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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 31, 2006

OR

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

Commission File Number 001-07882

ADVANCED MICRO DEVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-1692300**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One AMD Place, Sunnyvale, California	**94088**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	**(Name of each exchange on which registered)**
Common Stock per share $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $10.6 billion based on the reported closing sale price of $24.42 per share as reported on the New York Stock Exchange on June 30, 2006, which was the last business day of the registrant's most recently completed second fiscal quarter.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 554,929,028 shares of common stock, $0.01 par value per share, as of February 16, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 2007, are incorporated into Part II and III hereof.

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Advanced Micro Devices, Inc.

FORM 10-K
For The Fiscal Year Ended December 31, 2006

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PART I

ITEM 1. BUSINESS

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report include forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "pro forma," "estimates," or "anticipates" or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. The forward-looking statements relate to, among other things: the features of new products and technologies and the timing of new product releases; the growth and competitive landscape of the markets in which we participate; our supply chain; our revenues; our level of international sales; our capital expenditures; our operating expenses; our stock-based compensation expenses; acquisition related integration charges in connection with the acquisition of ATI Technologies Inc. (ATI); our aggregate contractual obligations; our capacity expansion plans for Fab 36; the conversion of Fab 30 from a 200-millimeter manufacturing facility to a 300-millimeter facility; the addition of a potential new fabrication facility in Luther Forest, New York; availability of external financing; the adequacy of resources to fund operations and capital expenditures; the timing of manufacturing process technology transitions; the impact of our acquisition of ATI on us; our exposure to interest rate risk; our interest income; and our interest expense. The material factors and assumptions that were applied in making these forward-looking statements include, without limitation, the following: (1) the expected rate of market growth and demand for our products and technologies (and the mix thereof); (2) our expected market share; (3) our expected product and manufacturing costs and average selling prices; (4) our overall competitive position and the competitiveness of our current and future products; (5) our ability to expand our capacity and effect transitions to more advanced manufacturing process technologies, consistent with our current plans in terms of timing and capital expenditures; (6) our ability to raise sufficient capital on favorable terms; and (7) our ability to make additional investment in research and development and that such opportunities will be available. The material factors that could cause actual results to differ materially from current expectations include, without limitation, the following: (1) that Intel Corporation's pricing, marketing and rebating programs, product bundling, standard setting, new product introductions or other activities may negatively impact sales; (2) any inability to realize all of the anticipated benefits of our recent acquisition of ATI because, among other things, the revenues, cost savings, growth prospects and any other synergies expected from the transaction may not be fully realized or may take longer to realize than expected; (3) additional capital requirements and any inability to raise sufficient capital, on favorable terms or at all, particularly in light of the requirement that we repay our credit facility with Morgan Stanley Senior Funding Inc. using, among other things, 100 percent of the net cash proceeds from any debt incurred by us or a restricted subsidiary, 50 percent of net cash proceeds from the issuance of any capital stock by us and 50 percent of any excess cash flow; (4) unexpected variations in market growth and demand for our products and technologies in light of the product mix that we may have available at any particular time or even a decline in demand; (5) uncertainty with respect to the impact of the recent release of Microsoft ® Windows Vista ™ on the demand for our products in 2007; (6) any inability to transition to advanced manufacturing process technologies in a timely and effective way, consistent with planned capital expenditures; (7) any inability to develop, launch and ramp new products and technologies in the volumes and mix required by the market at mature yields and on a timely basis; (8) any inability to maintain the level of investment in research and development and capacity that is required to remain competitive; (9) any inability to obtain sufficient manufacturing capacity (either in our own facilities or at foundries) or components to meet demand for our products or that we may under-utilize our microprocessor manufacturing facilities; and (10) the effect of political or economic instability internationally on our sales or production.

For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see "Part I, Item 1A—Risk Factors" and the "Financial Condition" section set forth in "Part II,

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," or MD&A, beginning on page below and such other risks and uncertainties as set forth below in this report or detailed in our other Securities and Exchange Commission (SEC) reports and filings. We assume no obligation to update forward-looking statements.

General

We are a global semiconductor company with facilities around the world. We provide processing solutions for the computing, graphics and consumer electronics markets.

On October 25, 2006, we completed our acquisition of ATI pursuant to an Acquisition Agreement, dated as of July 23, 2006, by and among AMD, 1252986 Alberta ULC, and ATI, whereby ATI became our indirect, wholly-owned subsidiary. As a result of the acquisition, we began to supply 3D graphics, video and multimedia products and chipsets for personal computers, or PCs, including desktop and notebook PCs, professional workstations and servers and products for consumer electronic devices such as mobile phones, digital TVs and game consoles.

Additional Information

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

AMD, the AMD Arrow logo, AMD Athlon, AMD Opteron, AMD Sempron, AMD Turion, AMD LIVE!, Geode, and combinations thereof, ATI and the ATI logo and ATI Avivo, TV Wonder, Fire, Imageon, Radeon, Xilleon, Crossfire and AMD PowerNow! are trademarks of Advanced Micro Devices, Inc. Spansion and MirrorBit are trademarks of Spansion Inc. Microsoft, Windows and Windows Vista are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other jurisdictions. MIPS is a registered trademark of MIPS Technologies, Inc. in the United States and/or other jurisdictions. HyperTransport is a licensed trademark of the HyperTransport Technology Consortium. NetWare is a registered trademark of Novell, Inc. in the United States and/or other jurisdictions. Other names are for informational purposes only and used to identify companies and products and may be trademarks of their respective owners

Website Access to Company Reports and Corporate Governance Documents

We post on the Investor Relations pages of our Web site, www.amd.com, a link to our filings with the SEC, our Principles of Corporate Governance, our Code of Ethics for our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other senior finance executives, our "Worldwide Standards of Business Conduct," which applies to our directors and all our employees, and the charters of our Audit, Compensation, Finance and Nominating and Corporate Governance committees of our board of directors. Our filings with the SEC are posted as soon as reasonably practical after they are electronically filed with, or furnished to, the SEC. You can also obtain copies of these documents by writing to us at: Corporate Secretary, AMD, One AMD Place, M/S 68, Sunnyvale, California 94088, or emailing us at: Corporate.Secretary@amd.com. All these documents and filings are available free of charge. Please note that information contained on our Web site is not incorporated by reference in, or considered to be a part of, this report. For financial information about geographic areas and for segment information with respect to revenues and operating results, refer to the information set forth in Note 11 of our consolidated financial statements, beginning on page 127 below.

Our Industry

Semiconductors are components used in a variety of electronic products and systems. An integrated circuit, or IC, is a semiconductor device that consists of many interconnected transistors on a single chip. Since the

invention of the transistor in 1948, improvements in IC process and design technologies have led to the development of smaller, more complex and more reliable ICs at a lower cost per function. In order to satisfy the demand for faster, smaller and lower-cost ICs, semiconductor manufacturers have continually developed improvements in manufacturing and process technology. ICs are increasingly being manufactured using smaller geometries on larger silicon wafers. Use of smaller process geometries can result in products that are higher performing, use less power and cost less to manufacture on a per unit basis. Use of larger wafers can contribute further to a decrease in manufacturing costs per unit and to an increase in capacity by yielding more chips per wafer.

The availability of low-cost semiconductors, together with increased customer demand for sophisticated electronic systems, has led to the proliferation of semiconductors. Today, virtually all electronic products use semiconductors, including PCs and related peripherals, wired and wireless voice and data communications and networking products including mobile telephones, facsimile and photocopy machines, home entertainment equipment, industrial control equipment and automobiles.

During most of 2006, within the global semiconductor industry, we offered primarily:

- x86 microprocessors for the commercial and consumer markets, which are used for control and computing tasks; and
- embedded microprocessors for commercial, commercial client and consumer markets.

