Patent No. 6,465,893.

Tessera has requested the following findings and remedies:

- a finding that Tessera's patents are valid and enforceable and that we are deliberately and willfully infringing Tessera's patents;
- injunctive relief prohibiting us from engaging in any further conduct that would infringe Tessera's patents;
- an award to Tessera to recover all damages, including interest on damages, from the alleged infringement;
- an award of treble damages for deliberate and willful conduct;
- a finding that the case is exceptional in which attorney fees should be awarded to the prevailing party; and
- an award of attorneys' fees and costs.

We and Spansion believe that we have meritorious defenses against Tessera's claims and intend to defend the lawsuit vigorously.

ITEM 6. EXHIBITS

Exhibits

- *10.1 Second Amendment and Restatement of "S" Process Development Agreement between Advanced Micro Devices, Inc. and International Business Machines Corp.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 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.

* Portions of this Exhibit have been omitted pursuant to a request for confidential treatment. These portions have been filed separately with the Securities and Exchange Commission.

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.

Date: November 2, 2005

ADVANCED MICRO DEVICES, INC.

/s/ ROBERT J. RIVET

By: _____

Robert J. Rivet
Executive Vice President,
Chief Financial Officer

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

**Confidential Treatment Requested
under 17 C.F.R. §§ 200.80(b)94),
200.83 and 240.24-b-2**

Second Amendment and Restatement of

“S” PROCESS DEVELOPMENT AGREEMENT
(effective as of December 28, 2002)

between

INTERNATIONAL BUSINESS MACHINES CORP.

And

ADVANCED MICRO DEVICES, INC.

*Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as ***. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.*

Second Amendment and Restatement of “S” Process Development Agreement between AMD and IBM
IBM - AMD Confidential

EXECUTION VERSION

This Agreement is made effective as of the 28th day of December, 2002 (hereinafter referred to as the "Effective Date") by and between International Business Machines Corporation ("IBM"), incorporated under the laws of the State of New York, U.S.A. and having an office for the transaction of business at 2070 Route 52, Hopewell Junction, NY 12533, U.S.A, and Advanced Micro Devices having an office for the transaction of business at One AMD Place, P.O. Box 3453, Sunnyvale, CA 94088-3453 "(AMD)". IBM and AMD may be individually referred to herein as a "Party," or collectively as the "Parties."

WHEREAS, IBM has been developing leading edge semiconductor manufacturing processes with Sony and Toshiba, and the Parties hereto desire to continue to participate in development efforts under this Agreement;

WHEREAS, the Parties possess complementary skills and know-how, which the Parties wish to contribute toward such process development;

WHEREAS, each Party agrees to provide certain personnel and grant the other Parties certain technology licenses in support of such process development;

WHEREAS, through the use of such complementary skills and know-how the Parties desire to achieve resource efficiencies and cost savings, and reduce the technical risk associated with the development of high end semiconductor processes in order to complete development of and put into production, leading edge high end semiconductor manufacturing processes sooner than would be possible with any of the Parties acting independently;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, as well as for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows. For avoidance of doubt, the Agreement as defined below covers its subject matter after its Effective Date including matters provided for in the "S" Process Development Agreement (Effective as of December 28, 2002) as amended and restated on September 15, 2004 and as set forth herein.

SECTION 1 - DEFINITIONS

Unless expressly defined and used with an initial capital letter in this Agreement, words shall have their normally accepted meanings. The headings contained in this Agreement or in any exhibit, attachment or appendix hereto are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, and the singular includes the plural. The following terms shall have the described meanings:

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM
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“Agreement” means the terms and conditions of this Second Amendment and Restatement of “S” Process Development Agreement together with any exhibits, attachments and appendices hereto.

“AMD Bump Project Leader” means the individual, if any, appointed by AMD pursuant to Section 4.4 below.

“AMD Project Leader” means the individual, if any, appointed by AMD pursuant to Section 4.5 below.

“AMD FMV” means a single AMD flash memory venture at any point in time, in which AMD has an ownership interest representing a right to participate in making decisions for such flash memory venture (i.e. a shareholder’s right to vote), which is the lesser of (i) *** percent (***) or (ii) the largest single owner, but not less than *** percent (***) of such flash memory venture, and which produces flash memory products, provided, that such entity shall be considered an AMD FMV only so long as such ownership exists.

“AMD High Performance Integrated Circuit” means an Integrated Circuit manufactured using an AMD High Performance Process.

“AMD High Performance Process” means any 32nm, 22nm or subsequent node CMOS semiconductor manufacturing process which incorporates portions of High Performance Device Information, which AMD uses exclusively to produce the highest performing *** percent (***) of wafers manufactured in the applicable technology generation (e.g. 32nm, 22nm) in any given quarter. Performance will be determined by AMD’s AC and DC transistor performance data, wherein any disputes will be resolved by the Management Committee.

“AMD Non-High Performance Integrated Circuit” means an Integrated Circuit manufactured using an AMD Non-High Performance Process.

“AMD Non-High Performance Process” means AMD’s 32nm, 22nm or subsequent node CMOS semiconductor manufacturing processes used by AMD to manufacture Semiconductor Products other than AMD High Performance Integrated Circuits.

“AMD Pre-T0 Project Leader” means the individual, if any, appointed by AMD pursuant to Section 4.3 below.

“AMD Pre-T0 Steering Committee Member” means the individual appointed by AMD pursuant to Section 4.2 below, to provide technical guidance to the Management Committee for the Pre-T0 Activities.

“ASIC Product” shall mean an SOI Integrated Circuit or AMD High Performance Integrated Circuit that is not a Foundry Product and wherein all of the following conditions are met: (i) at least one of (a) the functional requirements, or (b) the design, for such SOI Integrated Circuit or

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AMD High Performance Integrated Circuit product is provided to a Party from a Third Party; (ii) such Party participated in an aspect of the definition and design of such product; and (iii) such Party is contractually bound to manufacture such product solely for, and to sell such product solely to, such Third Party or its distributor or other recipient solely for the benefit of such Third Party, provided that ASIC products shall not include SOI Integrated Circuits or AMD High Performance Integrated Circuits in which the Party modifies its product designs to add or modify a feature or function required by the Third Party, such modifications comprising a change of less than *** percent (***) of the logical functions of the product, even if said product design is only made available to the Third Party.

“Background Know-How” means methods, techniques, designs, structures, software, and specifications developed or acquired by a Party outside the performance of the Process Development Projects, which such Party provides to the other Party for use in a Process Development Project pursuant to Section 3. Such Background Know-How shall not include, Packaging Technology, Mask Fabrication and Photoresist Technology, Memory, SiGe Technology, Chip Designs or Post-Silicon Devices.

“BEOL” (Back End of Line) shall mean those aspects of Background Know-How and Specific Results that are directed to methods and processes of interconnecting the source, gate, or drain electrodes of FET transistors formed on a wafer, including initial passivation of such FET transistors with a dielectric, up to and including polyimide passivation and final via formation but not including Bump Technology and Packaging Technology. For the avoidance of doubt, “BEOL” shall not include local interconnects made of tungsten.

“Bulk CMOS” means 90nm, 65nm and 45nm CMOS semiconductor manufacturing technology carried out on a wafer that is not an SOI Wafer.

“Bulk CMOS Information” means those aspects of Background Know-How and Specific Results that are (i) directed to Lithography and BEOL, and/or (ii) selected by IBM either for incorporation into an IBM Bulk CMOS process or otherwise pursuant to Section 3.4.

“Bump Technology” means the technology associated with connecting an Integrated Circuit to a chip carrier including IBM’s collapsible chip carrier connection (“C4”) interconnect technology as further defined in Exhibit A that is developed during the term of this Agreement for use with, but not limited to, the semiconductor process technologies also developed under this Agreement. Bump Technology shall include the following process steps: bump limiting metallurgy deposition, photolithography, solder deposition, etching, solder reflow and cleaning, and non-solder interconnect technology.

“***” shall mean *** and its subsidiaries located in ***.

“***-AMD Manufacturing Facility” shall mean any facility for the manufacture of Integrated Circuits located in *** or Dresden, Germany and either owned entirely by *** and AMD or owned by ***, AMD and all of the remaining such ownership interest is solely owned or

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Second Amendment and Restatement of “S” Process Development Agreement between AMD and IBM

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controlled, directly or indirectly, by a government entity or one or more corporations, companies or other entities which are purely financial investors who are not engaged in the design, development, manufacture, marketing or sale of Semiconductor Products.

“Chip Design(s)” means any design of one or more Integrated Circuits and/or Semiconductor Products, including (by way of example and not limitation) random access memory (RAM)s, read only memory (ROM)s, microprocessors, ASICs and other logic designs, and analog circuitry; provided, however, that “Chip Designs” shall not include (i) alignment marks or test structures and associated layout and data used in the Process Development Projects for process development, (ii) process kerf test structures, layout, and data of the test chip(s) (including SRAM macro cells) as well as such test chips themselves used for the development work of the Process Development Projects unless specifically excluded (for the avoidance of doubt, this phrase means that such structures or macros that are specifically designated as owner proprietary shall not be considered Specific Results), (iii) other product designs as mutually agreed by the Parties to be used as qualification vehicles in the Process Development Projects, or (iv) ESD protection devices as used in the Project Test Sites and ESD groundrules and models as defined in the Design Manual. For the avoidance of doubt, all of (i) through (iv) above shall be treated as Specific Results to the extent utilized in a Process Development Project.

“CMOS 10S” means a 90 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is to be continued pursuant to this Agreement, for the fabrication of SOI Integrated Circuits, as further defined in Exhibit A.1, attached hereto.

“CMOS 10SE” means a 90 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is to be continued pursuant to this Agreement, which is a performance enhanced version of CMOS 10S, as further defined in Exhibit A.2.

“CMOS 11S” means a 65 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is to be continued pursuant to this Agreement, for the fabrication of SOI Integrated Circuits, as further defined in Exhibit A.3.

“CMOS 11S2” means a 65 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is to be continued pursuant to this Agreement, which is a performance enhanced version of CMOS 11S, as further defined in Exhibit A.4.

“CMOS 12S” means a 45 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is to be continued pursuant to this Agreement, for the fabrication of SOI Integrated Circuits, as further defined in Exhibit A.5.

“CMOS 12S2” means a 45 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is to be continued pursuant to this Agreement, which is a performance enhanced version of CMOS 12S, as further defined in Exhibit A.6.

Second Amendment and Restatement of “S” Process Development Agreement between AMD and IBM
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“CMOS 13S” means a 32 nanometer CMOS logic fabrication process researched and evaluated for feasibility in the Pre-T0 Activities and/or thereafter further developed, all pursuant to this Agreement to be further defined in Exhibit A.7.

“CMOS 13S2” means a 32 nanometer CMOS logic fabrication process, which is a performance enhanced version of CMOS13S, and which is researched and evaluated for feasibility in the Pre-T0 Activities and/or thereafter further developed, all pursuant to this Agreement to be further defined in Exhibit A.8.

“CMOS 14S” means a 22 nanometer CMOS logic fabrication process researched and evaluated for feasibility in the Pre-T0 Activities and/or thereafter further developed, all pursuant to this Agreement to be further defined in Exhibit A.9.

“Designated Invention” means an Invention for which a patent application has been filed by one or more of the Parties pursuant to Sections 11.1 or 11.2.

“Derivative Process(es)” shall have the meaning ascribed to it in Section 8.1

“Development Facilities” means the (i) IBM Development Facilities and (ii) any other facilities agreed to by the Parties in writing.

“Embedded DRAM” or “eDRAM” means a device that either (i) primarily carries out logic functions, and includes one or more dynamic random access memory (DRAM) cells embedded within logic circuitry on the same semiconductor substrate, or (ii) primarily carries out memory functions, and includes one or more DRAM cells in combination with a static random access memory (SRAM) array on the same semiconductor substrate (including an array of SRAM cells linked with bit lines, word lines, sense amplifiers and decoders).

“Foundry Company(ies)” means an entity having a majority of its revenue arising from the sale of Integrated Circuits wherein all the following conditions are met: (i) the ***, or ***, and/or ***, for such Integrated Circuit product are ***, (ii) ***, and (iii) *** is contractually bound to ***. Foundry Company also includes any other entity that has as its ***, wherein at least *** percent (***) of the ownership interest in such entity is held by a *** (as defined in the first sentence of this paragraph), and wherein such ***.

“Foundry Product” shall mean an Integrated Circuit wherein all the following conditions are met: (i) the ***, or ***, and/or ***, for such Integrated Circuit product ***, (ii) *** of such product (except for providing standard design libraries, design enablement tools or other intellectual property to the Third Party to specifically assist with the design of the product); and (iii) *** is contractually bound to ***.

“High Performance Device Information” means Background Know-How and Specific Results pertaining to all process methods, steps, and structures created on substrates, not including *** or ***.

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“High Performance Integrated Circuit” means an Integrated Circuit manufactured in a 32nm, 22nm or subsequent node CMOS semiconductor manufacturing process using High Performance Device Information.

“High Sensitivity Pre-T0 Information” shall have the meaning ascribed to it in Section 8.18.

“IBM Bump Technology Project Leader” means the individual appointed by IBM pursuant to section 4.4 below.

“IBM Development Facilities” means the (i) IBM 200mm or 300mm wafer process development facility used for conducting the Process Development Projects; (ii) the IBM Thomas J. Watson Research Center; and (iii) any other IBM facilities agreed to by the Parties in writing.

“IBM Pre-T0 Activities” means the activities conducted by IBM on the CMOS 13S, CMOS 13S2 and CMOS 14S logic fabrication processes researched and evaluated for feasibility by IBM prior to the Commencement Date.

“IBM Pre-T0 Information” means all information and items developed or acquired by IBM pursuant to the IBM Pre-T0 Activities and delivered by IBM, in its sole discretion, to the Pre-T0 Activities.

“IBM Pre-T0 Project Leader” means the individual appointed by IBM pursuant to Section 4.3, below, to provide day-to-day oversight for the Pre-T0 Activities.

“IBM Project Leader” means the individual appointed by IBM pursuant to Section 4.5, below, to provide day-to-day oversight for the Process Development Projects.

“IBM Pre-T0 Steering Committee Member” means the individual appointed by IBM pursuant to Section 4.2, below, to provide technical guidance to the Management Committee for the Pre-T0 Activities.

“Industry Standard CMOS” means a 32nm, 22nm or subsequent node CMOS semiconductor manufacturing process for high volume foundry manufacturing of Semiconductor Products (***) whose price and performance characteristics are similar to ***.

“Industry Standard Information” means those aspects of Background Know-How and Specific Results that are (i) directed to Lithography and BEOL, or (ii) applicable to Industry Standard CMOS and selected by IBM either for incorporation into an IBM Industry Standard CMOS process or otherwise selected pursuant to Section 3.4.

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“Integrated Circuit” means an integral unit formed on a semiconductor substrate including a plurality of active and/or passive circuit elements formed at least in part of semiconductor material. For clarity, “Integrated Circuit” shall include charge-coupled devices (“CCDs”).

“Invention” means any invention, discovery, design or improvement, conceived or first actually reduced to practice solely or jointly by one or more Representatives of one or more of the Parties or their respective contractors during the term of this Agreement and in the performance of the Process Development Projects.

“Licensed Product” means Integrated Circuits that include Bulk CMOS Information, Industry Standard Information, High Performance Device Information, SOI Device Information, or any combination thereof, other than Foundry Products.

“Lithography” shall mean those aspects of Background Know-How and Specific Results directed to (a) process technology-dependent ground rules or process technology-dependent special rules for shapes replication as developed by the Parties for the generation of photomasks used for development and qualification of a semiconductor process technology in the Process Development Projects, (b) resolution enhancement techniques specifically created pursuant to the Process Development Projects to generate mask build data, (c) such photomasks themselves and the data files used therefor as are used in the Process Development Projects, (d) lithography process sequence as utilized in the Process Development Projects, and (e) mask data generation sequence as utilized in the Process Development Projects.

“Management Committee” shall have the meaning ascribed to it in Section 4.1.

“Mask Fabrication and Photoresist Technology” shall mean any process, procedure, Proprietary Tools (e.g. the Niagara software developed by IBM), or hardware tool used in the fabrication of photomasks, as well as the photomasks themselves, and/or the formulation and/or manufacture of photoresist; provided, however, that “Mask Fabrication and Photoresist Technology” shall not include Lithography or the evaluation of photomasks or photoresists for use in the technologies developed and researched hereunder.

“Memory” means Chip Designs and fabrication processes specifically related to read only memory (ROM), dynamic random access memory (DRAM), programmable ROMs, magnetic RAM (MRAM), ferroelectric RAM, and Embedded DRAM. For the avoidance of doubt, “Memory” shall not include static RAM (SRAM) macros utilized in the Process Development Projects as test vehicles.