As a result of our acquisition of ATI in October 2006, we began to supply 3D graphics, video and multimedia products and chipsets for desktop and notebook PCs, professional workstations, and servers as well as products for consumer electronic devices such as mobile phones, digital TVs and game consoles. Therefore, since this acquisition, we have actively participated in the semiconductor graphics and chipset markets as well as in the semiconductor market for consumer electronics devices.

Computation Products

The x86 Microprocessor Market

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

Developments in circuit design and manufacturing process technologies have resulted in significant advances in microprocessor performance. For approximately the last ten years, microprocessors have had 32-bit computing capabilities. The bit rating of a microprocessor generally denotes the largest size of numerical data that a microprocessor can handle. While 32-bit processors have historically been sufficient, we believe that they will face increasing challenges as new data and memory-intensive consumer and enterprise software applications gain popularity. Microprocessors with 64-bit processing capabilities enable systems to have greater performance by allowing software applications and operating systems to access more memory.

Moreover, as businesses and consumers require greater performance from their computer systems due to the exponential growth of digital data and increasingly sophisticated software applications, semiconductor manufacturers have transitioned from manufacturing single-core microprocessors to also manufacturing multi-core processors, where multiple processor cores are placed on a single die or in a single processor. Multi-core

processors offer enhanced overall system performance and efficiency because computing tasks can be spread across two or more processing cores each of which can execute a task at full speed. Moreover, two or more processor cores packaged together can increase performance of a computer system without greatly increasing the total amount of power consumed and the total amount of heat emitted. This type of “symmetrical multiprocessing” is effective in both multi-tasking environments where multiple cores can enable operating systems to prioritize and manage tasks from multiple software applications simultaneously and also for “multi threaded” software applications where multiple cores can process different parts of the software program, or “threads,” simultaneously thereby enhancing performance of the application. Businesses and consumers also require computer systems with improved power management technology, which allows them to reduce the power consumption of their computer systems thereby reducing the total cost of ownership. With the recent release of Microsoft® Windows Vista™ and with the proliferation of applications for multimedia and gaming, grid computing and extensive enterprise databases, we believe the demand for 64-bit computing, multi-core technology and improved power management technology will continue to increase.

Microprocessor Products

We currently offer single-core and dual-core microprocessor products for servers, workstations, notebooks and desktop PCs. Our microprocessors currently are designed with both 32-bit and 64-bit processing capabilities. We based our microprocessors on the x86 instruction set architecture and most of these processors are also based on the AMD64 technology platform with direct connect architecture. Direct connect architecture connects an on-chip memory controller and input/output, or I/O, channels directly to one or more microprocessor cores. For dual-core processors, we integrate two processor cores onto a single die and each core has its own dedicated cache, which is memory that is located on the semiconductor die. We believe this architecture, and, in particular, the integrated memory controller, enables substantially higher performance because memory can be accessed more directly rather than traversing a traditional front-side bus, which results in increased bandwidth and reduced memory latencies. Our processors support HyperTransport™ technology, which is a high-bandwidth communications interface we initially developed that enables substantially higher performance and supports our I/O virtualization technology. In designing our processors, we also focus on continuously improving power management technology, or “performance-per-watt.” To that end, we offer processors that feature AMD PowerNow!™ technology, which we designed to reduce system level energy consumption, with multiple levels of lower clock speed and voltage states that can significantly reduce processor power consumption during idle times. We design our microprocessors to be compatible with operating system software such as the Microsoft® Windows® family of operating systems, Linux®, NetWare®, Solaris and UNIX. We also designed the AMD64 architecture to enhance the security of a user’s computing environment by integrating security features that are designed to prevent the spread of certain viruses when enabled by the anti-virus features of current versions of certain operating systems, including Linux, the Microsoft® Windows® family of operating systems and Solaris operating systems.

Servers and Workstations. Our microprocessors for servers and workstations consist primarily of our single-core and dual-core AMD Opteron™ processors. A server is a powerful computer on a network, often with multiple microprocessors working together, that is dedicated to a particular purpose, stores large amounts of information and performs the critical functions for that purpose. A workstation is essentially a heavy-duty desktop, designed for tasks such as computer-aided design and digital content creation. We based our AMD Opteron processors for servers and workstations on the AMD64 technology platform, which extends the industry-standard x86 instruction set architecture to 64-bit computing, and designed them to allow simultaneous 32-bit and 64-bit computing. These processors can be used in a variety of server applications, including business processing (enterprise resource planning, customer relationship management, and supply chain management) and business intelligence. They can also be used in workstation applications such as engineering and digital content creation software and other information technology infrastructure applications such as intensive Web serving and messaging.

Our dual-core AMD Opteron processors offer improved overall performance on many applications compared to single-core AMD processors by executing more operations simultaneously during each clock cycle, and improved performance-per-watt, which can reduce the operational costs related to power usage. At the same time, servers based on dual-core AMD Opteron processors are easier to manage because more processing capacity can be concentrated into fewer servers. For the same reason, servers based on dual-core processors are less costly to operate.

Dual-core AMD Opteron processors also allow our enterprise customers to more easily implement virtualization across their business. Virtualization is the use of software to allow workloads to be shared at the processor level by providing the illusion of multiple processors. Virtualization enables running different operating systems and applications on the same server, thereby consolidating workloads and reducing hardware requirements.

In August 2006 we introduced a new generation of AMD Opteron dual-core processors. These processors provide several new features including improved virtualization support and energy efficient DDR2 memory. In addition, these processors can be replaced by AMD quad-core processors in the same socket and thermal envelope. Our quad-core x86 processors for servers, which we expect to begin shipping in mid-2007, will incorporate four processor cores on a single die of silicon. DDR2, or double data rate two, is a type of random access memory technology used for high speed storage of the working data of a computer.

Notebook PCs. Our microprocessors for notebook PCs consist primarily of AMD Turion™ 64 processors and mobile AMD Sempron™ processors. We designed our mobile processor products for high-performance, longer battery life and wireless connectivity.

AMD Turion 64 processors represent our most advanced family of Windows-compatible processors for thinner and lighter notebook PCs, and provide performance improvements such as longer battery life, reduced heat generation, enhanced security and compatibility with current wireless and graphics solutions.

In May 2006 we introduced AMD Turion 64 X2 dual-core mobile technology, which is our most advanced dual-core processor family for notebook PCs. We designed this technology to enable leading-edge graphics for the more visual experience provided by the Microsoft® Windows Vista™ operating system, longer battery life, enhanced security and compatibility with the latest wireless technologies. In addition, we have designed the process used to manufacture AMD Turion 64 mobile technology for more thermally efficient processor operation and reduced power consumption.

Desktop PCs. Our microprocessors for desktop PCs consist primarily of the following tiered product brands: AMD Athlon™ 64 FX, AMD Athlon 64 and AMD Sempron processors. We designed the AMD Athlon 64 FX processor specifically for gamers, PC enthusiasts and digital content creators who require processors that can perform graphic-intensive tasks. We designed our AMD Athlon 64 processors for enterprises and sophisticated PC users that seek to access large amounts of data and memory. For value-conscious consumers of desktop and notebook PCs, we offer the AMD Sempron microprocessor, which we designed to provide core computing needs at affordable prices. We also offer AMD Athlon 64 X2 dual-core processors and AMD Athlon 64 FX X2 dual-core processors, which like the dual-core AMD Opteron processors, contain two processor cores on one semiconductor die. The performance advantages of AMD Athlon 64 X2 dual-core processors enable operating systems to prioritize and manage tasks from multiple software applications simultaneously. For example, users are able to simultaneously download audio files such as MP3s, record to digital media devices, check and write email, edit a digital photo and run virus protection without compromising the performance of their PC. AMD Athlon 64 X2 dual-core processors also have an integrated DDR2 memory controller, which is designed to increase performance on memory-intensive applications. We designed the AMD Athlon 64 X2 dual-core processors for “prosumer” and digital media enthusiasts or other users who routinely run multiple processor-intensive software applications simultaneously.