“Net Selling Price” for each unit of a particular ASIC Product or wafers (only pursuant to Section 5.7) means the net revenue recorded by AMD (including Wholly Owned Subsidiaries and Related Subsidiaries of AMD) with respect to an ASIC Product or such wafers (only pursuant to Section 5.7) less (a) shipping, (b) insurance, and (c) sales, value added, use or excise taxes, to the extent to which they are actually paid or allowed, and less allowances to the extent they are actually allowed. If ASIC Products or such wafers (only pursuant to Section 5.7) are

sold, leased or otherwise transferred in a higher level of assembly or in the course of a transaction that includes other products or services with no separate bona fide price to be charged for the ASIC Products, the applicable Net Selling Price for the purpose of calculating royalties shall be the fair market value of the ASIC Product or such wafers (only pursuant to Section 5.7), but no less than the average Net Selling Price of all such units of other ASIC Products or such wafers (only pursuant to Section 5.7) sold, leased, or otherwise transferred to a Third Party by AMD (and/or by Wholly Owned Subsidiaries and Related Subsidiaries of AMD), whichever the case may be, during the preceding half year.

“Packaging Technology” means any process, procedure, software, or hardware tools used in the packaging of integrated circuit products into single-chip packages, multi-chip packages, or any other higher levels of assembly,; provided, however “Packaging Technology” shall not include the formation of layers on a wafer up to and including the final via layer (referred to as LV, TV, or FV level) and shall not include Bump Technology, but shall include any process, procedure, or practice subsequent to any such steps included in Bump Technology.

“Post-Silicon Devices” means transistors on substrates other than silicon or transistors with critical dimensions less than *** nm which are not *** or ***, unless otherwise set forth in this Agreement (e.g. Exhibit A.10, which may be updated from time to time by the Parties).

“Pre-T0 Activities” means the IBM Pre-T0 Activities and the activities conducted on the CMOS 13S, CMOS 13S2 and CMOS 14S logic fabrication processes researched and evaluated for feasibility under this Agreement pursuant to the technical objectives, and the Pre-T0 In-Scope Technical Subjects, as further defined in Exhibit A and the schedule set forth in Exhibit B.

“Pre-T0 Exit” means the point in time where development work begins on the Process Development Project. At this point in the program the Management Committee has determined the Strategic Technology Objectives, Technology Implementation Options and the T-Bulk, T1 and T2 dates for the applicable technology.

“Pre-T0 In-Scope Technical Subjects” means the subjects listed in Exhibit A.10, as updated from time to time by agreement of the Management Committee.

“Pre-T0 Information” means the IBM Pre-T0 Information and all information and items developed or acquired pursuant to the Pre-T0 Activities.

“Pre-T0 Steering Committee” shall have the meaning ascribed in Section 4.2.

“Process Development Project(s)” means the CMOS 10S, CMOS 10SE, CMOS 11S, CMOS 11S2, CMOS 12S, CMOS 12S2, CMOS 13S , CMOS 13S2 and if its development is continued pursuant to this Agreement, CMOS14S, development work and any Bump Technology development work conducted jointly by Representatives of the Parties pursuant to the terms and conditions of this Agreement, as more fully set forth in Section 3.1, below.

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“Project Leaders” means the IBM Project Leader and the AMD Project Leader.

“Proprietary Tools” means software (in source code form or in object code form), models and/or data, and other instrumentalities that are not commercially available and are either owned by a Party or under which a Party has the right to grant royalty-free licenses, and that are used in Process Development Projects.

“Qualification” means the T2 date identified in the schedule for each Process Development Project, as set forth in Exhibit B.

“Related Subsidiary” shall mean a corporation, company or other entity:

- (a) one hundred percent (100%) of whose outstanding shares or securities (such shares or securities representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by the Parties hereto; or
- (b) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, or other entity one hundred percent (100%) of whose ownership interest representing the right to (i) make the decisions for such corporation, company or other entity, or (ii) vote for, designate, or otherwise select members of the highest governing decision making body, managing body or authority for such partnership, joint venture, unincorporated association or other entity is, now or hereafter, owned or controlled, directly or indirectly, by the Parties hereto;

provided that in either case, such entity shall be considered a Related Subsidiary, and shall be entitled to retain the licenses and other benefits provided by this Agreement to the Related Subsidiary, only so long as such ownership or control exists.

“Representative(s)” means, a Party’s employees and employees of a Party’s Wholly Owned Subsidiaries.

“Semiconductor Product” means a component that contains an Integrated Circuit on a single or multichip module that incorporates a means of connecting those Integrated Circuits with other electronic elements (active or passive) and/or means to make external electrical connections to such elements, but which excludes any means for a user to operate the functions therein (e.g., buttons, switches, sensors).

“Server” means an electronic device performing information processing functions that primarily provides shared applications, resources, information, or services to other systems or collections of systems or multiple end-users/clients through an internal or external communications connection or network, or through the Internet and is designed to support either AIX or another UNIX operating system.

“Silicon-Germanium Technology” or “SiGe Technology” means semiconductor fabrication processes and design techniques incorporating silicon and germanium layers, including those processes and design techniques for use in HEMTs, photodetectors, HBTs or any other applications of bipolar transistors, provided, however, “SiGe Technology” shall not include strained silicon channel MOSFET or any mobility enhancement techniques for FETs techniques carried out on SOI Wafers or High Performance Integrated Circuit wafers. Furthermore, “SiGe Technology” shall not include material and device learning out of “SiGe Technology” that is applicable to the items outlined in Exhibit A.10 of this Agreement under the “FEOL” section of Pre-T0 In-Scope Technical Subjects.

“Silicon-On-Insulator Wafer” or “SOI Wafer” shall mean a, single-crystal silicon wafer bearing a horizontally-disposed isolating silicon dioxide (SiO₂) layer, in turn bearing a single-crystal silicon layer or a polysilicon layer, which is separated from the underlying silicon by the silicon dioxide layer and in which one or more active or passive integrated circuit structures are formed.

“SOI Device Information” means Background Know-How and Specific Results pertaining to all process methods, steps, and structures created on commercially available SOI Wafers other than Bulk CMOS or Industry Standard Information.

“SOI Integrated Circuit” shall mean an Integrated Circuit fabricated utilizing SOI Device Information and built on SOI Wafers.

“Specific Results” shall mean information and items, other than i) Proprietary Tools, ii) Packaging Technology, iii) Mask Fabrication and Photoresist Technology, iv) Memory, v) SiGe Technology, vi) Chip Designs, and vii) Post-Silicon Devices, developed and/or contributed to the Process Development Projects by the Parties pursuant to the development work of the Process Development Projects as follows:

The documentation produced for the Process Development Projects as set forth in Exhibit J attached hereto (“Documentation”);

All information and items resulting from the Process Development Projects and results of the Pre-T0 Activities selected by the Management Committee for inclusion in the CMOS 13S, CMOS 13S2 or CMOS 14S process, including but not limited to methods, techniques, unit processes, process flows, structures in silicon, test software, and specifications for equipment, chemicals, masks and consumables;

Any Background Know-How provided to the Process Development Project(s) by a Party pursuant to Section 3, below.

“Subsidiary” means a corporation, company or other entity:

- (a) more than fifty percent (50%) of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by a Party hereto, or
 - (b) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, but more than fifty percent (50%) of whose ownership interest representing the right to make the decisions for such corporation, company or other entity is now or hereafter, owned or controlled, directly or indirectly, by a Party hereto,
- provided that in either case such entity shall be considered a Subsidiary, and shall be entitled to retain the licenses and other benefits provided by this Agreement to Subsidiaries, only so long as such ownership or control exists.

“Technical Coordinators” means the individuals referred to in Section 4.7, below.

“Term” means the period of time from the Effective Date and ending in accordance with the terms of Section 12.1.

“Test Site” means a device or circuit evaluation site on a wafer.

“Third Party” or “Third Parties” means an entity or entities other than the Parties or their Wholly Owned Subsidiaries or Related Subsidiaries.

“Wholly Owned Subsidiary” shall mean 1) a corporation, company or other entity:

- (a) one hundred percent (100%) of whose outstanding shares or securities (such shares or securities representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by a Party; or
- (b) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, or other entity but one hundred percent of whose ownership interest representing the right to (i) make the decisions for such corporation, company or other entity, or (ii) vote for, designate, or otherwise select members of the highest governing decision making body, managing body or authority for such partnership, joint venture, unincorporated association or other entity is, now or hereafter, owned or controlled, directly or indirectly, by a Party;

provided that in either case such entity shall be considered a Wholly Owned Subsidiary, and shall be entitled to retain the licenses and other benefits provided by this Agreement to Wholly Owned Subsidiaries, only so long as such ownership or control exists; or 2) a corporation, company or other entity:

(c) at least seventy five percent (75%) of whose outstanding shares or securities (such shares or securities representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by a Party; or

(d) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, or other entity but at least seventy five percent (75%) of whose ownership interest representing the right to (i) make the decisions for such corporation, company or other entity, or (ii) vote for, designate, or otherwise select members of the highest governing decision making body, managing body or authority for such partnership, joint venture, unincorporated association or other entity is, now or hereafter, owned or controlled, directly or indirectly, by a Party

provided, that in either case (c) or (d) above, (i) all of the remaining such ownership interest is solely owned or controlled, directly or indirectly, by one or more corporations, companies or other entities which are purely financial investors who are not engaged in the design, development, manufacture, marketing or sale of Semiconductor Products, and (ii) such entity shall be considered a Wholly Owned Subsidiary, and shall be entitled to retain the licenses and other benefits provided by this Agreement to Wholly Owned Subsidiaries, only so long as such ownership or control exists.

SECTION 2 – IBM Development Facilities

- 2.1 IBM has established the IBM Development Facilities, wherein its 200mm and 300mm wafer process development facility used for conducting the Process Development Projects is located in East Fishkill, New York.
- 2.2 IBM shall be responsible for the operations of the IBM Development Facilities, including, but not limited to capacity, staffing, and capital purchases. Process Development Projects shall be conducted primarily at the IBM Development Facilities and the Parties agree that the development work performed under this Agreement after Pre-T0 Exit will be conducted primarily in IBM's 300mm East Fishkill Facility. In addition to the IBM Development Facilities, IBM may utilize other facilities to conduct elements of the development work associated with the Process Development Projects. In addition, the Parties may mutually agree to utilize AMD development facilities for specifically defined elements of the Process Development Projects. If the Management Committee members so agree, such agreement shall be documented in writing and signed by the Parties.
- 2.3 Should IBM desire, at its own discretion, that the Process Development Projects performed under this Agreement after Pre-T0 Exit be primarily conducted at facilities other than IBM's 300mm East Fishkill facility, it shall provide notice of such desire to AMD no later than one (1) year prior to the intended change. The Parties will meet to

discuss and attempt to agree on such a move. If the Parties are unable to reach agreement, the Management Committee shall negotiate a mutually agreeable reasonable wind down plan to terminate (for convenience and without liability to either Party) the development relationship set forth in this Agreement. In the event of such termination, AMD shall be entitled to immediately exercise its rights in accordance with Section 8.9 below, with payment under Section 5.8.a or Section 5.8.b, as mutually agreed upon by the Parties at that time.

SECTION 3 - SCOPE OF PROCESS DEVELOPMENT PROJECTS/OTHER PROJECTS

- 3.1 The Parties agree to jointly develop semiconductor manufacturing process technology based on IBM's "S" high performance technology roadmap on commercially available wafers that meet the requirements set forth as "Strategic Technology Objectives" in Exhibit A (hereinafter referred to as "Strategic Technology Objectives") in accordance with the schedule set forth in Exhibit B (hereinafter referred to as "Development Schedule"). The Parties agree that the process technology so developed, shall be high performance, leading edge technology and, to the extent consistent with the Strategic Technology Objectives, shall be cost efficient. Any modification to such Strategic Technology Objectives or Development Schedule requires the mutual agreement of the Parties. For the avoidance of doubt, none of the Process Development Projects shall include the development of i) Proprietary Tools, ii) Packaging Technology, iii) Mask Fabrication and Photoresist Technology, iv) Memory, v) SiGe Technology, vi) Chip Designs, or vii) Post-Silicon Devices.
- 3.2 The Parties agree that Exhibit A also sets forth the Pre-T0 In-Scope Technical Subjects and the potential technology implementation options for each Process Development Project. The Parties shall work together to evaluate the various options available, including individual process module feasibility, integration, characterization and qualification. The goal of such evaluation is to agree on an integrated process technology that meets the Strategic Technology Objectives. If the Project Leaders are unable to agree on a particular process module to be developed, or should they disagree as to the continued development of a process module that was previously selected, the process module preferred by IBM shall be pursued in the applicable Process Development Project.
- 3.3 For information other than that developed by the Parties in a given Process Development Project to be considered Specific Results for that Project, including Background Know-How, it must be either deliberately provided to the Process Development Projects by the owner of such information, or be evaluated by the Project Leaders, pursuant to Section 3.2, for possible use in a Process Development Project. In the event such item of information is provided, and the Party owning such information notifies the Project Leaders within thirty (30) days after such owning Party's disclosure or the initiation of

such evaluation that such information should be withdrawn, such owning Party may withdraw such information from use in the Process Development Projects and all such information in tangible form associated therewith shall be returned to such owning Party and such tangible information shall not become Specific Results. In the event of such withdrawal, any non-tangible information related to such information retained in the minds of the non-owning Party's employees shall be treated as Specific Results by the non-owning Parties. Absent such notice and withdrawal within thirty (30) days, all information deliberately provided by the owner of such information or evaluated by the Project Leaders shall be treated as Specific Results.

3.3.1 Any issue as to whether information was deliberately provided to the Process Development Projects shall be resolved by the Project Leaders based on either of the following criteria:

3.3.1.1 whether the information was deliberately exposed to the other Parties by a Representative of the owner of such information; or

3.3.1.2 whether the evaluation of the information by the Representatives was validly considered for incorporation into the Process Development Projects.

If the Project Leaders cannot agree, such issue shall be resolved by the Management Committee in accordance with the criteria in Sections 3.3.1.1 and 3.3.1.2.

3.3.2 Each Party shall be responsible for instructing its Representatives on methods of proper introduction of information into the Process Development Projects, and the consequences under Section 7.10, below, of information that is inadvertently obtained.

3.4 During a given Process Development Project, the IBM Project Leader shall designate elements of the Specific Results and Background Know-How thereof that IBM will be applying toward development of its applicable Bulk CMOS or its applicable Industry Standard CMOS process. IBM shall provide an initial designation of such elements at the completion of its initial feasibility studies for the applicable Process Development Project (set forth in Exhibit B as the "T-Bulk date"), and IBM shall provide a final designation of such elements no later than the "T1" date for the applicable Process Development Project, as set forth in Exhibit B. AMD agrees that IBM reserves the right to change such designations between its initial designation and its final designation. In either case, prior to making such determinations IBM shall consult with AMD, who shall provide its input as to the applicability of such elements to a Bulk CMOS or Industry Standard CMOS process; provided, however, that IBM shall have the right to make any and all final decisions as to designation and application of such elements to its Bulk CMOS or its Industry Standard CMOS process. The Project Leaders shall agree upon a specific process by which IBM will make this designation and by which IBM will

address any requests for clarification by AMD within reasonable time periods. For the avoidance of doubt, in addition to Specific Results designated as Bulk CMOS Information or Industry Standard Information as described in this section 3.4, Bulk CMOS Information and Industry Standard Information shall include those items listed in Exhibit K attached hereto. Exhibit K may be updated from time to time by written mutual agreement of the Management Coordinators.

- 3.5 Each Party shall have access to all Specific Results and shall be solely responsible, including the cost therefor, for the transfer of Specific Results to its own facilities. In addition to Representatives, AMD may assign additional personnel to IBM facilities to assist with such transfer. The number of additional personnel and the duration of their assignment shall be mutually agreed to by the Management Committee. As part of each Process Development Project, the Project Leaders shall coordinate the completion of the Documentation for such Process Development Project and each Party shall have access to all such Documentation. Notwithstanding the foregoing, subsequent to the Parties establishing the Strategic Technology Objectives (at Pre-T0 Exit) for CMOS14S, only a subset of the Documentation shall be prepared for the CMOS 14S Process Development Project, as determined by the Project Leaders. Should AMD have any questions regarding the Documentation as they are transferring such Specific Results to their own facilities, IBM agrees to provide reasonable telephonic, videoconference or email support through its Technical Coordinator to address such questions during normal business hours. Each Party shall be solely responsible for obtaining any and all regulatory approvals as may be required to utilize Specific Results at its facilities, and shall be solely responsible for the cost of equipment and consumables as may be required to utilize the Specific Results at its facilities.
- 3.6 Without liability to the other Parties for breach hereof, to the extent known by a Party disclosing information for use in any Process Development Project, prior to such disclosure, such disclosing Party agrees to promptly notify the other Parties of any limitations on the uses of such information, whether such use would violate or whether such information is protected by any copyright or mask work or similar right of any Third Party. Upon such notification, the Parties may agree to accept such information into the Process Development Project subject to such limitations. Upon the failure to make such notification, or if any such limitation arises after disclosure by the disclosing Party, then the Parties shall attempt to work together to find a mutually agreeable solution. Each Party further agrees to use reasonable efforts to ensure that it will not design or develop the Process Development Projects in such a way that requires the use of any Third Party confidential information, which is not available to the other Parties for their use as aforesaid. Each Party further agrees to use reasonable efforts to ensure that it will not disclose to the other Parties any information considered confidential by it or by any Third Party which information does not relate to the Process Development Projects.
- 3.7 To the extent that either Party enters into a development agreement with its equipment and materials suppliers and elects to disclose the results of any such development to the

other Party as Background Know-How under a Process Development Project or Pre-T0 Activity, and to the extent the disclosing Party has the right to do so, the disclosing Party agrees to notify the other Party of such development agreement. Furthermore, the disclosing Party will consent to include a reasonable number of Representatives of the other Party in technical discussions with each such supplier. The Parties will use reasonable efforts to accommodate such technical discussions at either Party's facilities or via teleconference. Any additional information generated at such meetings shall be the Background Know-How of the Party who has entered into such development agreement.

3.8 Bump Technology.

3.8.1 The Parties agree that all terms and conditions of the "C-4 Agreements" shall continue in full force and effect, and shall not be superseded by this Agreement. For purposes of this Agreement, the "C-4 Agreements" shall mean collectively (1) the C-4 Plating Technology Transfer and Licensing Agreement between AMD and IBM having a last signature date of April 29, 1999; (2) the C-4 Tighter Pitch Workshop Agreement between AMD and IBM having a last signature date of March 23, 2001; (3) the C-4 Technical Assistance and Short Loop Support Agreement between AMD and IBM having a last signature date of July 16, 2001; and (4) the Letter Agreement having a signature date of September 13, 2004.

3.8.2 The Parties agree that if IBM, in its sole discretion, continues to develop Bump Technology any time after *** and during the remainder of the Term of this Agreement, the Parties have established Bump Technology Process Development Projects in this Agreement and may establish new Bump Technology Process Development Project(s) in signed amendment(s) to this Agreement. In either case, IBM agrees that AMD will not be required to pay any additional fees to IBM for access to and a license to said technology. If a separate Bump Technology development agreement is entered between IBM and any Third Party(ies), IBM will use reasonable efforts to include AMD in such development efforts, subject to the negotiation of mutually agreeable terms and conditions between AMD and the participants in such development efforts.

a. If Bump Technology is established as a Process Development Project under this Section 3.8.2: (i) the Parties agree that AMD may exercise at least the same rights to use and implement and have the same obligations with regard to said Bump Technology as AMD currently exercises and has under the C-4 Agreements and (ii) if the Parties, thereafter, mutually agree to expand the scope of a Bump Technology Process Development Project, such expansion will be governed by the terms and conditions of Section 14.

3.8.3 If Bump Technology is established as a Process Development Project, the Parties will provide, to the extent a Party has the right to do so without the payment of additional compensation to any Third Party, to the Bump Technology Process

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Development Project any relevant information as Background Know-How. Additionally, to the extent that IBM does enter a separate Bump Technology development agreement with a Third Party and IBM has the right to do so without the payment of additional compensation to any Third Party, IBM will grant a sublicense to AMD to the technology developed thereunder without requiring any additional fees, which sublicense shall be consistent with the licenses granted to AMD under this Agreement and the C-4 Agreements.

SECTION 4 - MANAGEMENT AND STAFFING OF THE PROCESS DEVELOPMENT PROJECTS

4.1 The Parties hereby create a Management Committee, with equal representation from each Party. The responsibilities of the Management Committee are set forth in Exhibit D, attached hereto. All decisions of the Management Committee shall be by mutual consent.

The Management Committee is comprised initially of the following individuals:

- (i) For AMD: ***
 One AMD Place
 P.O. Box 3453, MS79
 Sunnyvale, CA 94088-3453
 Tel: ***

- (ii) For IBM: ***
 2070 Route 52
 Hopewell Junction, New York 12533

 Tel: ***
 Fax: ***

Either Party may change its member of the Management Committee by written notice to the other Party. The Management Committee will conduct regular meetings on dates and at locations determined by the Management Committee. Meetings of the Management Committee may be held in person, by teleconference or by videoconference.

4.1.1 The Management Committee shall establish a regular review process with the appropriate senior business executives of each of the Parties of at least the level of Vice President or other comparable level. Such review shall include review of an overall progress report to be prepared by the Project Leaders. The responsibilities of the Management Committee are set forth in Exhibit D. In addition, the

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Management Committee shall establish a Pre-T0 Steering Committee to oversee the Pre-T0 Activities.

- 4.1.2 Should either Party reasonably determine that the process technology to be developed under the Process Development Projects is no longer meeting the Strategic Technology Objectives or the Development Schedule, or brings forth empirical evidence of changes in the competitive marketplace for semiconductor technology such that the Strategic Technology Objectives and/or the Development Schedule are no longer competitive, or if the Parties cannot agree upon the Strategic Technology Objectives or Development Schedule for CMOS 13S or CMOS13S2 prior to Pre-T0 Exit, such Party may present such problem to the Management Committee for discussion. If the Management Committee, after the exercise of reasonable efforts in the conduct of such discussions, fails to reach mutual agreement as to a resolution of such Party's concerns then any Party may refer such concerns to the senior executives described in Section 4.1.1, above, which senior executives shall discuss and meet in person, if necessary, in order to attempt to resolve such Party's concerns. If such senior executives are unable to resolve such Party's concern the senior executives agree to instruct the Management Committee to negotiate a mutually agreeable reasonable wind down plan (which may include additional exit fees) to terminate the development relationship set forth in this Agreement. In the event of such termination, AMD shall be entitled to immediately exercise its rights in accordance with Section 8.9 below, subject to the payment terms of Section 5.8.a.
- 4.2 Each Party shall appoint a Pre-T0 Steering Committee member within thirty (30) days after the Effective Date. It is the intent of the Parties that Pre-T0 Steering Committee members be assigned to the Pre-T0 Activities for no less than two (2) year terms. The Pre-T0 Steering Committee members shall oversee Pre-T0 Activities and provide technical guidance to the Management Committee on Pre-T0 Activities definition. A Party may replace its Pre-T0 Steering Committee member, named below, by giving written notice to the other Party of such replacement. The responsibilities of the Pre-T0 Steering Committee members are set forth in Exhibit G.

The Pre-T0 Steering Committee is comprised initially of the following individuals:

- (i) For AMD: ***
 One AMD Place
 P.O. Box 3453, MS79
 Sunnyvale, CA 94088-3453
 Tel: ***

- (ii) For IBM: TBD

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4.3 Each Party shall appoint a Pre-T0 Project Leader within thirty (30) days after the Effective Date or in AMD's case, a temporary Pre-T0 Project Leader, if needed, until an ongoing AMD Pre-T0 Project Leader is identified. It is the intent of the Parties that Pre-T0 Project Leaders be assigned to the Pre-T0 Activities for no less than two (2) year terms. The IBM Pre-T0 Project Leader shall be in charge of the day- to-day operations of the Pre-T0 Activities. A Party may replace its Pre-T0 Project Leader, named below, by giving written notice to the other Party of such replacement. The responsibilities of the Pre-T0 Project Leaders are set forth in Exhibit H.

The Pre-T0 Project Leaders shall be:

(i) For AMD: TBD

(ii) For IBM: TBD

4.4 If Bump Technology is established as a Process Development Project, each Party shall appoint a Bump Technology Project Leader within thirty (30) days after the Effective Date. It is the intent of the Parties that Bump Technology Project Leaders be assigned to the Bump Technology Process Development Projects for no less than two (2) year terms. The IBM Project Leader shall be in charge of the day- to-day operations of the Bump Technology Process Development Projects. A Party may replace its Bump Technology Project Leader, named below, by giving written notice to the other Party of such replacement. The responsibilities of the Bump Technology Project Leaders are set forth in Exhibit I.

The Bump Technology Project Leaders shall be:

(i) For AMD: TBD

(ii) For IBM: TBD

4.5 Each Party shall appoint a Project Leader within thirty (30) days after the Effective Date. It is the intent of the Parties that Project Leaders be assigned to the Process Development Projects for no less than two (2) year terms. The IBM Project Leader shall be in charge of the day- to-day operations of the Process Development Projects. A Party may replace its Project Leader, named below, by giving written notice to the other Party of such replacement. The responsibilities of the Project Leaders are set forth in Exhibit E.

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The Project Leaders shall be:

(i) For AMD: ***
2070 Route 52
Hopewell Junction, New York 12533

Tel: ***
Fax: ***

(ii) For IBM: ***
2070 Route 52
Hopewell Junction, New York 12533

Tel: ***
Fax: ***

4.6 AMD will provide Representatives to work on the Process Development Projects and the Pre-T0 Activities at the Development Facilities. Exhibit C, attached hereto, shows the minimum staffing expected for such Representatives. If IBM so requests, AMD shall make a compensating payment to IBM at a rate of *** (\$***) U.S. Dollars per person month for each headcount below the minimum staffing level set forth in Exhibit C. AMD may, at its sole option, provide up to *** (***) Representatives to work in the Development Facilities. The assignment of such Representatives shall be mutually agreed to by the Project Leaders

It is the intent of the Parties that such Representatives be assigned to the Process Development Projects, Pre-T0 Activities, development and other projects contemplated under this Agreement at the Development Facilities for no less than two (2) year terms. AMD may change the number of Representatives with a minimum of three (3) months prior written notice to the other Parties and may reassign Representatives with a minimum of one (1) month prior written notice to the other Parties.

The Parties will provide sufficient technical personnel on the Process Development Projects with the appropriate skills and experience to accomplish the Strategic Technology Objectives.

4.7 Each Party shall appoint a Technical Coordinator within thirty (30) days after the Effective Date. The Technical Coordinators shall be:

(i) For AMD: ***
2070 Route 52
Hopewell Junction, New York 12533

Tel: ***
Fax: ***

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(ii) For IBM: ***
2070 Route 52
Hopewell Junction, New York 12533

Tel: ***
Fax: ***

The Technical Coordinators shall be responsible for supervising exchanges of information among the Parties pursuant to Section 7.2, below. A Project Leader for a Party may replace the Technical Coordinator for such Party, named above, by giving written notice to the other Parties' Project Leaders of such replacement.

- 4.8 Each Party agrees that its Representatives shall comply in all material respects with all personnel, human resources, security and safety rules, procedures and guidelines of the other Party applicable to contractors resident at or visiting the premises of such Party or its Subsidiary while such Representatives are on the other Party's or its Subsidiary's premises, including those set forth in Exhibit F. In particular, AMD agrees to abide by security requirements as may apply to their Representatives while at the Development Facilities. Each Party shall provide to the other in advance a set of documents setting forth all such rules, procedures and guidelines, including any updated versions thereof.
- 4.9 Each Party shall be responsible for the selection of its Representatives who will be assigned to work in the Development Facilities on the Process Development Projects. Personnel supplied by each Party who are Representatives of the supplying Party shall not for any purpose be considered employees or agents of any other Party. Each Party shall be responsible for the supervision, direction and control, payment of salary (including withholding of taxes), travel and living expenses (if any), worker's compensation insurance, disability benefits and the like of its own Representatives. In addition, each Party may reassign any of its Representatives as such Party deems necessary, subject to Section 4.3, above.
- 4.10 If any Party should become aware of the existence of any hazardous conditions, property, or equipment which are under the control of another Party it shall so advise the other Party; however, it shall remain that Party's responsibility to take all necessary precautions against injury to persons or damage to property from such hazards, property, or equipment until corrected by the other Party. Each Party agrees to comply with the Occupational Safety and Health Act ("OSHA"), applicable OSHA standards, applicable New York safety and health laws and regulations, any applicable municipal ordinances, and applicable facility safety rules of which the Party has notice, regarding the Representatives it assigns to the Process Development Project(s).
- 4.11 The Parties agree that the Parties and any Subsidiaries shall refrain from making any payment or gift of any value to any Representatives of any other Party assigned to the Development Facilities without the employing Party's prior written approval. No Party (or

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any of its Subsidiaries) may make any representation that might cause a Representative of another Party to believe that an employment relationship exists between such Representative and the other Party.

- 4.12 Each Party assumes no liability to the other Parties for any injury (including death) to persons or damage to or loss of property suffered on or about the Development Facilities unless caused by the gross misconduct or gross negligence of such Party, its Representatives or invitees.
- 4.13 To the extent permitted by law, during the term of this Agreement, each Party agrees neither to directly or indirectly solicit for employment purposes the Representatives of any other Party engaged in semiconductor development in IBM's East Fishkill or Yorktown Research facilities or AMD's Sunnyvale, Austin or Dresden facilities or other Representatives working on the Process Development Projects until at least one (1) year has passed between the date such employee stopped being engaged in semiconductor development, and the date of solicitation, without the prior written permission of such other Party. However, the foregoing does not preclude general (i.e., non-targeted) recruitment advertising. In addition, to the extent permitted by law, during the term of this Agreement, each Party agrees that its units, divisions, line of business or other comparable organizational structures, involved in the development of semiconductor process technologies shall not hire Representatives of any other Party engaged in the Process Development Projects, without the prior written permission of such other Party.

SECTION 5 - AMD FUNDING CONTRIBUTIONS AND ROYALTY PAYMENTS

- 5.1 AMD shall pay to IBM for the Term of this Agreement for its respective share of the costs of the Process Development Projects; such payments shall be made as follows (in millions of US dollars):

	<u>1Q03</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q04</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q05</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
AMD	***	***	***	***	***	***	***	***	***	***	***	***

* Notwithstanding the foregoing, if the Commencement Date is in the 3rd calendar quarter of 2005, AMD will pay to IBM \$*** (***) on or before September 30, 2005. Such payment will not be considered an overdue payment pursuant to Section 5.2. If the Commencement Date is in the 4th calendar quarter of 2005, AMD's 3rd quarter 2005 payment above will be reduced to \$*** (***) and the 4th quarter 2005 payment will be increased to \$*** (***) which amount will be payable on or before October 31, 2005. Such payment will not be considered an overdue payment pursuant to Section 5.2. For avoidance of doubt if the Commencement Date is in the 3rd quarter of 2005, payments in

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the 4th quarter of 2005 and later will be made in accordance with Section 5.1 without this asterisked provision. For further avoidance of doubt if the Commencement Date is in the 4th quarter of 2005, payments in 2006 and later will be made in accordance with Section 5.1 without this asterisked provision.

	<u>1Q06</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q07</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q08</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
AMD (4 total partners)	***	***	***	***	***	***	***	***	***	***	***	***
AMD (3 total partners)	***	***	***	***	***	***	***	***	***	***	***	***
AMD (2 total partners)	***	***	***	***	***	***	***	***	***	***	***	***
	<u>1Q09</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q10</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q11</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
AMD (4 total partners)	***	***	***	***	***	***	***	***	***	***	***	***
AMD (3 total partners)	***	***	***	***	***	***	***	***	***	***	***	***
AMD (2 total partners)	***	***	***	***	***	***	***	***	***	***	***	***

Through the term of this Agreement, AMD will pay IBM according to the tables above, where the applicable row of the table will be determined based upon the total number of partners, including IBM and AMD, participating in S Process Development in the Development Facilities. If the number of partners changes during the Term, then the new quarterly rate will take effect beginning in the quarter after such change in the number of partners occurs. The amounts described in this paragraph will be due in quarterly installments commencing with the first calendar quarter of 2006.

Such payments shall be made on the fifteenth of the first month of each calendar year quarter. This Agreement will serve as an invoice for such payments.

5.2 AMD shall be liable for interest on any overdue payment under this Agreement commencing on the date such payment becomes due at an annual rate equal to eighteen percent (18%) per year. If such interest rate exceeds the maximum legal rate in the jurisdiction where a claim therefor is being asserted, the interest rate shall be reduced to such maximum legal rate.