In December 2006, we introduced a new generation of AMD Athlon 64 X2 dual-core processors which are manufactured using 65-nanometer technology. We designed these processors to deliver improved

performance-per-watt by maintaining the performance of the previous generation of AMD Athlon 64 X2 dual-core processors and reducing power consumption. To aid in reducing power consumption, these new processors incorporate a feature called “C1 Enhanced,” a power management feature that slows selected system functions when not in use to reduce overall power consumption.

On October 25, 2006, we completed our acquisition of ATI. We believe that the acquisition of ATI will allow us to deliver products that better fulfill the increasing demand for more integrated computing solutions. We plan to deliver a range of integrated platforms to serve key markets, including commercial clients, mobile computing, and gaming and media computing. We believe that these integrated platforms will bring customers improved system stability, better time-to-market and increased performance and energy efficiency. We also plan to develop and offer monolithic silicon solutions for specialized uses that are comprised of microprocessors, graphics processors and video processors. We refer to these design initiatives as “Fusion.” At the same time, we plan to continue to develop discrete microprocessor and graphics processor products and to maintain open interface and software standards in order to allow our customers to choose the combination of technologies that best serve their needs.

Embedded Products

The Embedded Processor Market

During 2006, we offered embedded microprocessors for high end commercial markets, commercial client markets and certain consumer markets. The high end commercial markets that we address include communication servers, networking equipment, storage servers, and imaging systems. The applications in these markets typically require high-performance, enterprise-class products that include embedded server-class products. Customers use commercial client products to address specialized needs within a variety of industries, including computer devices such as thin clients, single board computers, blade PCs, points of sale terminals, commercial value clients, and access devices such as gateways and access points. Devices for specific consumer markets are used in ultra mobile PC’s, ultra value clients and entertainment devices such as media players and set top boxes. The applications in these devices typically require highly integrated systems-on-chip, or SoCs, that include high-performance, low-power embedded processors and microcontrollers.

Embedded Processors

Our products range from low-power x86 architecture-based embedded processors to high-performance, enterprise class, harsh environment-capable x86 architecture-based products. We design embedded connectivity devices to address customer needs in non-PC markets where low power, Internet connectivity and/or low power processing is a priority. Typically these embedded processors are used in products that require high to moderate levels of performance where key features include low cost, mobility, low power and small form factor. We target some products that use our embedded processors for specific markets using SoC design techniques.

Our embedded microprocessor products include the AMD Geode™ product family. AMD Geode microprocessors are 32-bit processors based on the x86 instruction set architecture. These processors integrate functionality such as processing, system logic, graphics, audio and video decompression onto one integrated device. We also offer embedded processors based on AMD64 technology, which consists of low-power versions of our AMD Athlon, AMD Turion, AMD Sempron and AMD Opteron families of products. These low power products deliver the same performance as their corresponding full power parts while offering the added benefit of reduced power consumption and thermal output. These processors are configured specifically for demanding embedded applications traditionally served by custom silicon designs. We believe these processors also offer our customers the ability to leverage the AMD64 infrastructure. In addition, a distinguishing characteristic of our AMD64-based embedded processors is our AMD64 Longevity Program. The AMD64 Longevity Program offers a select set of AMD64 processors with an extended standard availability period of five years. The extended availability period addresses the requirements of customers designing products for network, storage, blade and

telecommunications servers; digital imaging; and military and industrial controls systems. Such markets have lengthy design and qualification cycles and longer life spans in the marketplace than typical mainstream computing products.

Prior to July 2006, we also provided MIPS® architecture-based Alchemy embedded processors. In July 2006 we sold the Alchemy family of products to Raza Microelectronics, Inc.

Our embedded processor products, from AMD Opteron to AMD Geode, exemplify our "x86 Everywhere" microprocessor strategy, which is our goal for utilizing the x86 instruction set architecture to power a wide variety of devices in diverse places such as the home, office or car, in the supply chain, in storage networks, in the data center, and/or in global communications networks. We believe that when a greater number of devices are standardized with an x86-based platform, end-users can benefit from the ability to run their existing x86-based software on devices that interoperate with each other. This can accelerate and simplify the process of enabling faster, easier connectivity and data sharing between a wide range of products, from portable consumer electronics to PCs and servers. With our full range of embedded microprocessors, we are able to extend our x86-based product offerings to serve markets from embedded appliances to embedded server-class products.

Graphics and Chipset Products

Graphics and Chipset Market

The semiconductor graphics market addresses the need for visual processing in various computing and entertainment platforms such as desktop and notebook PCs, workstations and game consoles. The strength of the semiconductor graphics market is heavily dependent upon the market for PCs. Visual realism and graphical display capabilities are key elements of product differentiation among various product platforms. PC users value a rich visual experience, particularly in the high-end enthusiast market where consumers seek out the fastest and highest performing visual processing products to deliver the most compelling and immersive gaming experiences. Moreover, for some consumers, the PC market is evolving from a traditional data and communications processing machine to an entertainment platform. This has led to the increasing creation and use of processing intensive multimedia content for PCs and PC manufacturers creating more PCs designed for playing games, displaying photos and capturing TV and other multimedia content. In turn, the trend has contributed to the development of higher performance graphics solutions. For example, we believe that the enhanced 3D graphics capabilities enabled by Microsoft® Windows Vista™ and the increasing availability of "media center" PCs will spur development of advanced graphics applications intended for mainstream users, which will contribute to increased demand for graphics and chipset products.

The primary product of a semiconductor graphics supplier is the graphics processing unit, or GPU, a semiconductor chip that increases the speed and complexity of images that can be displayed on a graphical interface and improves image resolution and color definition. The GPU off-loads the burden of graphics processing from the CPU. In this way, a dedicated graphics processor and CPU work in tandem to increase overall speed and performance of the system. A graphics solution can be in the form of either a stand-alone graphics chip or an integrated chipset solution. Recently, to further improve graphics processing performance, semiconductor graphics suppliers have introduced multi-GPU technologies which increase graphics processing speed by dividing graphics rendering and display among two or more graphics processors.

Graphics and Chipset Products

We provide our graphics solution for both desktop and notebook PCs by adding either one or more discrete graphics processors, which are stand-alone graphics chips, or by integrating the graphics hardware into the motherboard chipset. Discrete graphics chips tend to provide higher levels of performance and speed, while integrated chipsets generally offer a lower cost solution, improved power consumption and smaller form factors. The demand for integrated graphics solutions has grown in recent years as the performance of integrated chipsets has advanced. Also, customers of graphics products such as original equipment manufacturers, or OEMs, and PC system integrators, or SIs, who are continually pressured to meet lower price and power consumption targets

while still maintaining reasonable profit margins, are increasingly using integrated chipsets over discrete graphics chips in their products because of the lower cost of integrated graphics solutions.

Our customers generally use our graphics and chipset products to increase the speed of rendering images and to improve image resolution and color attributes. Our products include 3D graphics, video and multimedia products and chipsets developed for use in desktop and notebook PCs, including home media PCs, professional workstations and servers. With each of our graphics products, we provide drivers and supporting software packages that enable the effective use of these products under a variety of operating systems and applications. Our latest generation of graphics, chipset and related software offer full support for the Microsoft® Windows Vista™ operating system. In addition to the Microsoft® Windows® family of operating systems, our graphics products support Apple's Mac OS X as well as Linux®-based applications.

Discrete Desktop Products. Our discrete GPUs for desktop PCs include our ATI Radeon™ X1000 family of products which we introduced in October 2005. From our current enthusiast level product, the ATI Radeon X1950 to the value-based ATI Radeon X1300, this product family includes offerings that incorporate features and price-performance characteristics for the enthusiast, performance, mainstream and value categories of the desktop PC market. These products support our CrossFire™ dual-GPU technology, first introduced in May 2005. Crossfire technology increases graphics processing power and speed by combining two GPUs in the same PC platform. The ATI Radeon X1000 family of products incorporates our proprietary ATI Avivo™ platform technology. ATI Avivo™ technology is a video and display platform that enables high-definition (HD) video playback and display.