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- 5.3 IBM shall apply the payments of Section 5.1 above towards Process Development Project costs and not for any license rights granted by any Party to any other Party for Background Know-How. Notwithstanding Section 5.1, AMD shall be required to share the incremental costs of any changes in scope in the Process Development Projects agreed to pursuant to Section 14.
- 5.4 Moreover, AMD shall pay IBM a royalty on all ASIC Products, at the rate of *** percent (***) of the Net Selling Price of each unit of ASIC Product sold, leased or otherwise transferred directly or indirectly prior to five (5) years from *** for the technology used in said ASIC Product; provided that for ASIC Product using technology that did not complete T1 qualification (as set forth in Exhibit B) during the term of this Agreement, AMD shall not be liable for any royalty to IBM. It is expressly understood that all royalties for ASIC Products are paid on a per unit basis (e.g., Integrated Circuit or wafer) and no other royalties shall be due under this Agreement. Such royalty payments are to be paid by AMD for each ASIC Product sold, leased or otherwise transferred at the time of such sale, lease or transfer to a Third party. For clarity, such royalty obligation does not extend to transactions between or among the Parties and such Wholly Owned Subsidiaries or Related Subsidiaries that do not involve a Third Party. AMD shall pay IBM all royalties owed within forty-five (45) days after the end of each calendar quarter. AMD shall provide a royalty report to IBM within forty-five (45) days after the end of each calendar quarter. All payments shall be made by wire transfer to the IBM account listed in Section 13.1.1 below, in U.S. dollars. The following information shall be included in the wire detail:

Company Name
Reason for Payment
License Reference No. ***

- 5.5 AMD shall maintain a complete, clear and accurate record of the quantity of ASIC Products sold, leased or otherwise transferred and any other relevant information to the extent it is required to determine whether they are paying the correct royalty amount hereunder. To ensure compliance with the terms and conditions of this Agreement, IBM shall have the right to audit all relevant accounting and sales books and records of AMD. The audit will be conducted by a mutually acceptable audit firm, and shall be conducted following reasonable prior written notice (at least forty-five (45) days in advance) during regular business hours at an office where such records are normally maintained and in such a manner as not to interfere with AMD's normal business activities and shall be restricted only to those records necessary to verify AMD's obligations hereunder. The audit report provided to IBM may only include the information necessary to determine whether or not any underpayment or overpayment exists, and if it exists, the amount of such underpayment or overpayment. IBM shall instruct the auditor to include only business information in the audit report to IBM. IBM shall use the business information reported by the auditor only for the purpose of determining royalty payments and for no

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other purpose. In no event shall audits be made hereunder more frequently than once in every twelve (12) months and the audit shall not cover any records from a period of time previously audited. If any audit should disclose any underpayment or overpayment, the owing Party shall within forty-five (45) days pay the difference. The cost of such audit will be borne by IBM. AMD shall be provided with a copy of the audit report within a reasonable period of time after its completion. The independent audit firm shall not be hired on a contingent fee basis and shall have confidentiality agreements in place sufficient to protect AMD's confidential information.

- 5.6 If AMD exercises its option under Section 8.7, below, AMD agrees to pay IBM a royalty of (a) *** (***) percent for each 65nm SOI Wafer provided to, or purchased by, ***, and (b) *** (***) percent for each 45nm SOI Wafer and 32nm or 22nm AMD High Performance Integrated Circuit wafer provided to, or purchased by, a *** for the lesser of a period of four (4) years beginning on the initial date of *** of the applicable technology or the expiration of the confidentiality period for the applicable technology. If a *** is also a ***, the royalty rates will be *** (***) percent for 65 nm SOI Wafers and *** (***) percent for 45 nm SOI Wafers and 32nm or 22nm AMD High Performance Integrated Circuit wafers. The revenue basis for such qualified SOI Wafers and AMD High Performance Integrated Circuit wafers shall be the lesser of *** for processed SOI Wafers and AMD High Performance Integrated Circuit wafers of the respective technology generation. If AMD exercises its rights under the second paragraph of Section 8.7, then for the combined maximum capacity thereunder that IBM refuses pursuant to Section 8.7, AMD will pay IBM a royalty of *** percent for each SOI Wafer and *** percent of each Bulk CMOS wafer for 65 nm technology; *** percent for each SOI Wafer for 45nm and AMD High Performance Integrated Circuit wafer for 32nm or 22nm and *** percent for each Bulk CMOS wafer for 45 nm, and AMD Non-High Performance Integrated Circuit wafer for 32nm or 22nm technology provided to, or purchased by, a Third Party and the obligation to pay this royalty will terminate the lesser of *** years from the initial date of *** of the applicable technology or the expiration of the confidentiality period for the applicable technology. Other than as expressly recited in this Sections 5, 8.19 and 8.20, no royalties will be due for any products. Section 5.2, the payment procedures of Section 5.4, and the audit provisions of Section 5.5 will apply to the aforementioned wafer royalty payments. Notwithstanding the foregoing, AMD shall not owe any royalties under this Section 5.6 to IBM for use of technology that did not complete T1 qualification (as set forth in Exhibit B) during the term of this Agreement.
- 5.7 If AMD exercises its license under Section 8.17, below, AMD agrees to pay IBM a royalty of *** percent (***) for each wafer provided to, or purchased by, a Third Party pursuant to Section 8.17. The revenue basis for such wafers shall be the Net Selling Price of such wafers. Section 5.2, the payment procedures of Section 5.4, and the audit provisions of Section 5.5 will apply to the aforementioned wafer royalty payments.

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- 5.8 If AMD becomes licensed under Section 8.9, below, AMD agrees to pay IBM as follows:
- a. If IBM does not offer an extension to this Agreement that is consistent with Section 8.8 or if this Agreement is terminated as provided in Sections 4.1.2 and 2.3 (as agreed by the Parties in Section 2.3), then AMD will pay IBM \$*** for each of the ***; and
 - b. If AMD does not request an extension to this Agreement or if the Parties fail to reach agreement on the extension or if this Agreement is terminated as provided in Section 2.3 (as agreed by the Parties in Section 2.3), AMD will pay IBM \$*** for each ***, provided however, if one of the ***, AMD will pay IBM \$***.
- Section 5.2 and the payment procedures of Section 5.4 will apply to these payments. IBM agrees that if AMD becomes licensed under Section 8.9, this Section 5.8 shall be payment in full for all fees payable by AMD or a *** for and only for the licenses granted in Section 8.9. IBM further agrees that (1) if AMD does not establish a *** for a period of greater than *** years after termination of this Agreement, neither AMD nor its *** will be required to pay royalties or fees for their use of the technology developed under this Agreement, and (2) if AMD establishes a *** within *** to *** years after termination of this Agreement, the payments owed by AMD in accordance with this Section 5.8 will be diminished by one-half. All amounts payable under this Section 5.8 will be due upon disclosure to the ***.
- 5.9 In consideration for the licenses granted by IBM to AMD pursuant to Sections 8.10, 8.11 and 8.12 of this Agreement, AMD has paid to IBM (a) *** US Dollars (US\$***) on or before September 17, 2004, and (b) *** US Dollars (US\$***) on or before March 13, 2005, which obligation shall be irrevocable and which payment when made shall be non-refundable. This Agreement served as an invoice for such payments.
- 5.10 Each Party shall bear and pay all taxes (including, without limitation, sales and value added taxes) imposed upon it by the national government or political subdivision thereof, of any country in which they are doing business as a result of the existence of this Agreement or the exercise of its rights hereunder. For clarity, IBM shall not be responsible for any taxes, duties or fees resulting from AMD's exercise of its rights under Section 8.10.
- 5.11 Except as expressly provided in this Agreement, neither Party shall be entitled to any payment, cost reimbursement, or other compensation from the other for services, deliverables and rights granted to the other Party hereunder. Each Party shall bear all its own expenses incurred in the performance of this Agreement.

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SECTION 6 - INSURANCE, RESPONSIBILITY FOR RESULTS AND WARRANTIES

- 6.1 Although the Parties will use commercially reasonable efforts in performing the Process Development Projects, the Parties acknowledge that the results of the development work to be performed are uncertain and cannot be guaranteed by any Party. The risk of success or failure of the Process Development Projects shall be shared by all the Parties equally. If a Party has exerted such efforts in the performance of its responsibilities under a Process Development Project, the failure to achieve performance objectives or schedules within a Process Development Project shall not constitute a breach of this Agreement.
- 6.2 All items furnished by a Party to the Process Development Projects will be produced or provided by said Party in the same manner as it produces or provides such items for its own use and will be furnished on an "AS IS" BASIS WITHOUT WARRANTY OF ANY KIND, including, without limitation, i) ANY WARRANTY THAT THE SPECIFIC RESULTS WILL BE FREE OF THIRD PARTY CLAIMS OF INFRINGEMENT OF PATENTS, COPYRIGHTS, TRADE SECRET, OR MASK WORK RIGHTS and ii) ANY IMPLIED WARRANTIES OR TERMS OF MERCHANTABILITY AND FITNESS OR USE FOR A PARTICULAR PURPOSE.
- 6.3 Each Party shall maintain for the benefit of each of the others, comprehensive general liability insurance of not less than fifteen million dollars (\$15,000,000) per occurrence which covers bodily injury (including death) and property damage (including, to the extent such insurance is reasonably available therefor, environmental damage), and which applies to any such liability the Party may have under this Agreement. Purchase and maintenance of such insurance shall in no way be interpreted as relieving any Party of any of its responsibilities hereunder, and each Party may carry, at its expense, such additional insurance amounts and coverage as it deems necessary. In no event shall any such insurance be cancelled without prior written notice by the insured Party's insurance carrier to the other Party.
- 6.4 IBM represents and warrants that the agreement with its Third Party development partners grants IBM the right to transfer the proprietary information of its Third Party development partners to AMD and to sublicense such information consistent with Section 8 hereof. Such sublicense is hereby granted pursuant to the terms and conditions of this Agreement. IBM agrees that prior to amending such agreement inconsistent with this representation and warranty, it shall notify AMD.

SECTION 7 - INFORMATION TRANSFERS

- 7.1 Without any liability to the other Parties for patent infringement or failure to notify, each Party agrees to promptly notify the other Party in writing or provide oral notification, as the case may be, of any patents or other intellectual property rights of Third Parties of which it becomes aware, which, in the sole opinion of said Party, may relate to the use of Specific Results. In such instance, the Parties shall reasonably cooperate with each other to exchange information related to such potential Third Party intellectual property issues.

However, no Party shall have any obligation hereunder to conduct patent searches or studies in relation to the Process Development Projects or to notify the other Parties of any licenses it may have under any particular patent. The Parties recognize that each of them has patent license arrangements with Third Parties and that it is the individual responsibility of each Party to secure any rights under the patents of Third Parties which may be needed to enable it to manufacture and/or market the product (including products manufactured using the process technology to be developed under the Process Development Projects) at such time as it determines in its sole judgement that such action is required.

- 7.2 Any confidential information disclosed by one Party to another in performance of the Process Development Projects shall be designated with an appropriate and conspicuously obvious legend, such as "IBM Confidential" or "AMD Confidential", as the case may be, such legends to clearly indicate to a person viewing or otherwise accessing such information that it is of a confidential nature to the disclosing Party. Any such disclosure that is made orally shall be confirmed in writing under a like designation within thirty (30) days after the date of such disclosure. The Technical Coordinators shall monitor and keep records of all such disclosures of confidential information and shall ensure that it is properly marked as confidential, and record the date of receipt. Specific Results generated pursuant to the Process Development Projects and any confidential information that is included in Specific Results shall be clearly designated by the Technical Coordinators with an appropriate legend, such as "IBM/AMD Confidential". Further, in the event that a Representative of any Party obtains information relating to the Process Development Projects in tangible form which is not designated as confidential in accordance with this Section 7.2, but which from its nature appears likely to be confidential, such Representative will notify the Technical Coordinators who then will decide whether or not such information can and should be thereafter treated as confidential. The Technical Coordinators shall either mutually agree that such information is non-confidential or have all copies of such information in tangible form promptly marked with the appropriate legend identifying its confidentiality.
- 7.3 Except as otherwise provided in this Agreement, with respect to Specific Results and any other confidential information of either Party, which is confidential pursuant to Section 7.2 above, the Party receiving such information shall use the same efforts to avoid its publication or dissemination to Third Parties as it employs with respect to information of its own which it does not desire to be published or disseminated. For Specific Results of each Process Development Project and Background Know-How, the obligations of confidentiality shall terminate *** for each applicable Process Development Project (if this Agreement is terminated or if for some other reason a given Process Development Project is not pursued ***, such time period shall be *** of the applicable Process Development Project); in the case of Proprietary Tools, this obligation of confidentiality shall terminate *** after its disclosure by the disclosing Party; and for all other confidential information this obligation of confidentiality shall terminate *** after its

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- disclosure by the disclosing Party. This obligation shall not, however, apply to any information that is:
- 7.3.1 already in or comes into the possession of the receiving Party or its Subsidiaries without obligation of confidence;
 - 7.3.2 now, or hereafter becomes, publicly available without breach of this Agreement;
 - 7.3.3 intentionally disclosed to or rightfully received from Third Parties without obligation of confidence;
 - 7.3.4 independently developed by the receiving Party or its Subsidiaries;
 - 7.3.5 approved for release by written agreement of the disclosing Party; or
 - 7.3.6 inherently disclosed in the use, lease, sale or other distribution of any available product or service or publicly available supporting documentation therefor by the receiving Party or any of its Subsidiaries.
- 7.4 The receiving Party's obligations with respect to Specific Results or any other confidential information of the disclosing Party as specified in Section 7.3, above shall not apply to any disclosure that is:
- 7.4.1 in response to a valid order of a court or other governmental body of any country or group of countries or any political subdivision thereof; provided, however, that the receiving Party shall first have notified the disclosing Party and made a good faith effort to obtain a protective order requiring that the information and/or documents so disclosed be used only for the purposes for which the order was issued;
 - 7.4.2 otherwise required by law; or
 - 7.4.3 reasonably necessary in order to establish the receiving Party's rights, provided that such receiving Party shall provide the disclosing Party with prior written notice, except notice shall not be required where the receiving Party is attempting to establish rights in a lawsuit under this Agreement against the disclosing Party or is filing a patent under Section 11 of this Agreement.
- 7.5 Each Party shall have the right to disclose and sublicense as specified in Section 8 Specific Results and Pre-T0 Information (including High Sensitivity Pre-T0 Information) to any of its Wholly Owned Subsidiaries and its Related Subsidiaries at any time; provided however, that such Wholly Owned Subsidiaries and its Related Subsidiaries shall agree to be bound by substantially the same terms as are applicable to said Party in Sections 7.2, 7.3, and 7.4 and the survival of same pursuant to Section 12. Further, each

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Party may authorize its Wholly Owned Subsidiaries and its Related Subsidiaries to whom such Party has disclosed Specific Results and Pre-T0 Information pursuant to this Section 7.5 to exercise some or all of its rights to disclose Specific Results and Pre-T0 Information under and in accordance with Section 7.6.

7.6 Subject to provisions of this Section 7.6, AMD shall have the right to disclose the following portions of the Specific Results and Pre-T0 Information (except for High Sensitivity Pre-T0 Information) to Third Parties, but solely for the purpose of enabling such party to assist AMD, in exercising the rights granted to it hereunder:

7.6.1 specifications for masks, materials, chemicals, consumables and/or equipment to contractors or suppliers;

7.6.2 wafers and/or information to have equipment maintained; or

7.6.3 equipment lists and simple process flow information, excluding detailed process flow information or detailed process specifications, as necessary in order to enable installation of a process in a fabrication facility or to design and construct a facility to practice such process.

Such disclosures will not be made without a written agreement between the disclosing party and the recipient. Such written agreements shall be subject to the following:

- (a) such agreements must obligate the recipient to utilize the disclosed information solely for the benefit of the discloser and for no other purpose, and solely in furtherance of the purposes set forth in this Section 7.6;
- (b) such disclosures shall be subject to confidentiality terms and conditions that are the same or substantially similar to those set forth in this Agreement, and at a minimum must have a confidentiality term that is no shorter than that set forth herein; and
- (c) the disclosing Party shall use reasonable efforts to negotiate a provision in the agreement whereby IBM would be granted third party beneficiary status (or the equivalent under whatever law applies to the agreement), to the extent permitted by law, with an independent right to enforce the confidentiality and license provisions of the agreement.

For the avoidance of doubt, AMD shall have the right under this Section 7.6 to disclose portions of Specific Results and Pre-T0 Information (excluding High Sensitivity Pre-T0 Information) as may be incorporated into a Derivative Process as set forth in Sections 7.7 and 8.1, for the same purposes and subject to the same limitations as set forth herein.