Although an increasing percentage of desktop PCs rely on integrated chipsets for graphics, we believe that discrete graphic solutions will continue to offer higher performance and be the preferred solution for several types of desktop PC configurations, such as platforms designed for gaming enthusiasts, CAD professionals and animation as well as for applications such as multimedia, photo and video editing, and other graphic-intensive applications.

Discrete Notebook Products. Our discrete GPUs for the notebook PC market include our ATI Mobility Radeon X1000 series of products which we introduced in December 2005. When selecting a graphics solution, the key considerations for notebook PC manufacturers are visual performance, power consumption, form factor and cost. We designed our products to provide the mix of performance, features and flexibility desired by the major categories of the notebook PC market, including the thin and light, performance, desktop replacement and value categories.

Our high-end ATI Mobility Radeon X1900 products deliver 3D graphics performance and video playback quality and vibrant image quality for performance notebook PCs. An ultra-threaded 3D architecture with advanced power management provides high-definition video and display enhancements. At the value end, we offer the ATI Mobility Radeon X1300 with features such as enhanced 3D gaming, high-quality video playback and longer battery life for price-conscious consumers.

Chipset Products. Our integrated chipset solutions, also known as core logic on the motherboard, include our Radeon™ Xpress and Crossfire™ families. We target our Radeon Xpress series chipsets to motherboard manufacturers and offer a high degree of performance, stability and connectivity for mainstream and commercial desktop and notebook PCs. Radeon Xpress chipsets contain integrated graphics while our Crossfire™ chipsets are discrete chipsets without integrated graphics and are intended to be used in systems targeting the higher end markets, such as gaming, that use multiple add-in graphics boards. Our chipset solutions include products that are compatible with Intel platforms. We expect to continue to ship existing chipsets for Intel CPUs throughout 2007 and beyond to the extent there is demand for these products. However, we expect that sales of these products will continue to decline and will eventually cease.

Home Media PC Products. Our home media PC products incorporate a wide variety of features for consumers that intend to use their PCs for multimedia applications. For example, our family of TV Wonder™

products allows consumers to watch and record TV on their PC, listen to FM radio stations and watch DVD movies. Our latest generation of these products also incorporates our ATI Avivo technology which enables PCs to record and playback in HD.

Workstation and Server Products. Our products for the professional workstation market consist of our FireGL™ and FireMV™ product families. We designed our FireGL products for demanding 3D applications such as computer-aided design, while we designed our FireMV multi-view 2D workstation cards for financial and corporate environments. We also provide products for the server market, where we leverage our graphics expertise and align our offerings to provide stability, video quality and bus architectures that our server customers desire.

Consumer Electronics Products

Consumer Electronics Market

The semiconductor market for video, graphics and media processors in consumer electronics products addresses the need for enhancing the visual experience provided by devices such as mobile phones, digital TVs and game consoles. Consumers value entertainment and communications products that can deliver an engaging multimedia experience. Accordingly, semiconductor suppliers of video, graphics and media processors strive to deliver products that improve visual realism and allow manufacturers of mobile phones, digital TVs and game consoles the opportunity to differentiate their products.

Handheld Market. In recent years, mobile phones have transitioned towards color displays with higher resolutions that deliver a variety of multimedia features. Manufacturers are offering functionality such as built-in digital cameras and camcorders, MP3 audio playback, video playback, mobile-TV reception and 3D gaming in an increasing percentage of mobile phones, thereby increasing the opportunity to supply media processors to mobile phone manufacturers.

Digital TV Market. The market for digital TVs is growing, driven in part by the transition of terrestrial broadcast television transmissions from analog to digital in many different regions throughout the world. For example, on February 18, 2009, full power television stations in the United States will stop analog broadcasting and transition to digital broadcasting. This conversion is supported by a U.S. Federal Communications Commission mandate that requires electronics manufacturers to include digital tuners in all new television sets by March 2007.

There is also a worldwide shift in the television industry from analog cathode ray tube, or CRT, displays to digital flat panel displays such as LCD and plasma. These flat panel displays are able to support larger screen sizes and higher resolutions. Producing the highest quality images on these advanced televisions is fundamental to television manufacturers. Semiconductor graphics solutions play an integral role in improving video image quality to enhance the user viewing experience.

Game Consoles. Semiconductor graphics suppliers have leveraged their core visual and graphics processing technologies developed for the PC market by providing solutions to game console manufacturers. In this market, semiconductor graphics suppliers work alongside game console manufacturers to enhance the visual experience for users of sophisticated video games.

Consumer Electronics Products

We continue to leverage our core technology, visual processing expertise and power management know-how to meet the needs of certain consumer electronics markets. We have initially targeted three categories of the consumer electronics market: (i) handheld devices, including mobile phones; (ii) digital TVs; and (iii) game consoles.

Our products for consumer electronics devices include media processors used in handheld devices such as mobile phones and video processors used in digital TVs. We also receive royalties from game console manufacturers in connection with sales of systems that incorporate our graphics intellectual property and designs. With each of these products we provide drivers and supporting software that enable the effective use of these products by our customers.

Handheld Devices. The latest generation of handheld devices, particularly mobile phones, are driving demand for more advanced multimedia processors. Higher resolution displays, higher performing embedded processors, increased internal and removable storage, mobile email and PDA-like features as well as multimedia functionality such as built-in digital cameras, MP3 audio playback, video playback, mobile TV and 3D gaming are all contributing to rapid changes in handheld and mobile communication devices.

Our AMD Imageon™ product line provides visual processing, high quality audio and power saving technologies. We offer products for each category of the mobile phone media processor market: entry level, feature phones, performance phones and fully loaded multimedia and gaming phones. The AMD Imageon video engine enables a mobile digital camcorder/player and supports advanced features such as video-telephony and video-streaming. We also provide AMD Imageon products that include a programmable audio engine that enables features such as positional 3D sound, CD-quality ring-tones and music phones with high-quality stereo recording and playback.

Digital TVs. As television broadcasters in North America and other parts of the world transition their analog television signals to digital transmissions, we believe increased consumer interest in digital TV will spur demand for more advanced systems. Digital transmission standards provide significant advantages compared to analog standards, including greater picture clarity and resolution as well as opportunities for more channels, e-commerce and enhanced TV viewing.

We offer two groups of products that target two major silicon blocks inside an integrated digital TV: the digital video receiver and the decoder. An integrated digital TV is one where a digital receiver and digital video decoder are integrated inside the TV rather than externally, such as via a set top box. Our AMD Xilleon™ and Theater™ product lines are used in integrated digital TVs to demodulate and decode digital broadcast signals. AMD Xilleon products also provide video, graphics and audio processing. The drivers and supporting software that we provide with our digital TV products allow deployment in multiple worldwide markets with either customer designed applications or AMD supplied Customer Application Ready Design (CARD) software applications.

In September 2006, we announced the AMD Xilleon® 260, an SoC product that supports full high-definition for worldwide digital TV standards including Europe, Japan, Korea and North America. The AMD Xilleon 260 includes a powerful video pipeline for both standard-definition and HD content. Advanced features which enhance image quality include HD de-interlacing, a 3D comb filter, dynamic contrast, noise reduction, sharpness, and color control.

Game Consoles. We also leverage our core visual processing technology into the game console market. Our customized GPUs process the graphics in the Microsoft® Xbox 360™, Nintendo Wii and Nintendo GameCube videogame consoles.