The following Pre-T0 Information (excluding High Sensitivity Pre-T0 Information) and/or information from the “S” Process Development Project may be disclosed by IBM and AMD to their customers, or as AMD provides in the course of exercising its licenses under Section 8.7 and 8.17, solely for the purpose of enabling sales of Integrated Circuits embodying the Specific Results to such customers and to their contractors for the purpose of enabling a Party to exercise its rights under this Section 7.6. Each of the disclosing Parties will have a written confidentiality agreement in place with its customers respectively having a term of confidentiality of five years from the date of disclosure and limiting the use of such information to the purpose set forth herein:

- process roadmap and development schedule for Process Development Projects
- time schedule for development of device model library, and SPICE parameters
- design rules for each Process Development Project
- simplified process flow (indicative of rough number of process and mask steps)
- design manual
- device models
- checking decks
- electrical characterization / model information
- model to hardware comparisons.

7.7 As set forth in Section 8.1, AMD has the right to utilize one or more aspects of Bulk CMOS or Industry Standard Information in their development of the Derivative Process. AMD shall have the right to disclose and sublicense as specified in Section 8 such Derivative Processes to its Wholly Owned Subsidiaries and their Related Subsidiaries at any time (such disclosures being subject to the conditions set forth in Section 7.5). AMD shall also have the right to disclose and sublicense as specified in Section 8 such Derivative Processes to Third Parties, as follows:

- (i) to not more than *** Third Parties in total under this Agreement subject to Section 7.7(ii), wherein such disclosure and sublicense shall be *** of the applicable Process Development Project for *** of such Third Parties, and wherein for the AMD FMV, such disclosure and sublicense shall be no earlier than *** of the applicable Process Development Project if AMD has an ownership interest of at least *** percent (***) at the *** or *** if AMD has an ownership interest of less than *** percent (***) in the AMD FMV at the time of disclosure, provided in either case:
 - a. The AMD FMV may not ***, provided that in no case shall the AMD FMV be prohibited from selling ***; and
 - b. ***; and
 - c. Any other owners of the AMD FMV do not receive a license to any Bulk CMOS or Industry Standard Information under the AMD FMV license grants in this Section 7.7. AMD shall contractually require the AMD FMV to put procedures in place to prevent the disclosure of any Bulk CMOS or Industry Standard Information to any other owners of

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the AMD FMV. It is understood that employees of AMD's current flash memory partner working within the AMD FMV might be exposed to such disclosed information and such exposure shall not constitute a disclosure under this Section nor a breach of any confidentiality obligations hereunder; and

(ii) to ***, no earlier than the *** of the applicable Process Development Project

Such sublicenses will not be granted without a written agreement between the disclosing party and the sublicensee. Such sublicenses and sublicense agreements shall be subject to the following:

- (a) Except for the AMD FMV for the purpose of producing flash memory products, such sublicenses must be for the entire Derivative Process, and not solely or primarily those portions of the Derivative Process derived from the Specific Results. Furthermore, and with respect only to the AMD FMV, such sublicense and disclosure may be to portions of those Bulk CMOS and Industry Standard CMOS Specific Results identified in accordance with Section 3.4;
- (b) such sublicenses shall specifically exclude the right for the Third Party to utilize all or any aspect of the Derivative Process to develop, derive, or otherwise create a fabrication process to fabricate SOI Integrated Circuits or High Performance Integrated Circuits. Furthermore, for Third Parties who are Foundry Companies, such sublicense shall include the right for such Third Parties to manufacture Semiconductor Products only for sale to AMD until *** after Qualification of the applicable Process Development Project and thereafter to others;
- (c) such sublicenses shall be subject to confidentiality terms that are the same or substantially similar to those set forth in this Agreement, and at a minimum must have a confidentiality term that is no less than that set forth herein and include IBM as a third party beneficiary with respect to such confidentiality terms that may be disclosed under said sublicense so that IBM is enabled to enforce its rights with respect to such confidentiality terms and to seek to obtain damages as may be appropriate;
- (d) such sublicense shall terminate, with immediate effect if the Third Party undergoes any of the following:
 - becomes insolvent, is dissolved or liquidated, files or has filed against it a petition in bankruptcy, reorganization, dissolution or liquidation or similar

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action filed by or against it, is adjudicated as bankrupt, or has a receiver appointed for its business;

has all or a substantial portion of its capital stock or assets expropriated or attached by any government entity; or

with the exception of the AMD FMV, the Third Party undergoes a Change of Control (as such term is defined in Section 12.3 of this Agreement, as modified to apply to such sublicensee instead of AMD), but with regard to the AMD FMV, if a new entity formed from the former AMD FMV is no longer an AMD FMV, such sublicense to the new entity shall survive; and

- (e) to the extent permitted by law, such agreement shall grant IBM third party beneficiary status (or the equivalent under whatever law applies to the sublicense agreement) with an independent right to enforce the confidentiality and license term of the agreement. If AMD fails to reach an agreement with its disclosee(s) on such third party beneficiary status, then IBM shall discuss and negotiate with AMD for a possible alternative to this sub-section (e).

7.8 Notwithstanding any other provision of this Agreement, AMD shall not be prevented from furnishing or disclosing technical information whether or not included in Specific Results developed solely by AMD, or by AMD and Third Parties to any Third Party. For the avoidance of doubt, AMD agrees that it shall not engage with Third Parties to develop technical information within the scope of this Agreement for the purpose of circumventing the terms and conditions of this Section 7. Further, disclosure of such technical information shall not be prevented even if a minor portion of Bulk CMOS or Industry Standard CMOS Information embodied in Specific Results is commingled with and constitutes an inseparable element of such technical information. Additionally, the Parties agree that, subject to the terms of this Section 7.8, AMD reserves the right to use AMD Background Know-How and to disclose such Background Know-How to Third Parties, without limitation even if a minor portion of Pre-T0 Information (excluding High Sensitivity Pre-T0 Information) is commingled with and constitutes an inseparable element of such technical information. Prior to disclosing any such commingled Pre-T0 Information to Third Parties, AMD must obtain written approval of IBM's Management Committee member, which approval shall not be unreasonably withheld. In addition, AMD agrees that, to the extent it has the right to do so, AMD will submit as AMD Background Know-How any improvements or enhancements made by AMD or a Third Party to such commingled Pre-T0 Information. AMD further agrees that it will exercise reasonable efforts to obtain the right to submit such improvements or enhancements as AMD Background Know-How. AMD's failure to provide such submissions due to administrative reasons shall not be considered a breach of this Agreement. For clarity, any information that substantially alters the fundamental nature of the commingled

Pre-T0 Information shall not be considered a “minor portion”. If any dispute arises with regard to the definition of “minor portion” prior to disclosure, the Management Committee shall resolve such dispute. No royalties shall be payable in connection with the disclosures permitted by this Section 7.8.

In addition, AMD may request permission in writing from IBM to disclose Specific Results and/or Pre-T0 Information, in addition to that set forth in Sections 7.5, 7.6, 7.7 and 7.8 to Third Parties. IBM will consider and respond in writing within four weeks to each such request.

- 7.9 IBM shall have the right to disclose Specific Results to any Subsidiary or any Third Party, at any time and for any purpose, and such recipients shall have the right to disclose Specific Results to their Subsidiaries, provided that such disclosures shall be subject to appropriate confidentiality terms that, at a minimum, shall have a term of confidentiality no shorter than that set forth herein.
- 7.10 With respect to information that does not relate to the Process Development Projects and which is considered confidential by either Party, it is not the intention of either Party to disclose to or obtain from the other Party any such information. In particular, the Parties acknowledge that IBM has other development projects and relationships being conducted in the Development Facilities, and the Parties shall take reasonable precautions to limit the disclosure and receipt of information unrelated to Process Development Projects. In the event that a Representative of one Party obtains any such information of the other Party that is designated as confidential or which should from its nature be understood to be confidential, the Technical Coordinators of both Parties shall be informed, and any such information in tangible form shall promptly be returned to said originating Party. Nothing in this Agreement shall convey any right to said Party to use said tangible information for any purpose. However, any non-tangible information related to said information which is retained in the minds of the Party’s employees will be treated as Specific Results.

SECTION 8 – LICENSES TO BACKGROUND KNOW-HOW

- 8.1 IBM hereby grants to AMD, and AMD hereby grants to IBM, under their respective trade secret/know-how rights in and to Background Know-How that becomes part of Specific Results pursuant to Section 3 or is part of the Pre-T0 Information (including High Sensitivity Pre-T0 Information), a non-exclusive, perpetual, worldwide, irrevocable (subject to all the terms and conditions of this Agreement) license, to use such Background Know-How for the purpose of researching, developing, engineering, manufacturing, using, marketing, selling, servicing and otherwise disposing of Licensed Products. AMD shall have no obligation under this Agreement to pay any royalty for the licenses set forth in this Section 8, except as provided in Sections 5, 8.19 and 8.20, above.

For clarification, the foregoing license shall include the right for AMD to utilize one or more aspects of Bulk CMOS and Industry Standard CMOS Information for the development and qualification of its own, proprietary Bulk CMOS and Industry Standard CMOS process(es) ("Derivative Process(es)") and for developing, engineering, manufacturing, using, marketing, selling, servicing and otherwise disposing of Integrated Circuits other than SOI Integrated Circuits or High Performance Integrated Circuits utilizing such Derivative Process, such Integrated Circuits being designed by any party. It is expressly confirmed that such license shall include the right for AMD to develop Derivative Process(es).

- 8.2 IBM hereby grants to AMD, and AMD hereby grants to IBM, under their respective copyright rights in and to Background Know-How, that becomes part of Specific Results pursuant to Section 3 or is part of the Pre-T0 Information (including High Sensitivity Pre-T0 Information), a non-exclusive, perpetual, worldwide, irrevocable (subject to all the terms and conditions of this Agreement) license to copy documentation and other written expression, to make derivative works of such written expression, to distribute such documentation and derivatives as set forth elsewhere in this Section 8, and to execute, display, and perform to the extent consistent with the provisions of Section 7; provided however, that AMD shall make only such numbers of copies and create such derivative works as are reasonably necessary for them to carry out the license rights set forth in Sections 8.1, 8.5, 8.7, 8.8 and 8.9.
- 8.3 IBM hereby grants to AMD, and AMD hereby grants to IBM, under their respective mask work rights in and to Background Know-How, that becomes part of Specific Results pursuant to Section 3 or is part of the Pre-T0 Information (including High Sensitivity Pre-T0 Information), a non-exclusive, perpetual, worldwide, irrevocable (subject to all the terms and conditions of this Agreement) license to use any process-related mask design information provided to a Process Development Project (e.g. kerf test structures) and create derivative works thereof, as reasonably necessary for the licensed Parties to carry out the license rights set forth in Section 8.1, 8.5, 8.7, 8.8, and 8.9. Unless otherwise authorized, this right shall not include any rights to utilize any product design information in such masks.
- 8.4 AMD hereby grants to IBM, under AMD's trade secret and know how rights in and to Background Know-How that becomes part of Specific Results pursuant to Section 3 or is a part of Pre-T0 Information (including High Sensitivity Pre-T0 Information), a non-exclusive, perpetual, worldwide, fully paid-up, and irrevocable (subject to all the terms and conditions of this Agreement), license to use such Background Know-How for the purpose of researching, developing, engineering, manufacturing, using, marketing, selling, servicing and otherwise disposing of Integrated Circuits, and to make derivatives of such information for such uses. In the case of copyrights, such license is to copy documentation and other written expression, to make derivative works of such written expression, to distribute such documentation and derivatives, and execute, display, and perform to the extent consistent with the provisions of Section 7; provided however, that

IBM shall make only such numbers of copies and create such derivative works as are reasonably necessary for it to carry out the license rights set forth herein. In the case of mask work rights, such license is to use any process-related mask design information provided to a Process Development Project (e.g. kerf test structures) and create derivative works thereof, as reasonably necessary for IBM to carry out the license rights set forth herein. Unless otherwise authorized, this right shall not include any rights to utilize any product design information in such masks. The foregoing rights include the right for IBM to use such information and materials at facilities it solely owns or solely controls and the Development Facilities, with the right to also utilize such information and materials (subject to the foregoing restrictions) at facilities of Subsidiaries to whom such information and materials have been disclosed pursuant to Sections 7.9 and 8.5.

- 8.5 The licenses granted in Sections 8.1 through 8.4 shall include the right for each Party to sublicense consistent with their respective disclosure rights as set forth in Section 7, subject to the terms and conditions set forth therein and as may be applicable pursuant to this Section 8. Each Party agrees to not unreasonably withhold the granting, upon request by a recipient to whom disclosure has been made pursuant to Sections 7.5, 7.7, and 7.9, of a non-exclusive license under such Party's patents, under reasonable and non-discriminatory terms and conditions, to the extent necessary for such recipient to utilize the disclosed information for the purposes set forth in the applicable clause of Section 7, provided such recipient otherwise respects the intellectual property rights of the granting Party.
- 8.6 No license or other right is granted herein by any Party to the other Party, directly or indirectly, by implication, estoppel or otherwise, with respect to any trade secrets, know-how, copyrights, mask works, patents, patent applications, utility models, or design patents except as expressly set forth in this Agreement, and no such license or other right shall arise from the consummation of this Agreement or from any acts, statements or dealings leading to such consummation. The Parties expressly understand and acknowledge that any patent license rights that may be required to carry out the licenses set forth in this Agreement are set forth in separate patent cross-license agreements between them.
- 8.7 After September 30, 2003, AMD may exercise the sublicensing option in this Section 8.7. IBM hereby grants to AMD the right to disclose and sublicense the process technology developed by IBM and AMD under this Agreement including SOI Device Information, High Performance Device Information and Bulk CMOS and Industry Standard CMOS Information and Pre-T0 Information (excluding High Sensitivity Pre-T0 Information) subject to the following requirements. AMD may sublicense no more than *** with a combined maximum of *** wafers per month for such technology consumed by, or supplied to the ***. Said combined maximum volume amount for a specific technology will apply until the confidentiality period for that specific technology expires. AMD must own greater than *** (defined in the same manner as for Subsidiary except for the ownership percentage) *** and the *** own the *** except for ***. The *** will derive

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no more than *** percent of its total revenue from ***. The *** will not be based in *** (which for purposes of this Section 8.7 *** does not include ***). The *** will not have the right to use the licensed technology to provide ***. The *** will not have the right to use the licensed technology other than in ***. The *** will not be *** any sooner than *** after the later termination of either the ***. The *** will not be located in ***.

If AMD builds or has built a 65 nm, 45 nm or 32nm manufacturing facility for the purpose of exercising AMD's rights and performing AMD's obligations under the immediately preceding paragraph of this Section 8.7 and AMD and a *** cannot utilize all of the combined maximum capacity of *** wafers per month, then six (6) months prior to start of installation of 65 nm, 45 nm and 32nm technology for volume production for any unutilized combined maximum capacity, and yearly thereafter for any uncontracted, unutilized combined maximum capacity, AMD will so notify IBM in writing, and IBM will have the right of first refusal of the unutilized combined maximum capacity at a price to IBM of the then current average market price for such wafers *** percent, but in no event will *** under substantially similar terms and conditions. For the capacity that IBM refuses, AMD may sell *** including *** subject to this Section 8.7 to Third Parties (other than those that are not permitted to be a ***) provided AMD pays the royalty specified in Section 5.6. The foregoing notification obligation will cease when the royalty payment obligation for a technology expires.

8.8 IBM and AMD will meet on or before June 30, 2010 to discuss the possibility of continuing "S" Process development for a period beginning upon the expiration of this Agreement ("Extension Period"). The exact Strategic Technology Objectives for Process Development Projects during the Extension Period will be negotiated by IBM and AMD with the goal of industry leading performance. IBM will attempt to recruit a third and fourth partner for participation in "S" Process development during the term of the Extension Period and AMD will assist IBM in these recruitment efforts and will be flexible in altering the terms and conditions of the "S" Process development to accommodate such third and fourth partners, provided however, the third or fourth partner is not Intel and the Strategic Technology Objectives still seek industry leading performance.

8.9 If IBM and AMD do not reach agreement by December 31, 2010 to an extension of this Agreement beyond December 31, 2011, then IBM will grant AMD the license and sublicense rights in this Section 8.9 effective as of January 1, 2012. (See Section 5.8 for payment terms)

IBM hereby grants to AMD a license to the process technology developed by IBM and AMD under this Agreement including Pre-T0 Information (including High Sensitivity Pre-T0 Information), SOI Device Information, High Performance Device Information, Industry Standard CMOS Information and Bulk CMOS Information to complete development of the 32 nm technology and develop process technology below 32 nm. The license includes the right to sublicense no more than *** wherein AMD contributes

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at least *** and the right for AMD and the *** to use and disclose the 32 nm technology and below to Wholly Owned Subsidiaries. The *** will derive no more than *** percent of its total revenue from ***. The *** will not be based in *** (which for purposes of this Section 8.9 *** does not include ***). The *** will not have the right to use the licensed technology to provide ***, except to AMD or AMD Subsidiaries. The *** will not be *** any sooner than *** after termination of either the ***. The *** will not be located in ***.