Marketing and Sales

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

We generally warrant that microprocessor products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Subject to certain exceptions, we offer a three-year limited warranty to end users for microprocessor products that are commonly referred to as "processors in a box," a one-year limited warranty to direct purchasers for all other microprocessor products that are commonly referred to as "tray" microprocessor products, and a one-year limited warranty to direct purchasers of embedded processor products. We have offered extended limited warranties to certain customers of "tray" microprocessor products who have written agreements with us and target their computer systems at the commercial and/or embedded markets.

We generally warrant that graphics, chipsets, and certain products for consumer electronics devices will be free from defects in material and workmanship under normal use and service for a period of one year, beginning on the date first sold to an end user but not later than 90 days after shipment of such products to our customers. We generally warrant that ATI-branded PC workstation products will be free from defects in material and workmanship under normal use and service for a period of three years, beginning on the date first sold to an end user but not later than 90 days after shipment of such products to our customers. Generally, our microprocessor and embedded processor customers may cancel orders 30 days prior to shipment without incurring a penalty. Under our standard terms and conditions, graphics and chipset customers may cancel orders by providing 30 days prior written notice to us without incurring a penalty, while certain customers of products for consumer electronic devices may cancel orders by providing 90 days prior advance notice to us without incurring a penalty.

We market and sell our microprocessor and embedded processor products under the AMD trademark. Our product brands for microprocessors consist primarily of AMD Athlon 64, AMD Athlon 64 FX and AMD Sempron processor brands for desktop PCs, the AMD Opteron processor brand for servers and workstations, the AMD Turion 64 mobile technology and AMD Sempron processor brands for notebook PCs. We also have the AMD LIVE!™ brand through which we promote our entertainment platform solutions for desktop and notebook PCs as well as film, broadcast and music professional artists that use AMD64 technology. Our product brands for our embedded processors consist of AMD Geode processors. We also sell low-power versions of our AMD Athlon, AMD Turion, AMD Sempron and AMD Opteron processors as embedded processor solutions.

With respect to our graphics and chipset products, we intend to continue to market and sell GPUs and graphics chipsets for the Intel platform under the ATI trademark. We market and sell other chipset products and our products for consumer electronics devices under the AMD trademark.

We market our products through our direct marketing and co-marketing programs. Our direct marketing activities include print and Web-based advertising as well as consumer and trade events and other industry and consumer communications. We also sponsor teams such as the Discovery Channel Pro Cycling Team and the Scuderia Ferrari. We work with these groups to determine their technology needs and how our AMD64 technology can help support those needs. The goal of these sponsorships is to increase awareness of our brand and AMD64 technology.

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

Customers

Our microprocessor customers consist primarily of OEMs, original design manufacturers, or ODMs, and third-party distributors in both domestic and international markets. ODMs provide design and/or manufacturing services to branded and unbranded private label resellers.

Customers of our graphics and chipset products consist primarily of: PC OEMs, often through ODMs or other contract manufacturers who build GPUs into their PC motherboard and graphics board products, add-in-board, or AIB, manufacturers who incorporate GPUs into their graphics board products, SIs, who build GPUs into their PC products, third party distributors, retail stores and e-commerce retailers.

Customers of our products for consumer electronic devices consist primarily of OEMs and ODMs.

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

Original Equipment Manufacturers

We focus on three types of OEMs: multi-nationals, selected regional accounts and target market customers. Large multi-nationals and regional accounts are our core OEM customers. Our OEM customers include numerous foreign and domestic manufacturers of servers and workstations, desktop and notebook PCs, PC motherboards and consumer electronics products such as mobile phones and digital TVs. Under our standard terms and conditions, OEMs do not have a right to return our products other than pursuant to the standard limited warranty. However, from time to time we may agree to repurchase a portion of some categories of products pursuant to negotiated terms.

In 2006, Hewlett-Packard Company accounted for greater than 10 percent of our consolidated net revenues. Sales to Hewlett-Packard consisted primarily of products from our Computation Products segment. In addition, one handset manufacturer accounted for more than half of the revenue attributable to our Consumer Electronics segment and one game console provider accounted for a significant portion of revenue attributable to our Consumer Electronics segment. Moreover, two customers accounted for approximately one third of the revenue attributable to our Graphics and Chipsets segment. A loss of any of these customers could have a material adverse effect on our business.

Third-Party Distributors

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

In 2006, Avnet, Inc. and its subsidiaries and affiliated companies accounted for approximately 10 percent of our consolidated net revenue. Avnet is a distributor of our products and sales to Avnet consisted primarily of products, from our Computation Products segment.

AIB Manufacturers and System Integrators

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

Competition

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

Competition in the Microprocessor Market

Intel Corporation has dominated the market for microprocessors for many years. Intel's market power and significant financial resources enable it to market its products aggressively, to target our customers and our channel partners with special incentives and to discipline customers who do business with us. These aggressive activities have in the past and are likely in the future to result in lower unit sales and average selling prices for our products, and adversely affect our margins and profitability. As long as Intel remains in this dominant position, we may be materially adversely affected by Intel's:

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

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

We expect Intel to maintain its dominant position in the microprocessor market and to continue to invest heavily in marketing, 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. We expect intense competition from Intel to continue.

Competition in the Embedded Processor Market

With respect to our embedded processors for personal connectivity devices, our principal competitors are Freescale Semiconductor Inc., Hitachi, Ltd., Intel Corporation, NEC Corporation, Toshiba Corporation and Via Technologies, Inc. We expect competition in the market for these devices to increase as our principal competitors focus more resources on developing low-power embedded processor solutions.

Competition in the Graphics and Chipset Market

In the graphics and chipset market, our competitors include discrete graphics suppliers and suppliers of integrated graphics chipsets. A recent trend in the graphics processing market is that PC manufacturers are increasingly choosing to use integrated chipsets, particularly for notebook computers, over discrete GPUs because integrated chipsets cost significantly less than discrete GPUs while offering acceptable graphics performance for most mainstream PC users. Intel manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor in this market. It is possible that Intel could leverage its dominance in the microprocessor market to sell its integrated chipsets, which could shrink the total available market for certain of our discrete GPUs, that Intel could re-enter the discrete GPU market, or that Intel will take other actions that place our discrete GPUs and integrated chipsets at a competitive disadvantage such as designing a proprietary graphics interface.

Other than Intel, our principal competitor is Nvidia Corporation, and to a lesser extent, Matrox Electronic Systems Ltd., Silicon Integrated Systems Corp. and Via Technologies, Inc. Other competitors include a number of smaller companies which may have greater flexibility to address specific market needs. However, we believe that the growing complexity of visual processors and the associated research and development costs represent an increasingly high barrier to entry in this market.

Competition in the Consumer Electronics Market

In the semiconductor market for consumer electronics products we have different competitors in each of our product categories. With respect to our products for handheld devices, we have three primary categories of competitors: vendors of baseband processors, vendors of applications processors and vendors of media co-processors. The baseband processor provides the basic voice and communication processing functionality in mobile phones. For certain value categories of the market, baseband processor vendors are integrating the multimedia processing required for feature-rich mobile phones. Baseband processor vendors incorporating this basic level of graphics processing include Analog Devices, Inc., Agere Systems Inc., Broadcom Corporation, Freescale Semiconductor Inc., Infineon Technologies AG, Koninklijke Phillips Electronics N.V., Qualcomm Incorporated and Texas Instruments Incorporated. Another category of competitor, application processor vendors, target manufacturer of high-end feature and smart phones whose products require large amounts of general purpose processing capability as well as multimedia processing. These vendors include Freescale Semiconductor Inc., Marvell Technology Group Ltd., Nvidia Corporation, Qualcomm Incorporated, Samsung Electronics Co., Ltd., STMicroelectronics N.V. and Texas Instruments Incorporated. The third category of competitor provides dedicated processors to drive a high level of multimedia functionality. This approach is most comparable to our strategy, and our competitors in this category include Core Logic Incorporated, Epson Corp., MTEK Vision Co. Ltd., Nvidia Corporation and Renesas Technology Corp.