- 8.10 Notwithstanding any provisions to the contrary in this Agreement, IBM hereby grants to AMD a nonexclusive, nontransferable, worldwide, fully paid-up, royalty-free, irrevocable and perpetual (except if terminated pursuant to Section 12.5) right and license under all copyrights, trade secrets and know-how, owned or licensable by IBM, contained in the IBM Background Know-How, and Specific Results to have Licensed Products manufactured at *** for AMD in a 90, a 65 and 45 nanometer semiconductor manufacturing process. For clarity, the license grant in this Section 8.10 shall include the right of AMD to disclose IBM Background Know-How, Specific Results and Pre-T0 Information (excluding High Sensitivity Pre-T0 Information), received by or available to AMD under this Agreement, to ***, to the extent needed to exercise the license granted herein, provided *** agrees to be bound by substantially the same confidentiality terms and conditions as are applicable to AMD in Sections 7.2, 7.3 and 7.4. For the avoidance of doubt, the license grant in this Section 8.10 shall not relieve AMD of its royalty obligations for ASIC Products under Section 5.4.
- 8.11 Notwithstanding any provisions to the contrary in this Agreement, the licenses granted to AMD in Section 8.10 shall include the right of AMD to sublicense AMD Wholly Owned Subsidiaries. Each sublicensed Wholly Owned Subsidiary shall be bound by the terms and conditions of this Agreement as if it were named in place of AMD. Any sublicense granted to a Wholly Owned Subsidiary shall automatically terminate on the date each such Wholly Owned Subsidiary ceases to be a Wholly Owned Subsidiary of AMD, unless such cessation occurs after December 31, 2012 for 65nm or after December 31, 2015 for 45nm.
- 8.12 Notwithstanding any provisions to the contrary in this Agreement, IBM shall grant to a ***-AMD Manufacturing Facility designated by AMD, a nonexclusive, nontransferable, worldwide, fully paid-up royalty-free, irrevocable and perpetual (except if terminated pursuant to Section 12.5) right and license under all copyrights, trade secrets and know-how, owned or licensable by IBM, contained in the IBM Background Know-How, Specific Results and Pre-T0 Information (excluding High Sensitivity Pre-T0 Information) to make Licensed Products, in a 90, a 65 and 45 nanometer semiconductor manufacturing process for sale only to AMD and AMD Wholly Owned Subsidiaries. For clarity, the license grant in this Section 8.12 shall include the right of AMD to disclose IBM Background Know-How, Specific Results, and Pre-T0 Information (excluding High Sensitivity Pre-T0 Information) received by or available to AMD under this Agreement, to the ***-AMD Manufacturing Facility, to the extent needed to exercise the license

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granted herein, provided the ***-AMD Manufacturing Facility agrees to be bound by substantially the same confidentiality terms and conditions as are applicable to AMD in Sections 7.2, 7.3 and 7.4. For the avoidance of doubt, the license grant in this Section 8.12 shall not relieve AMD of its royalty obligations for ASIC Products under Section 5.4.

- 8.13 Pursuant to the patent cross license agreement entered into between IBM and AMD with an effective date of January 1, 1997, each Party has granted certain licenses to the other under its patents based on patent applications filed prior to July 1, 2005, as more fully described in that patent cross license agreement. IBM and AMD acknowledge and agree that the licenses granted in this Section 8 of this Agreement do not include licenses under the patents of either Party.
- 8.14 IBM shall not be responsible to AMD for the quality of Licensed Products manufactured by *** or the ***-AMD Manufacturing Facility for AMD.
- 8.15 All information materials provided by AMD to *** pursuant to Section 8.10 and 8.12 of this Agreement shall be furnished "as is." IBM MAKES NO WARRANTY AS TO THIS INFORMATION OR MATERIALS, OR AS TO THE RESULTS TO BE ATTAINED BY *** OR THE ***-AMD MANUFACTURING FACILITY FROM THE USE OF THE INFORMATION OR MATERIALS, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR PARTICULAR PURPOSE. IBM makes no representations or warranty that the use of the foregoing information or materials is sufficient for *** or the ***-AMD Manufacturing Facility to develop or manufacture any product or for anything else.
- 8.16 Neither Party makes any representation or warranty, express or implied, or assumes any liability, with respect to the infringement of patents or other rights of Third Parties which may arise out of the use of any of the information or materials furnished to *** or the ***-AMD Manufacturing Facility by AMD hereunder, or due to AMD's operation under the licenses granted in Sections 8.10 and 8.12, notwithstanding that a Party may be or may become licensed under the patents or other rights of third parties relating to inventions which may or may not be practiced in the information or materials furnished by AMD to *** or the ***-AMD Manufacturing Facility. Each Party understands that no license or other right is extended to it or to its customers or to *** under any such third party patents or other intellectual property rights.
- 8.17 IBM hereby grants to AMD a non-exclusive, perpetual, worldwide, irrevocable (subject to all the terms and conditions of this Agreement including the payment of royalties in Section 5.7) license to use the Bulk CMOS Information and portions of Specific Results other than those portions which AMD uses *** manufactured in the applicable technology generation (e.g. 45nm, 32nm) in any given quarter for the purpose of researching, developing, engineering and manufacturing up to *** wafers (other than SOI Wafers) per week in 65nm, 45nm and/or 32 nm technology, including the right to sell,

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market, distribute or otherwise dispose of such wafers to Third Parties, provided that such licensed wafers manufactured using the aforementioned portions of Specific Results shall not include high performance microprocessors intended for use in high performance enterprise Servers.

- 8.18 IBM has identified in Exhibit L that Pre-T0 Information not yet selected by the Management Committee for use in a Process Development Project that IBM chooses, in its sole discretion, to maintain as confidential information ("High Sensitivity Pre-T0 Information"). AMD agrees that IBM reserves the right to update Exhibit L when any of such information is no longer considered to be High Sensitivity Pre-T0 Information or when IBM provides AMD with significant data to support the addition of new High Sensitivity Pre-T0 Information to Exhibit L. If AMD does not believe that IBM has provided significant data to support such addition or if AMD believes that items should be removed from Exhibit L, the issues shall be elevated to the Management Committee for resolution. Additionally, IBM agrees that any information on Exhibit L that is publicly disclosed, without breach of either Party's confidentiality agreements with each other or with a Third Party, shall no longer be considered High Sensitivity Pre-T0 Information. Any other update to Exhibit L shall require the approval of the AMD and IBM Representatives on the Management Committee.

AMD may use Pre-T0 Information that is not High Sensitivity Pre-T0 Information for any purpose. AMD may not transfer the High Sensitivity Pre-T0 Information to any Subsidiaries or Third Parties without written approval of the IBM Representative on the Management Committee. Pre-T0 Information (other than High Sensitivity Pre-T0 information) may be disclosed to Third Parties, subject to AMD's obligations under Section 7. In addition, AMD agrees at its sole discretion and to the extent it has the right to do so, to submit as AMD Background Know-How any improvements or enhancements made by AMD or a Third Party to such Pre-T0 Information.

Additionally, AMD agrees that it will not sell commercially available products that use High Sensitivity Pre-T0 Information prior to *** without IBM's written approval, which IBM approval will not be unreasonably withheld. Notwithstanding the foregoing, AMD will not be prevented from selling such products using High Sensitivity Pre-T0 information if (a) such High Sensitivity Pre-T0 information is not detectable through reverse engineering, and (b) AMD has not disclosed use of such High Sensitivity Pre-T0 Information.

- 8.19 For the avoidance of doubt, as set forth in Section 3.9.2 a., AMD shall be permitted to perform bumping using the Bump Technology for up to *** semiconductor wafers per calendar quarter for Third Parties. For each *** wafer bumped for Third Parties in excess of *** per calendar quarter, AMD shall pay IBM a royalty of *** percent (***) of the bumping price charged by AMD to the Third Parties. AMD's royalty obligation shall continue through the term of this Agreement. After the term of this Agreement, AMD may

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bump an unlimited number of wafers for third parties with no further royalty or reporting obligations, including no additional fees for AMD or the Third Parties who have products Bumped by AMD.

- 8.20 For the avoidance of doubt, as set forth in Section 3.9.2 a., AMD shall be permitted to perform bumping using the Bump Technology for up to *** semiconductor wafers per calendar quarter for Third Parties. For each ***mm wafer bumped for Third Parties in excess of *** per calendar quarter, AMD shall pay IBM a royalty of *** (***) of the bumping price charged by AMD to the Third Parties. AMD's royalty obligation shall continue through the term of this Agreement. After the term of this Agreement, AMD may bump an unlimited number of wafers for third parties with no further royalty or reporting obligations, including no additional fees for AMD or the Third Parties who have products Bumped by AMD.

SECTION 9 - LICENSE TO RESIDUALS AND PROPRIETARY TOOLS

- 9.1 Notwithstanding any other provisions of this Agreement, to the extent that such use does not infringe the valid patents, patent applications, registered designs, or copyrights of the other Party, and subject to the provisions of Section 7, each Party shall be free to use the residuals of Specific Results, the other Party's Background Know-How, Proprietary Tools and Pre-T0 Information (including High Sensitivity Pre-T0 Information), if any, and other confidential information received pursuant to Section 7.2, above, for any purpose, including use in the development, manufacture, marketing, and maintenance of any products and services. The term "residuals" means that information in non-tangible form which may be mentally retained by those Representatives of a Party who have had access to Specific Results, the Background Know-How, Proprietary Tools and/or Pre-T0 Information (including High Sensitivity Pre-T0 Information), if any, of the other Party, pursuant to this Agreement. The Parties agree that the receipt of Specific Results, the Background Know-How, Proprietary Tools and/or Pre-T0 Information (including High Sensitivity Pre-T0 Information), if any, of another Party shall not create any obligation in any way limiting or restricting the assignment and/or reassignment of a Party's Representatives within that Party.
- 9.2 Each Party grants to the other Party under the Proprietary Tools provided by that Party for use in the Process Development Projects, an irrevocable, non-exclusive and royalty-free license to use, execute, display, and perform such Proprietary Tools in the Development Facilities for the purpose of the Process Development Projects. Any Proprietary Tools that are introduced into the Development Facilities for the purpose of the Process Development Projects may not be transferred from the Development Facilities or used by a Party outside the Development Facilities without the express written consent of the Party introducing the Proprietary Tool(s). Any Party providing Proprietary Tools used in the Process Development Projects that are not available from another source or for which there is no reasonable substitute, will, to the extent it has the

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right to do so, and on terms and conditions (including reasonable fees) to be negotiated, grant a non-exclusive license to the other Party to use such Proprietary Tools outside the Process Development Projects in furtherance of their respective license rights set forth in Section 8.

SECTION 10 – OWNERSHIP OF SPECIFIC RESULTS

- 10.1 Except with respect to Designated Inventions, as set forth in Section 11 of this Agreement, and except with respect to Background Know-How, Specific Results shall be the property of both Parties which shall own the mask works, copyright, trade secret, know-how and similar rights in all such material jointly without accounting to the other Party. For the avoidance of doubt, such joint ownership shall include Inventions other than Designated Inventions. Moreover, for the avoidance of doubt, this Agreement shall constitute written consent of such joint owner for the disclosing Party to make the disclosures set forth in Section 7, to the extent such joint consent is required in a given jurisdiction; provided, however, that such assent is subject to the terms and conditions of this Agreement. Before applying to register or record in any country any of the rights or material to which this Section 10 relates, the Parties shall hold consultations and agree on whether this is appropriate and, if so, which of them shall make such application and in which countries.
- 10.2 The joint ownership by the Parties of all copyright and similar right in and to Specific Results shall be subject to Sections 7 and 8; the Parties understand and agree that their status as joint owners does not grant them any rights to utilize Specific Results over and above their respective disclosure rights as set forth in Section 7 of this Agreement.

SECTION 11 - OWNERSHIP OF DESIGNATED INVENTIONS

- 11.1 Each Designated Invention made solely by one or more Representatives or contractors of one Party, and title to all patent applications filed thereon and all patents issued thereon, shall be solely the property of the inventing Party, subject to a patent license granted in Section 11.3 below. It shall be in the sole discretion of the inventing party to determine whether or not to file a patent application on an Invention, thereby creating a Designated Invention.
- 11.2 Designated Inventions made jointly by one or more Representatives or contractors of one Party with one or more Representatives or contractors of any other Party, and title to all patent applications filed thereon and all patents issued thereon, shall be jointly owned by the inventing Parties. Each inventing Party shall have the right to grant licenses (including the right of any licensee to grant sublicenses) to the inventing Party's Subsidiaries and/or to Third Parties under any patent issued on such a joint Designated Invention without compensation to the other inventing Party and/or its or their

Representatives or contractors, which hereby give any necessary consent for granting such licenses as may be required by the law of any country. All expenses, other than internal patent department expenses of the Parties, incurred in obtaining and maintaining such patents shall be equally shared by the inventing Parties (except as provided hereinafter). Prior to filing any patent application in respect of any such joint Designated Inventions the inventing Parties shall hold consultations and agree on whether this is appropriate and, if so, which of them shall file and prosecute such application and in which countries corresponding applications shall be filed and by whom. With respect to any joint Designated Invention, where one inventing Party elects not to seek or maintain such protection thereon in any particular country or not to share equally in the expenses thereof, the other inventing Party shall have the right to seek or maintain such protection in said country at its or their own expense and shall have full control over the prosecution and maintenance thereof even though title to any patent issued thereon shall be joint.

- 11.3 With respect to Designated Inventions under Sections 11.1, the owning Party hereby grants the other Party the same rights and obligations with respect to the relevant Specific Results provided for in this Agreement to carry out the activities set forth in this Agreement (including, but not limited to, Sections 7, 8 and 9). With respect to patents issued on said Designated Inventions, the license granted by the owning Party to the other Party shall be an irrevocable (subject to the terms and conditions of this Agreement), worldwide, non-exclusive, royalty-free, paid-up license to make, have made, use, lease, sell, offer to sell, import and otherwise transfer any products and to practice and have practiced any process and shall include the right of such licensed Party to sublicense its Subsidiaries of the same or within the scope of the foregoing license.
- 11.4 Each Party shall give the other Party all reasonable assistance in connection with the preparation or prosecution of any patent application filed by said other Party and shall cause to be executed all assignments and other instruments and documents as said other Party may consider necessary or appropriate to carry out the intent of this Section 11.
- 11.5 Nothing in this Agreement shall affect any patent license agreements between the Parties currently existing, but may confer rights on one or more Parties in addition to the rights they may have under such existing agreements.
- 11.6 To the extent that a license grant under Sections 9 and 11 recites the right to make any product, apparatus and/or material, or practice any method or process in the manufacture of same, such grant shall not be construed as conveying the right to a Party or other entity to “have made” such product apparatus and/or material, or “have practiced” any such method or process, unless such right is expressly recited therein.
- 11.7 The Project Leaders shall establish a procedure for reviewing Invention disclosures in order to determine which Inventions are subject to the provisions of Section 11.2 of this Agreement relating to joint Inventions.

SECTION 12 - TERM AND TERMINATION

- 12.1 This Agreement shall be in effect from the Effective Date and, unless terminated prior to expiration as hereinafter set forth, shall remain in force until the earlier of Qualification for CMOS13S2 or December 31, 2011. The term of this Agreement may be extended by the mutual agreement of the Parties. If the Parties do not agree to extend this Agreement and if the *** slips beyond December 31, 2011, this Agreement shall be extended for an additional three (3) month period for the sole purpose of completing the ***. The Parties will mutually agree on the fees for such three (3) month period based upon the scope of work remaining on the *** project, but in no case higher than fees paid by AMD in the fourth quarter of 2011. All other terms and conditions of the Agreement will remain in effect during such three (3) month period. If such slippage is greater than three (3) months, this Agreement may be extended for additional three (3) month periods subject to mutually agreeable terms and conditions (for clarity, including fees based on the scope of work remaining on the *** project) to be negotiated by the Parties.
- 12.2 At expiration of this Agreement, Sections 1; 3.8.1; 4.9 – 4.13, inclusive; 5.2, 5.4 – 5.8, inclusive; 5.10; 5.11; 6; 7.1, 7.3-7.10 inclusive; 8; 9; 10; 11; 12; 13; 16; 17 and 18 shall survive and continue after the date of such expiration and shall bind the Parties and their legal representatives, successors and assigns.
- 12.3 Either Party shall have the right to immediately terminate this Agreement as to a breaching Party (as defined herein) by giving written notice of termination to the other Party if the other Party (the “breaching Party”) 1) permanently ceases doing business; 2) is adjudged bankrupt or insolvent or files a petition for bankruptcy; 3) goes into liquidation; or 4) undergoes a Change of Control.
- A “Change of Control” shall be deemed to have occurred if (a) there shall be consummated (i) any consolidation or merger of a Party in which such Party is not the continuing or surviving corporation, or pursuant to which shares of such Party’s common stock would be converted into cash, securities or other property, other than a merger of such Party in which the holders of such Party’s common stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of such Party; (b) the stockholders of a Party shall approve any plan or proposal for the liquidation or dissolution of such Party, or (c) any person (as such term is used in section 13(d) and 14(d) (2) of the Securities Exchange Act of 1934 (the Exchange Act”) other than a Party or any employee benefit plans sponsored by such Party, shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the company representing: (i) more than one third of voting securities having the voting power of such Party’s then outstanding securities ordinarily (and apart

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from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases, or otherwise, only if such person and its Subsidiaries exceeded ten billion US dollars in revenue from the sale of microprocessor Semiconductor Products in calendar year 2001; or (ii) fifty percent (50%) or more of voting securities having the voting power of such Party's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases, or otherwise.

- 12.4 If either Party to this Agreement fails to perform or violates any material obligation of this Agreement, then, upon thirty (30) days written notice to the breaching Party specifying such failure or violation (the "Default Notice"), the non-breaching Party may terminate this Agreement as to the breaching Party, without liability, unless:

The failure or violation specified in the Default Notice has been cured within a thirty (30) day period; or

The failure or violation reasonably requires more than thirty (30) days to correct (specifically excluding any failure to pay money), and the breaching Party has begun substantial corrective action to remedy the failure or violation within such thirty (30) day period and diligently pursues such action, in which event, termination shall not be effective unless ninety (90) days has expired from the date of the Default Notice without such corrective action being completed and the failure or violation remedied.

12.5 **Contingencies.**

- (i) The Parties acknowledge that the commencement date of this Agreement ("Commencement Date") and hence all activities and matters hereunder is the date of and conditioned upon IBM receipt of AMD written notice to IBM of AMD corporate management and Board of Directors' approval of AMD participation in activities under this Second Amendment and Restatement of "S" Process Development Agreement (effective as of December 28, 2002) including payment as specified herein, provided such approval is received on or before October 31, 2005. For avoidance of doubt, the First Amendment and Restatement of the "S" Process Development Agreement (Effective as of December 28, 2002) as amended and restated on September 15, 2004, and further amended on May 23, 2005, is currently in effect and will remain in effect as written unless and until the foregoing condition is met and this Agreement becomes effective, at which time this Agreement will control all activities and matters hereunder as between the Parties.

- (ii) Additionally, the Parties acknowledge that capital purchases necessary for the continued development of the Process Development Projects past December 31,

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM

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2008 are conditioned upon the receipt of IBM corporate management and Board of Directors approval. If such approvals are not received by September 30, 2007, either Party shall have the right to terminate this Agreement effective December 31, 2008 without liability to the non-terminating Party, provided, however, that if such approvals are received after September 30, 2007, but prior to either Party's exercise of its above right to terminate, the above right to terminate shall lapse. The survival provision of Section 12.2 (including the licenses set forth in Sections 8.9 – 8.12 shall apply to any such termination, provided however that no payments shall be due by AMD under Section 5.8 for such licenses.

- 12.6 Notwithstanding any provision to the contrary elsewhere in this Agreement, upon termination of this Agreement pursuant to Sections 12.3 or 12.4, the non-breaching Party shall have the right to terminate all licenses and disclosure rights granted to the breaching Party pursuant to Sections 7, 8, 9, 10 and 11. If such licenses are terminated, the breaching Party shall immediately return to the non-breaching Party, or destroy, any documentation or materials embodying Specific Results and/or Background Know-How, and such return or destruction shall be certified to the non-breaching Party, in writing, by an officer of the breaching Party. Other than any such termination of licenses and disclosure rights to the breaching Party, Sections 1; 3.8.1, 4.9 – 4.13, inclusive; 5.2, 5.4 – 5.8, inclusive; 5.10; 5.11; 6; 7.1, 7.3-7.10 inclusive; 8; 9; 10; 11; 12; 13; 16; 17 and 18 shall survive and remain in full force and effect. In addition, the breaching Party shall continue to be bound by the limitations and obligations set forth in Sections: 1; 4.9 and 4.10; 5.2, 5.4 – 5.8, inclusive; 5.10; 5.11; 6; 7.1, 7.3, 7.4; 8.6; 9.2; 12; 13; 16; 17; and 18.
- 12.7 Additionally, AMD shall have the right to immediately terminate (for convenience and without liability to either Party) this Agreement by giving written notice of termination to IBM, if IBM sells, leases, exchanges or otherwise transfers (in one transaction or a series of related transactions) the assets of its microelectronics business unit required to perform its obligations under this Agreement. Sections 1; 3.8.1; 4.9 – 4.13, inclusive; 5.2, 5.4 – 5.8, inclusive; 5.10; 5.11; 6; 7.1, 7.3-7.10 inclusive; 8; 9; 10; 11; 12; 13; 16; 17 and 18 shall survive and continue after the date of such termination and shall bind the Parties and their legal representatives, successors and assigns, provided however that no payments shall be due by AMD under Section 5.8 for licenses granted under the surviving terms of the Agreement.

SECTION 13 - FUNDS TRANSFER, NOTICES AND OTHER COMMUNICATIONS

- 13.1 Any notice or other communication required or permitted to be given to either Party pursuant to this Agreement shall be sent to such Party by facsimile or by registered airmail, postage prepaid, addressed to it at its address set forth below, or to such other address as it may designate by written notice given to the other Party. All payments due

hereunder to IBM shall be made to IBM by telegraphic transfer or other equally expeditious means and IBM shall notify the other Party within thirty (30) days of the date of this Agreement of the account and other details needed by the other Party in order to effect such transfer. Any such payment, invoice, notice or other communication shall be effective on the date of receipt. The addresses are as follows:

13.1.1 In the case of IBM,

for mailing notices and other communications to IBM:

IBM Corporation
2070 Route 52
Hopewell Junction, NY 12533
Fax: ***
Attention: ***

With a copy to:

IBM Corporation
Drop 92B
2070 Route 52
Hopewell Junction, NY 12533
Fax: ***
Attention: ***

for electronic funds transfer to IBM:

IBM Director of Licensing
International Business Machines Corporation

Bank Account Number: ***
ABA Routing Number: ***

13.1.2 In the case of AMD,

for mailing notices and other communications to AMD:

AMD
One AMD Place
PO Box 3453, MS150
Sunnyvale, CA 94088
Tel: ***
Fax: ***
Attention: General Counsel

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SECTION 14 - POTENTIAL EXPANSION OF PROCESS DEVELOPMENT PROJECTS

Either Party may submit a request to the Management Committee to expand the scope of the Process Development Projects as set forth in Section 3.1 and Section 3.8. In order to expand the scope of the Process Development Projects the Management Committee must mutually agree and submit such proposal to the senior executives of the Parties, as defined in Section 4.1.1 for review. If the Parties agree to a change of scope, any such agreement must be set forth in a signed amendment to this Agreement. In determining whether or not to expand the scope of the Process Development Projects, the Parties shall evaluate each such request in light of the overall impact such modification would have on the Strategic Technology Objectives and Development Schedule of the Process Development Projects, set forth in Exhibits A and B, as well as cost, schedule, and other business objectives.

SECTION 15 - FORCE MAJEURE

15.1 Either Party hereto shall be excused from the fulfilment of any Process Development Project obligation, except for payment obligations, under this Agreement for so long as such fulfilment may be hindered or prevented by any circumstances of force majeure such as but not limited to acts of God, war, riot, strike, lockout, labor unrest, fire, flood, other natural catastrophe, shortage of materials or transportation, national or local government regulations or any other circumstance outside its control, provided that the Party seeking to be excused shall make every reasonable effort to minimize the hindrance of such fulfilment.

15.2 Upon the ending of such circumstance, the Party excused shall without undue delay resume the fulfilment of obligations affected.

SECTION 16 - TAXES

Each Party shall bear and pay all taxes (including, without limitation, sales and value added taxes but excluding income tax as specified below) imposed by its own national government, including any political subdivision thereof, as the result of the existence of this Agreement or the exercise of rights hereunder. If either Party is required by its national government to pay income tax in respect of the payments and/or royalties made by it to either or both of the other Parties, said Party shall pay such income tax on behalf of said other Party. Said Party may deduct such

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income tax from said payments and/or royalties otherwise due and shall furnish said other Party, within a reasonable time after its receipt of tax certificates from the applicable government entity such certificates and other evidence of deduction and payment thereof as said Party may properly require. In addition, each Party may independently pursue any applicable tax credit for its share of expenses related to the Process Development Projects.

SECTION 17 - LIMITATION OF LIABILITY

- 17.1 In no event shall either Party be liable to the other Party for incidental damages, punitive damages, lost profits, lost savings or any other such damages, including consequential damages, regardless of whether the claim is for breach of contract, breach of warranty, tort (including negligence), failure of a remedy to accomplish its purpose or otherwise, even if such Party (or any Subsidiary) has been advised of the possibility of such damages.
- 17.2 In no event shall either Party's (or its respective Subsidiaries') aggregate liability to the other Party for actual direct damages in connection with any claim or claims relating to this Agreement exceed the amount of *** United States dollars (US ***), regardless of the form of action, provided that this limitation will not apply to: i) any claim for payment of a sum or sums properly due under this Agreement; ii) breach of confidentiality or license; or iii) death, personal injury or physical damage to real property or tangible personal property resulting from a Party's own negligence, or that of its employees, agents or subcontractors.
- 17.3 Nothing contained herein shall limit either Party's right to seek a preliminary injunction, temporary restraining order or any other equitable relief in order to avoid material harm to its property, rights or other interests. The Parties agree that for breaches of confidentiality or license provisions the Party whose license grant or confidential information has been breached ("non-breaching Party") shall suffer irreparable harm and that remedies at law may be insufficient; therefore, the non-breaching Party may seek any remedy at law or in equity, including but not limited to, preliminary injunction, injunction, and/or a temporary restraining order, without having to prove either failure of a remedy at law or irreparable harm.
- 17.4 In no event shall either Party (or its respective Subsidiaries) be liable for any damages claimed by the other Party based on any Third Party claim, except as specifically set forth in Section 17.2 (iii) above.

SECTION 18 - GENERAL

- 18.1 Nothing contained in this Agreement shall be construed as conferring any right to use in advertising, publicity or other promotional activities any name, trade name, trademark or other designation of either Party hereto (including any contraction, abbreviation or

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simulation of any of the foregoing); and each Party hereto agrees not to disclose to other than its Subsidiaries the terms and conditions of this Agreement except as may be required by law or government rule or regulation, without the express written consent of the other Party. Notwithstanding the foregoing, 1) the Parties shall be permitted to disclose a summary of pertinent Sections of this Agreement that are reasonably necessary for disclosing and/or licensing under this Agreement, and 2) each Party shall be permitted to disclose pertinent Sections of this Agreement to such Party's independent accounting firm and outside attorneys; provided, however, that any such disclosure is under a written agreement containing restrictions of confidentiality at least as stringent as those contained herein.

- 18.2 This Agreement shall be construed, and the legal relations created herein between the Parties shall be determined exclusively, in accordance with the laws of the United States of America and, specifically, the State of New York, without regard to conflicts of law, as if said Agreement were executed in, and fully performed within, the State of New York. Any proceeding to enforce, or to resolve disputes relating to, this Agreement shall be brought before a court of competent jurisdiction in the State of New York, including a Federal District Court, sitting within such State. Parties hereby expressly waive any right to a jury trial and agree that any proceeding hereunder shall be tried by a judge without a jury. In any proceedings no Party shall assert that such court lacks jurisdiction over it or the subject matter of the proceeding.
- 18.3 In the event of any dispute under this Agreement, and as a condition precedent to any Party filing suit, instituting a proceeding or seeking other judicial or governmental resolution in connection therewith, the Parties will attempt to resolve such dispute by negotiation in accordance with the following dispute resolution process. Excepting only that a Party may institute a proceeding seeking an order for payment of any sum properly due and unpaid, a preliminary injunction, temporary restraining order, or other equitable relief, if necessary in the opinion of that Party to avoid material harm to its property, rights or other interests, before commencing or at any time during the course of, the dispute procedure in this Section 18.3.
- 18.3.1 Such negotiations shall first involve the individuals in the Management Committee. These individuals will exercise reasonable efforts to resolve such dispute.
- 18.3.2 If such negotiations do not result within thirty (30) calendar days of their receipt of a written referral to them in a resolution of the dispute, the dispute will be referred in writing to the senior executives named in Section 4.1.1, above, which senior executives shall discuss and meet in person, if necessary, in order to attempt to negotiate a resolution to the dispute.

- 18.3.3 Except as set forth above, no Party shall file suit, institute a proceeding or seek other judicial or governmental resolution of the dispute until at least sixty (60) calendar days after the first meeting between the senior executives.
- 18.4 In the event that any litigation occurs between or among the Parties pertaining to this Agreement and any technical issues arise in the course thereof, the Parties shall make good faith efforts to select one or more neutral mutually acceptable technical experts with expertise in the pertinent technical issues to assist the court in understanding and evaluating such issues.
- 18.5 Nothing contained in this Agreement shall be construed as conferring on any Party any license or other right to copy the exterior design of any product of the other Party.
- 18.6 No Party shall assign any of its rights or obligations under this Agreement without prior written permission from the other Party. If any Party reorganizes its business so as to set up a Related Subsidiary or Wholly Owned Subsidiary that shall include the entire business and assets responsible for such Party's performance of its obligations under this Agreement then the other Party agrees that the permission to assign to such Related Subsidiary or Wholly Owned Subsidiary shall not be unreasonably withheld. Any attempted such assignment without such permission shall be null and void.
- 18.7 No actions, regardless of form, arising out of this Agreement, except for non-payment actions or intellectual property actions, may be brought by either Party more than two (2) years after the cause of action has arisen.
- 18.8 Each Party shall be responsible for compliance with all applicable laws, regulations and ordinances. In addition, no Party and none of its agents or employees acting on behalf of said Party will export or re-export any confidential information of the other Party, or any process, product or service that is produced as a result of the use of such confidential information, to any country specified in the applicable laws and regulations of the United States as a prohibited destination, without first obtaining the relevant government's approval, if required. As of the Effective Date the countries and nationals excluded for Specific Results and Proprietary Tools under the United States export laws and regulations are: Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria.
- 18.9 All monetary amounts specified herein are in lawful money of the United States of America. Any action required herein to be taken by a specified calendar month shall be taken by the last day of said month.
- 18.10 Neither this Agreement nor any activities hereunder shall impair any right of any Party to design, develop, manufacture, sell, market, service, or otherwise deal in, directly or indirectly, manufacturing processes, products or services developed by such Party completely independent of this Agreement, including those which are competitive with those offered by any Party. Subject to the confidentiality and license limitations set forth

in this Agreement, each Party may pursue activities independently with any Third Party even if similar to the activities under this Agreement.

- 18.11 Each Party is an independent contractor and not an agent, employee or fiduciary of any other Party for any purpose whatsoever. No Party shall make any warranties or representations on any other's behalf, nor shall it assume or create any other obligations on any other's behalf. Nothing herein shall be taken to constitute a partnership or joint venture between or among the Parties hereto.
- 18.12 Press releases and other like publicity or advertising relating to this Agreement and/or which mentions the other Party by name shall be agreed upon by the Parties in writing prior to any release, such agreement not to be unreasonably withheld.
- 18.13 If any section or subsection of this Agreement is found by competent judicial authority to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of any such section or subsection in every other respect and the remainder of the terms of this Agreement shall continue in effect so long as the amended Agreement still expresses the intent of the Parties. If the intent of the Parties cannot be preserved, the Agreement shall be renegotiated with the Parties substituting for any invalid or unenforceable provision a valid or enforceable provision that achieves to the greatest extent possible the same effect as would have been achieved by the invalid or unenforceable provision.
- 18.14 Any waiver by either Party of any breach of, or failure to enforce at any time, any of the provisions of any of this Agreement, shall not be construed as or constitute a continuing waiver of such provision, or a waiver of any other provision of this Agreement, nor shall it in any way affect the validity of any of this Agreement or any part thereof, or the right of either Party thereafter to enforce each and every provision of any of this Agreement.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

18.15 This Agreement will not be binding upon the Parties until it has been signed herein below by or on behalf of each Party in which event it shall be effective as of the date first above written. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof and shall supersede all previous communications, representations, understandings and agreements, whether oral or written, made in the course of discussions and/or negotiations between the Parties or any officer or representative thereof with respect to the subject matter of this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Parties unless made in writing and signed on behalf of each of such Parties by their respective representatives thereunto duly authorized. The requirement of written form may only be waived in writing.