With respect to our products for digital TVs, our primary competitors include Broadcom Corporation, Genesis Microchip Inc., MediaTek Inc., NEC Corporation, NXP Semiconductors, STMicroelectronics N.V., Trident Microsystems Inc. and Zoran Corporation, as well as in-house semiconductor development divisions at companies such as LG Electronics, Inc., Matsushita Electric Industrial Co., Ltd. (a brand of Panasonic Electronic Devices Co., Ltd.), Samsung Electronics Co. Ltd. and Toshiba Corporation.

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

Research and Development

We focus our research and development activities on product design and system and manufacturing process development. One main area of focus is on delivering the next generation of microprocessors with improved system performance and performance-per-watt characteristics. We have devoted significant resources to product

design and to developing and improving manufacturing process technologies and plan to do so in the future. We also work with other industry leaders, public foundations, universities and industry consortia to conduct early stage research and development.

With respect to graphics and chipsets and products for consumer electronics devices, our primary research and development objective is to develop products and technologies that meet the ever-changing demands of the PC and consumer electronics industries on a timely basis so as to meet market windows. We are also focusing on delivering a range of integrated platforms to serve key markets, including commercial clients, mobile computing, and gaming and media computing. We believe that these integrated platforms will bring customers improved system stability, better time-to-market and increased performance and energy efficiency. Longer-term, our research and development efforts are focused on developing monolithic silicon solutions for specialized uses that are comprised of microprocessors, graphics processors and video processors.

Our research and development expenses for 2006, 2005, and 2004 were $1,205 million, $1,144 million and $934 million. Research and development expenses for 2006 included ATI's research and development expenses from October 25, 2006 through December 31, 2006. For more information, see "Part II, Item 7, MD&A."

We conduct product and system research and development activities for our microprocessor products in the United States with additional design and development engineering teams located in Germany, Singapore, China, Japan, Penang, Taiwan and India. In August 2006 we announced the opening of a new research and development facility in Shanghai, China. Also, in September 2006 we announced the opening of a new advanced microprocessor development facility in Fort Collins, Colorado.

We conduct our microprocessor manufacturing process development activities primarily through our joint development agreement with IBM. Under this agreement, we jointly develop new process technologies, including 45-nanometer, 32-nanometer, 22-nanometer and certain other advanced technologies, to be implemented on silicon wafers. Our relationship also includes laboratory-based research of emerging technologies such as new transistor, interconnect, lithography and die-to-package connection technologies. We pay fees to IBM for joint development projects. The actual amounts we pay to IBM are dependent upon the number of partners, including us and IBM, engaged in related development projects under the agreement. In addition, we agreed to pay IBM specified royalties upon the occurrence of specified events, including in the event that we sublicense the jointly developed process technologies to specified third parties or if we bump wafers for a third party. For more information on the fees paid or payable to IBM, see "Part II, Item 7, Contractual Cash Obligations and Guarantees—Unconditional Purchase Commitments," and "Part I, Item 1A, Risk Factors—We cannot be certain that our substantial investments in research and development will lead to timely improvements in product designs or technology used to manufacture our products or that we will have sufficient resources to invest in the level of research and development that is required to remain competitive."

Under the agreement, our joint development relationship continues through December 31, 2011. However, the continuation of capital purchases by IBM necessary for process development projects under the 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 our agreement by September 30, 2007, either party has the right to terminate the agreement effective December 31, 2008 without liability. In addition, our agreement with IBM 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. Under our agreement, research and development takes place in IBM's Watson Research Center in Yorktown Heights, N.Y., the Center for Semiconductor Research at Albany NanoTech, and at IBM's 300-millimeter manufacturing facility in East Fishkill, N.Y.

We conduct research and development activities for our graphics and chipset products and products for consumer electronics devices at design centers located throughout the world, including in the United States,

Canada, India, Finland and China. Due to the rapid pace of technological change in the graphics industry, our strategy is to focus on developing the newest generation of products that meet market and customer requirements on a timely basis so as to meet each market window.

Manufacturing, Assembly and Test Facilities

We own and operate five manufacturing facilities, of which two are microprocessor wafer fabrication facilities and three are microprocessor assembly and test facilities. We developed an approach to manufacturing called Automated Precision Manufacturing, or APM. APM comprises a suite of automation, optimization and real-time data analysis technologies which automate the way decisions are made within our fabrication facilities. We use APM during process technology transitions, and believe APM enables greater efficiency, higher baseline yields, better binning and faster yield learning.

Our microprocessor manufacturing is conducted at the facilities described in the chart below. These facilities are the cornerstone of our flexible capacity growth plan, which focuses on bringing the right amount of capacity online at the right time through ongoing, incremental increases in total output.

Facility Location	Wafer Size (diameter in millimeters)	Principal Production Technology (in nanometers)	Approximate Clean Room Square Footage
Dresden, Germany			
Fab 30	200	90	150,000
Fab 36	300	90/65	140,000

During 2006, we manufactured our microprocessor products at Fab 30 and Fab 36 primarily on 90-nanometer process technology. In December 2006, we began manufacturing using 65-nanometer technology at Fab 36. Our goal is to have substantially all of the wafers out of Fab 36 being manufactured on 65-nanometer technology by mid-2007 and to begin manufacturing using 45-nanometer technology in mid-2008.

In May 2006, we announced plans to significantly expand our 300-millimeter manufacturing capacity in Dresden, Germany. The expansion includes the conversion of Fab 30 from manufacturing on 200-millimeter wafers to 300-millimeter wafers, capacity expansion in Fab 36, and the addition of a new facility to support bump and test activities. Bump and test is the final stage of the manufacturing process in which wafers are prepared for assembly and test.

We anticipate that after being converted to a 300-millimeters facility, Fab 30 will be able to handle approximately up to 20,000 300-millimeter wafer starts per month. We intend to begin to decrease 200-millimeter production at Fab 30 in mid 2007, and to bring up 300-millimeter production in early 2008. Use of 300-millimeter wafers can contribute to decreasing manufacturing costs per unit and helps increase capacity by yielding significantly more chips per wafer than 200-millimeter wafers. Use of smaller process geometries allows us to put more transistors on an equivalent size chip, which can result in products that are higher performing, use less power and/or cost less to manufacture.

Another facet of our flexible capacity growth strategy involves working with third-party foundries, and to this end, we have sourcing and manufacturing technology agreements with Chartered Semiconductor Manufacturing pursuant to which Chartered is an additional manufacturing source for our AMD64-based microprocessors. In June 2006, we began our first revenue shipments of microprocessors manufactured at Chartered. We also have foundry arrangements with third parties for the production of our embedded processors, graphics and chipset products and products for consumer electronics devices.

In anticipation of the potential need for increased manufacturing capacity over the longer term, on December 22, 2006, we entered into a Grant Disbursement Agreement with the New York State Urban

Development Corporation d/b/a Empire State Development Corporation, or ESDC, in connection with a potential new 300-millimeter wafer fabrication facility on the Luther Forest Technology Campus in Saratoga County, New York. Under the agreement, AMD would be able to construct a new facility designed to produce 300-millimeter wafers using 32-nanometer process technology between July 2007 and July 2009. However, we are not obligated to commence construction, and our decision regarding proceeding with the construction is dependent on business conditions and market demand. Should we choose to build the facility, the State of New York is required to issue bonds or otherwise fund the project and related research and development in the amount of $650 million. Actual disbursement of funds occurs as we submit appropriate documentation verifying that expenditures on the project have been incurred. If we move forward with the project, we must complete the construction of the facility in accordance with the final plans and specifications approved in writing by ESDC and must maintain business operations on the Luther Forest Technology Campus for a minimum of seven years after the date full employment at the facility is first achieved. Funds disbursed to us may be subject to repayment, in whole or part, if we do not attain and or maintain certain levels of employment for specified periods of time.