18.16 This Agreement may be executed in two (2) counterparts, each of which shall be deemed an original, but each of which together shall constitute one and the same agreement. Fax or scanned signatures will have the same legal effect as original signatures.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the Effective Date.

Advanced Micro Devices, Inc.

International Business Machines Corporation

By: /s/ Harry Wolin

By: /s/ Douglas A. Grose

Name: Harry Wolin

Name:

Title: Senior Vice President &
General Counsel

Title:

Date:

Date:

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM
IBM - AMD Confidential

EXHIBIT A: TECHNICAL OBJECTIVES

EXHIBIT B: PROJECTED SCHEDULE

EXHIBIT C: MINIMUM STAFFING PARTICIPATION

EXHIBIT D: RESPONSIBILITIES OF THE MANAGEMENT COMMITTEE

EXHIBIT E: RESPONSIBILITIES OF THE PROJECT LEADERS

EXHIBIT F: VISITATION GUIDELINES

EXHIBIT G: RESPONSIBILITIES OF THE PRE-T0 STEERING COMMITTEE

EXHIBIT H: RESPONSIBILITIES OF THE PRE-T0 PROJECT LEADERS

EXHIBIT I: RESPONSIBILITIES OF THE BUMP TECHNOLOGY PROJECT LEADERS

EXHIBIT J: DOCUMENTATION

EXHIBIT K: BULK CMOS AND INDUSTRY STANDARD CMOS LIST

EXHIBIT L: HIGH SENSITIVITY PRE-T0 INFORMATION

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A.1 CMOS 10S TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The CMOS-10S technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.2 CMOS10SE TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The CMOS-10SE technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.3 CMOS-11S TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The CMOS-11S technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.4 CMOS-11S2 TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The CMOS-11S2 technology may include the following features, if needed and technically feasible:

*** Confidential Treatment Requested

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A.5 CMOS-12S TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The CMOS-12S technology may include the following features if needed and technically feasible:

A.6 CMOS-12S2 TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The CMOS-12S2 technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.7 CMOS-13S TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

*** Confidential Treatment Requested

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IBM - AMD Confidential

A.8 CMOS-13S2 TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

*** Confidential Treatment Requested

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IBM - AMD Confidential

A.9 CMOS-14S TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

*** Confidential Treatment Requested

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM
IBM - AMD Confidential

A.10 Pre-T0 In-scope Technical Subjects

- ***

*** Confidential Treatment Requested

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM
IBM - AMD Confidential

A.10 Pre-T0 In-scope Technical Subjects

- ***

*** Confidential Treatment Requested

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM
IBM - AMD Confidential

A.10 Pre-T0 In-scope Technical Subjects

o ***

*** Confidential Treatment Requested

Second Amendment and Restatement of "S" Process Development Agreement between AMD and IBM
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A.11 ***AND/OR *** TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.12 ***TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.13 *** TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

The technology may include the following features if needed and technically feasible:

*** Confidential Treatment Requested

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A.14 *** TECHNICAL OBJECTIVES

Strategic Technology Objectives

Technology Implementation Options

*** Confidential Treatment Requested

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IBM - AMD Confidential

PROJECTED SCHEDULE

PROJECT	***	***	***	***	***	***	***	***
Pre-T0 Exit	***	***	***	***	***	***	***	***
T-Bulk	***	***	***	***	***	***	***	***
T1	***	***	***	***	***	***	***	***
T2**	***	***	***	***	***	***	***	***

Bump Technology

PROJECT	A.11	A.12	A.13	A.14
Pre-T0 Exit	***	***	***	***
T0	***	***	***	***
T1	***	***	***	***
T2	***	***	***	***

** T2 date is based on a ***, otherwise on a ***.

T1 and T2 Dates in the table above for 13S, 13S2 and 14S are target dates and will be confirmed at the time of Pre-T0 Exit.

Checkpoint Definitions:

Pre-T0 Exit date: As defined in Section 1

T-Bulk date: Initially identify elements of the relevant Process Development Project that IBM plans to use in IBM's Bulk CMOS and Industry Standard CMOS

T1: yield process and reliability demonstration on an integrated process Test Site

T2: meets functional requirements for an SOI Integrated Circuit product (not Test Site)

*** Confidential Treatment Requested

MINIMUM STAFFING PARTICIPATION
(Average Annual Staffing Level)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
CMOS	***	***	***	***	***	***	***	***	***
Bump	***	***	***	***	***	***	***	***	***

* The Staffing Allocation will be determined by the mutual agreement of the IBM Project Leaders and AMD Project Leaders.

** These engineers are expected to be productive immediately and should have enough experience in the given technology area to work independently and lead sub teams.

*** Confidential Treatment Requested

RESPONSIBILITIES OF THE MANAGEMENT COMMITTEE

- Approve changes in Strategic Technical Objectives as set forth in Exhibit A*
- Approve changes of schedules of the Projects set forth in Exhibit B*
- Establish a regular review process on no more than a quarterly basis with business executives of each of the Parties of at least the level of Vice President or other comparable level.
- Approve external communications about the goals of the Projects and external publications*
- Resolve such other items as the Management Committee deems appropriate or as indicated elsewhere in the Agreement as requiring the agreement of the Management Committee.

*** Items marked require unanimous approval of the Management Committee**

All other responsibilities, including day-to-day management responsibility for the results to be achieved under the Agreement, shall reside with the IBM Project Leader with the help of the AMD Project Leader.

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RESPONSIBILITIES OF THE IBM PROJECT LEADER

Project organization and coordination

- Responsible for implementation of directives from the Management Committee for the Process Development Projects
- Responsible for identification and presentation to Management Committee of those items which need Management Committee approval
- Responsible for Project reporting at Management Committee reviews
- Responsible for quarterly reports (technology status, milestones).
- Responsible for allocation of Project resources
- Responsible for review and approval of technical publications
- Responsible for determining the organizational structure of the Project Team and appointing key technical leaders and project managers to execute Projects
- Responsible for managing the IBM infrastructure to support the Project Activities
- Responsible for Project schedule planning
- Responsible for management of IBM Personnel
- Responsible for completion of Documentation for each Process Development Projects

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RESPONSIBILITIES OF THE AMD PROJECT LEADER

- Responsible for implementation of directives from the Management Committee for the Projects
- Responsible for identification and presentation to Management Committee of those items which need Management Committee approval
- Responsible for Project reporting at Management Committee reviews
- Responsible for quarterly reports (technology status, milestones)
- Responsible for review and approval of technical publications
- Responsible for management of respective Party's personnel
- Responsible for completion of Documentation for each Process Development Projects

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VISITATION GUIDELINES

- 1.0 IBM shall issue security badges to visitors. Security badges must be returned by visitors at the end of each assignment. Security badges must be visibly displayed at all times by visitors while on IBM premises. If the security badge is lost or stolen, the IBM Technical Coordinator shall be immediately advised. Security badges shall not be loaned or interchanged.
- 2.0 Visitors shall only enter those buildings, departments, or areas which are specifically designated by the IBM Technical Coordinator and for which entry is required under this Agreement.
- 3.0 Visitors shall comply with all log-in/log-out requirements when entering or leaving IBM buildings and/or designated work areas.
- 4.0 Visitors shall comply with all security and safety guidelines which are posted on IBM premises and/or are otherwise specified by IBM.
- 5.0 IBM copying equipment and/or other IBM equipment (such as data processing equipment and word processing equipment) shall not be used by visitors except with prior approval of the IBM Technical Coordinator.
- 6.0 Visitors shall not disturb materials lying on IBM desks, mounted on easels or displayed on chalkboards.
- 7.0 Visitors shall promptly leave buildings and department areas after completing work assignments.
- 8.0 Visitors shall not leave IBM external doors propped open. No IBM materials shall be removed from buildings without prior written approval.
- 9.0 Alcoholic beverages, illegal drugs, guns and ammunition, cameras, and recording devices are not permitted on IBM premises.

RESPONSIBILITIES OF THE PRE-T0 STEERING COMMITTEE

- Responsible for providing technical guidance to the Management Committee for defining Pre-T0 Activities and Technical Objectives (Exh. A)
- Responsible for assisting the Project Leaders in the implementation of the Pre-T0 Activities
- Approve changes in Pre-T0 Technical In-Scope Technical Subjects and projects as set forth in Exhibit A, with final approval to be provided from the Management Committee
- Actively participate in the review and approval process regarding external communication about the goals of the projects and external publications
- Responsible for reporting on Pre-T0 Activities
- Responsible for working with the Management Committee and appropriate development and Pre-T0 Project leaders to define 32 and 22nm Technology Objectives and Technology Implementation Options. Preliminary Objectives and Options should be defined 5 quarters prior to Pre-T0 exit. Updated Objectives and Options should be provided at Pre-T0 Exit (start of T0).
- Establish an appropriate regular review process of Pre-T0 Activities. Quarterly updates on key Pre-T0 projects should be formally added to the MCM meeting Agenda starting no later than 5 quarters before Pre-T0 exit.
- Resolve such other items as the Pre-T0 Steering Committee deems appropriate or as indicated elsewhere in the Agreement as requiring the agreement of the Pre-T0 Steering Committee.

All other responsibilities, including day-to-day management responsibility for the results to be achieved under the Agreement, shall reside with the IBM Pre-T0 Project Leader with the help of the AMD Pre-T0 Project Leader.

RESPONSIBILITIES OF THE IBM PRE-T0 PROJECT LEADER

Project organization and coordination

- Responsible for implementation of directives from the Pre-T0 Steering Committee and/or Management Committee for the Pre-T0 Activities
- Responsible for identification and presentation to the Pre-T0 Steering Committee and/or Management Committee, as appropriate, of those items which need their approval
- Responsible for Project reporting of Pre-T0 Activities to the Pre-T0 Steering Committee
- Responsible for quarterly reports (technology status, milestones).
- Responsible for allocation of Pre-T0 Activities resources
- Responsible for review and approval of technical publications
- Responsible for determining the organizational structure of the Pre-T0 Activities teams and appointing key technical leaders and project managers to execute Pre-T0 Activities
- Responsible for managing the IBM infrastructure to support the Pre-T0 Project Activities
- Responsible for Pre-T0 Activities schedule planning
- Responsible for management of IBM Pre-T0 personnel
- Responsible for completion of appropriate Pre-T0 documentation

RESPONSIBILITIES OF THE AMD PRE-T0 PROJECT LEADER

- Responsible for implementation of directives from the Pre-T0 Steering Committee and/or Management Committee for the Pre-T0 Activities
- Responsible for identification and presentation to the Pre-T0 Steering Committee and/or Management Committee, as appropriate, of those items which need their approval
- Responsible for Pre-T0 Activities reporting at Steering Committee reviews
- Responsible for quarterly reports (technology status, milestones)
- Responsible for review and approval of technical publications
- Responsible for management of respective Party's personnel
- Responsible for completion of appropriate Pre-T0 documentation

RESPONSIBILITIES OF THE IBM BUMP TECHNOLOGY PROJECT LEADER

Project organization and coordination

- Responsible for implementation of directives from the Management Committee for any Bump Technology Process Development Projects
- Responsible for identification and presentation to the Management Committee of those items which need their approval
- Responsible for project reporting of any Bump Technology Process Development Projects to the Management Committee
- Responsible for quarterly reports (technology status, milestones).
- Responsible for allocation of any Bump Technology Process Development Projects resources
- Responsible for review and approval of technical publications
- Responsible for determining the organizational structure of any Bump Technology Process Development Projects teams and appointing key technical leaders and project managers to execute any Bump Technology Process Development Projects
- Responsible for managing the IBM infrastructure to support any Bump Technology Process Development Projects
- Responsible for any Bump Technology Process Development Projects schedule planning
- Responsible for management of any IBM Bump Technology Process Development Projects personnel
- Responsible for completion of any appropriate Bump Technology Process Development Projects documentation

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RESPONSIBILITIES OF THE AMD BUMP TECHNOLOGY PROJECT LEADER

- Responsible for implementation of directives from the Management Committee for any Bump Technology Process Development Projects
- Responsible for identification and presentation to the Management Committee of those items which need their approval
- Responsible for quarterly reports (technology status, milestones)
- Responsible for review and approval of technical publications
- Responsible for management of respective Party's Bump Technology Process Development Projects personnel
- Responsible for completion of any applicable Bump Technology Process Development Projects documentation

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DOCUMENTATION**Wafer Process And Characterization Documentation**

Process routing

Process of Record (POR)

- Process change history

Process assumptions

Process engineering specifications

Unit process descriptions and characterization (rate, uniformity, selectivity, particle, etc.)

Process recipes for critical unit processes

Specification Sheets for critical dimensions, overlay

ED analysis data of critical layers (litho process widow)

Cp/Cpk for critical measurements

List of critical tools including QC tools

Critical Equipment specifications

- Critical maintenance procedures

TEM Cross Sections (both center and edge)

Finished wafer: STI, GC, CS, LI, Interconnect spacer edge, LI bottom on STI, CS bottom, Via bottom

In Line wafer: After GC etch, after spacer-1 etch, after spacer-2 etch, after CS etch, after V2 etch, after M2 etch

Tool control/monitor data for critical tools

Material Specifications for critical materials

Defect Catalog

SOI Wafer or High Performance Integrated Circuit wafer Specification

Bill Of Materials For wafers

SIMS data (as available)

Device design and modeling:

- SOI or High Performance Integrated Circuit device model
- Parameter extraction

-
- AC Performance Verification
 - Tolerance data
 - Compact model
 - Device-level library
 - HSpice convergence
 - Body contact modeling
 - SOI Resistor and capacitor
 - ESD circuitry at I/O pads

Technology Qualification Vehicle Documentation

Technology Design Manual

Test Site description

- Groundrule waivers

Kerf description document

In-Line Electrical Specification document

Layout & mask information (for Test Site) in GDSII format

Reliability Documentation

Qualification plan

Early reliability stress results on Test Site (devices, interconnects, capacitor) including NBTI

Physical failure analysis data after E, SM reliability tests

Electrical Results

Test programs (for IBM Proprietary Tool – electrical tester)

Functional test

Burn-In/reliability

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T2 Product Characterization data for SOI Integrated Circuit or High Performance Integrated Circuit product
(dependent on availability of common IBM / AMD product)

Lithography Documentation

- Mask fabrication specifications
- Mask data processing sequence including OPC/PPC
- Method of process characterization to extract OPC/PPC data correction parameters for the correction software
- Mask qualification procedure
- Specific mask making tool selection and its derived mask fabrication specification if exists

Bump Documentation

Process routing

Process of Record (POR)

- Process change history (after T2 process freeze)

Process assumptions, if available

Process engineering specifications

Unit process descriptions and characterization (rate, uniformity, selectivity, particle, etc.)

Process recipes for critical unit processes

Process window definition and define process limitations

Specification Sheets for critical dimensions, overlay

Cp/Cpk for critical measurements

List of critical tools including QC tools

Critical Equipment specifications

- Critical maintenance procedures

TEM Cross Sections (both center and edge)

Cross section data of bump geometries

Physical characterization results (e.g., SEM, EDX, SIMS, etc.)

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Reliability measurement methodology and applicable results including fatigue and electromigration

Tool control/monitor data for critical tools

Material Specifications for critical materials

- plating baths, sputtering targets and suppliers
- Contamination effects

Defect Catalog

Bill Of Materials For bumps

Technology Qualification Vehicle Documentation

Technology Design Manual, if available

In-Line Specification document, if available

Reliability Documentation

Qualification plan for T0, T1 and T2

Early reliability stress results

Physical failure analysis data

Additional requests for Documentation shall be by the mutual agreement of the Project Leaders, which agreement shall not be unreasonably withheld. If, however, the Project Leaders do not agree, such Party may escalate the lack of agreement among the Project Leaders to the Management Committee for resolution. In addition, such Party may access information available during the Process Development Projects and document such information for the purpose of transferring such information to its own manufacturing facilities. All such documentation shall be made available to all three (3) Parties.

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BULK CMOS AND INDUSTRY STANDARD CMOS LIST

*** Confidential Treatment Requested

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HIGH SENSITIVITY PRE-T0 INFORMATION

*** Confidential Treatment Requested

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**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Hector de J. Ruiz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Advanced Micro Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 2, 2005

/s/ Hector de J. Ruiz

Hector de J. Ruiz
Chairman of the Board, President, Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert J. Rivet, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Advanced Micro Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 2, 2005

/s/ Robert J. Rivet

Robert J. Rivet
Executive Vice President, Chief Financial Officer

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Advanced Micro Devices, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 25, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2005

/s/ Hector de J. Ruiz

Hector de J. Ruiz
Chairman of the Board,
President, Chief Executive Officer

Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Advanced Micro Devices, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 25, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2005

/s/ Robert J. Rivet

Robert J. Rivet
Executive Vice President,
Chief Financial Officer