Our current microprocessor assembly and test facilities are described in the chart set forth below:

Facility Location	Approximate Manufacturing Area Square Footage	Activity
Penang, Malaysia	206,000	Assembly
Singapore	194,000	Test, Mark & Packaging
Suzhou, China	44,310	Test, Mark & Packaging

Some assembly and final testing of our microprocessor and embedded processor products is performed by subcontractors in the United States and Asia.

With respect to our graphics and chipset products and products for consumer electronics devices, we have strategic relationships with three semiconductor foundries, Taiwan Semiconductor Manufacturing Company, United Microelectronics Corp. and Chartered. Currently, we are in volume production in TSMC’s and UMC’s 300-millimeter fabrication facilities. As of December 31, 2006, our graphics and chipset products and products for consumer electronics devices were manufactured on 80-, 90-, 110-, 130-, 150 or 180-nanometer process technologies at third party foundries. Smaller process geometries can lead to gains in graphics processing performance, lower power consumption and lower per unit manufacturing costs. We intend to transition to 65-nanometer process technology for some of these products in 2007.

From the foundry, wafers for our graphics products are delivered to our test, assembly and packaging partners including Advanced Semiconductor Engineering Group, Amkor, King Yuan Electronics, Siliconware Precision Industries and STATS-Chippac, who package and test the final application-specific integrated circuit.

We outsource board-level graphics product manufacturing to third-party manufacturers. These include Celestica, Fairway and PC Partner with locations in China. Our facility in Markham, Ontario, Canada is primarily devoted to prototyping and trial runs for new graphics product introductions.

Raw Materials

Our manufacturing processes require many raw materials, such as silicon wafers, IC packages, mold compound, substrates and various chemicals and gases, and the necessary equipment for manufacturing. We obtain these materials and equipment from a large number of suppliers located throughout the world. Certain raw materials we use in manufacturing our microprocessor products or that are used in the manufacture of our graphics products are available only from a limited number of suppliers. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials.

Intellectual Property and Licensing

We rely on contracts and intellectual property rights to protect our products and technologies from unauthorized third-party copying and use. Intellectual property rights include copyrights, patents, patent applications, trademarks, trade secrets and maskwork rights. As of December 31, 2006, we had more than 6,000 patents in the United States and over 1,600 patent applications pending in the United States, including more than 600 patents in the United States and 400 patent applications in the United States that we acquired from ATI. In certain cases, we have filed corresponding applications in foreign jurisdictions. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. We do not believe that any individual patent, or the expiration thereof, is or would be material to our business.

In connection with the formation of Spansion LLC as of June 2003 and the closing of Spansion's initial public offering, or IPO, in December 2005, we and Fujitsu transferred to Spansion various intellectual property rights pursuant to an Intellectual Property Contribution and Ancillary Matters Agreement, or IPCAAMA. Under the IPCAAMA, Spansion became the owner or joint owner with each of us and Fujitsu, of specified patents, patent applications, trademarks and other intellectual property rights and technology. The patents that we transferred included patents and patent applications covering Flash memory products and technology, the processes necessary to manufacture Flash memory products, and the operation and control of Flash memory products. We reserved rights, on a royalty free basis, to practice the contributed patents and to license these patents to our affiliates and successors-in-interest. We also have the right to use the jointly-owned intellectual property for our internal purposes and to license such intellectual property to others to the extent consistent with our non-competition obligations to Spansion.

In addition, for as long as our ownership interest in Spansion remains above 12.5 percent, Spansion is required to identify its technology to us and to provide copies of, and training with respect to, that technology. Spansion also granted a non-exclusive, perpetual, irrevocable, fully paid and royalty-free license of its rights in this technology to us. We may grant licenses under Spansion's patents, provided that these licenses are of no broader scope than, and are subject to the same terms and conditions that apply to, any license of our patents granted in connection with such license, and the recipient of such license grants to Spansion a license of similar scope under its patents.

We also have a patent cross-license agreement with Fujitsu whereby each party was granted a non-exclusive license under certain of the other party's respective semiconductor-related patents. This patent cross-license agreement terminates on June 30, 2013, unless earlier terminated upon 30 days notice following a change of control of the other party. We also have a patent cross-license agreement with Spansion. The patents and patent applications that are licensed are those with an effective filing date prior to the termination of the patent cross-license agreement. The agreement will automatically terminate on the later of June 30, 2013 and the date we sell our entire equity interest in Spansion. The agreements may be terminated by a party on a change in control of the other party or its semiconductor group.

In addition, as is typical in the semiconductor industry, we have numerous cross-licensing and technology exchange agreements with other companies under which we both transfer and receive technology and intellectual property rights. One such agreement is the patent cross-license agreement with Intel which was effective as of January 1, 2001. Under this agreement we granted each other a non-exclusive license under each party's patents for the manufacture and sale of semiconductor products worldwide. We pay Intel a royalty for certain licensed microprocessor products sold by us or any AMD affiliate anywhere in the world. The license applies to each party's patents that have a first effective filing date during the capture period, which is the period from January 1, 2001 through January 1, 2010. Either party may terminate the agreement if the other party commits a material breach of the agreement and does not correct the breach within 60 days after receiving written notice thereof. In addition, either party may terminate the agreement upon 60 days written notice in the event of a filing by the other party of a petition in bankruptcy or insolvency, or any adjudication thereof, the filing of any petition seeking reorganization under any law relating to bankruptcy, the appointment of a receiver, the making of any

assignment for the benefit of creditors, the institution of any proceedings for the liquidation or winding up of the other party's business, or in the event of a change of control. For purposes of our agreement with Intel, change of control means a transaction or a series of related transactions in which (i) one or more related parties who did not previously own at least a 50 percent interest in a party obtain at least a 50 percent interest in such party, and, in the reasonable business judgment of the other party, such change in ownership will have a material effect on the other party's business, or (ii) a party acquires, by merger, acquisition of assets or otherwise, all or any portion of another legal entity such that either the assets or market value of such party after the close of such transaction are greater than one and one third of the assets or market value of such party prior to such transaction.

Backlog

We manufacture and sell standard lines of products. Consequently, a significant portion of our sales are made from inventory on a current basis. Sales are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time. These orders or agreements may be revised or canceled without penalty. Generally, in light of current industry practice and experience and the fact that substantially our entire order backlog is cancelable, we do not believe that such agreements provide meaningful backlog figures or are necessarily indicative of actual sales for any succeeding period.

Employees

As of December 31, 2006, we had approximately 16,500 employees.

Environmental Regulations

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

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging. Other regulatory requirements potentially affecting our manufacturing processes and the design and marketing of our products are in development throughout the world. While we have budgeted for foreseeable associated expenditures, we cannot assure you that future environmental legal requirements will not become more stringent or costly in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past and future releases of, or exposure to, hazardous substances will not have a material adverse effect on us.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

Intel has dominated the market for microprocessors for many years. 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. These aggressive activities have in the past and are likely in the future to result in lower unit sales and average selling prices for our products and adversely affect our margins and profitability.

Intel also manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor with respect to this portion of our new semiconductor graphics business that we have added through the acquisition of ATI. It is possible that Intel could leverage its dominance in the microprocessor market to sell its integrated chipsets, which could shrink the total available market for certain of our discrete GPUs, that Intel could re-enter the discrete GPU market, or that Intel will take other actions that place our discrete GPUs and integrated chipsets at a competitive disadvantage such as designing a proprietary graphics interface. Moreover, computer manufacturers are increasingly using integrated graphics chipsets, particularly for notebooks, because they cost significantly less than traditional discrete graphics components while offering reasonably good graphics performance for most mainstream PCs. The success of our graphics business is dependent, in part, upon the success of our integrated chipset products. If our graphics products do not successfully address the discrete GPU and integrated chipset markets, our graphics business could be adversely affected.

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

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

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

We expect Intel to maintain its dominant position and to continue to invest heavily in marketing, research and development, new manufacturing facilities and other technology companies. 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 a large portion of its processors using 65-nanometer technology whereas we only began commercial shipments of processors

manufactured using 65-nanometer technology in the fourth quarter of 2006. To the extent Intel manufactures a significantly larger portion of its microprocessor products using smaller process technologies, 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 and integrated graphics chipset market, its existing relationships with top-tier OEMs and its aggressive marketing and pricing strategies could result in lower unit sales and average selling prices for our products, which could have a material adverse effect on us.

We may not realize all of the anticipated benefits of our acquisition of ATI.

The success of our recent acquisition of ATI depends, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from integrating the businesses of ATI with the businesses of AMD, and failure to realize these anticipated benefits could cause our business to be materially adversely affected. Our success in realizing these benefits and the timing of this realization depends upon our successful integration of ATI's operations. The integration of two independent companies is a complex, costly, and time-consuming process. The difficulties of combining the operations of the companies include, among others:

- retaining key employees;
- bridging possible differences in cultures and management philosophies;
- consolidating corporate and administrative infrastructures and systems;
- coordinating sales and marketing functions;
- preserving our and ATI's customer, supplier, ecosystem partner and other important relationships;
- aligning and executing on new products roadmaps;
- minimizing the diversion of management's attention from ongoing business concerns; and
- coordinating geographically separate organizations.

We cannot assure you that our integration of ATI will result in the realization of the full benefits that we anticipate will result from the acquisition. For example, it is possible that as a result of the acquisition, previous ATI customers of discrete GPUs may decide to purchase products that can be used with Intel platforms from one of our competitors or that ecosystem partners will be wary of continuing to do business with us because they view the former ATI operations as competitive with portions of their business. Any inability to integrate successfully, or a delay in integrating, ATI could have a material adverse effect on us.

We cannot be certain that our substantial investments in research and development will lead to timely improvements in product designs or technology used to manufacture 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, obtain or successfully implement leading-edge process technologies needed to manufacture future generations of our products profitably or on a timely basis or that our competitors will not develop new technologies, products or processes that render our products uncompetitive or obsolete. We also make substantial investments in research and development related to product design and anticipate that we will continue to do so in the future. For example, we recently opened a research and development facility in Shanghai and an advanced microprocessor development facility in Fort Collins, Colorado. Similarly, in connection with the recent acquisition of ATI, we plan to continue to invest in research and development related to our graphics and chipset products and products for consumer electronics devices, including new integrated platforms and our design initiative called "Fusion." Moreover, in connection with the acquisition, we committed to the Minister of Industry of Canada to increase total expenditures on research and development in Canada when compared to

ATI's expenditures in this area in prior years. However, we cannot assure you that we will have sufficient resources to achieve planned investments in research and development or to otherwise maintain the level of investment in research and development that is required for us to remain competitive.

We have a joint development agreement with IBM, pursuant to which we have agreed to work together to develop new process technologies through December 31, 2011. We anticipate that under this agreement, we will pay fees to IBM of between $473 million and $523 million in connection with joint development projects from 2007 to 2011.

Capital purchases by IBM necessary for the continued development of process development projects past December 31, 2008 are conditioned upon the approval by 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. If this agreement were to be terminated, we would either have to resume certain research and development activities internally or find an alternate 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 timely achievement of the milestones set forth in the joint development agreement is critical to our ability to continue to manufacture microprocessors using advanced process technologies.

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

Our success depends to a significant extent on the development, qualification, implementation and acceptance of new product designs and improvements that provide value to our customers. Our ability to develop and qualify new products and related technologies to meet evolving industry requirements, at prices acceptable to our customers and on a timely basis are significant factors in determining our competitiveness in our target markets. If we are delayed in developing or qualifying new products or technologies, such as what occurred with the multiple delays in the launch of our R600 GPU for the high-end category of the PC market, we may lose credibility and our competitors may be able to take advantage of these delays by launching higher performing products before we do, which could cause us to lose market share and force us to discount the selling price of our products. Delays in developing or qualifying new products can also cause us to miss our customers' product design windows.

Market demand requires that products incorporate new features and performance standards on an industry-wide basis. Over the life of a specific product, the average selling price undergoes regular price reductions. The introduction of new products and enhancements to existing products is necessary to maintain overall corporate average selling prices. If we are unable to introduce new products such as quad-core processors or launch new products with sufficient increases in average selling price or increased unit sales volumes capable of offsetting these reductions in average selling prices of existing products, our revenues, inventories, gross margins and operating results could be adversely affected.

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

In the design and development of new graphics products and graphics product enhancements, we rely on third-party intellectual property such as software development tools. Historically, ATI has experienced delays in the introduction of products as a result of the inability of then available software development tools to fully simulate the complex features and functionalities of its products. The design requirements necessary to meet consumer demands for more features and greater functionality from graphics products in the future may exceed the capabilities of the software development tools available to us. If the third-party intellectual property that we use becomes unavailable or fails to produce designs that meet consumer demands, our business could be materially adversely affected.

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

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

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

For example, in 2001 and 2002 we implemented restructuring plans due to weak customer demand associated with the downturn in the semiconductor industry. If the semiconductor industry were to experience a downturn in the future, we would be materially adversely affected.

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

Our microprocessor business is dependent upon the market for mobile and desktop PCs and servers. Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. Depending on the growth rate of computers sold, sales of our products may not grow and may even decrease. If demand for computers is below our expectations, we could be materially adversely affected**.**

The business we acquired from ATI is also dependent upon the market for mobile and desktop PCs, the consumer electronics market and, in particular, the markets for digital TVs, handheld devices, such as multimedia-enabled mobile phones, and game consoles. A market decline in any of these industries would have a material adverse effect on our results of operations.

The growth of our business is also dependent on continued demand for our products from high-growth global markets. In 2006, sales of our products to high-growth markets such as China increased significantly compared to 2005, and these markets are an important area of future 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.

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

The markets in which our products are sold are very competitive and delivering the latest and best products to market on a timely basis is critical to achieving revenue growth. We expect competition to intensify due to rapid technological changes, frequent product introductions and aggressive pricing by competitors. We believe that the main factors that determine our competitiveness are product quality, power consumption, reliability, speed, size (or form factor), cost, selling price, adherence to industry standards, software and hardware compatibility and stability, brand recognition, timely product introductions and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, and successive generations of products are developed and introduced for sale. We expect that competition will intensify in these markets and our competitors' products may be less costly, provide better performance or

include additional features that render our products uncompetitive. With respect to our graphics products in particular, some competitors may have greater access or rights to companion technologies, including interface, processor and memory technical information. In addition, as a result of the ATI acquisition, Intel may discriminate against us and put us as a competitive disadvantage by giving our competitors in the graphics market preferential access to interface or other useful information. Generally, we may not be able to compete effectively because of Intel's market dominance and business practices designed to maintain it.

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

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

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

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

We are making substantial investments in our microprocessor roadmaps and platforms, particularly as we transition from dual-core to multi-core processors. Increasing market acceptance of our processors, and the AMD64 technology on which they are based, is subject to risks and uncertainties including:

- the continued support of application program providers for our 64-bit instruction set, including timely development of 64-bit software applications and applications that can take advantage of the functionality of our multi-core processors;
- our ability to produce these processors in a timely manner using advanced process technologies, in the volume and with the performance and feature set required by customers; and
- the availability, performance and feature set of components designed for these processors, in the volume and with the performance and feature set required by our customers.

If we are unable to achieve further market acceptance of our AMD64 technology, we 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, which we refer to collectively as 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. Our complaint alleges that Intel has unlawfully maintained a monopoly in the x86 microprocessor market by engaging in anti-competitive financial and exclusionary business practices that limit the ability and/or incentive of Intel's customers in dealing with 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. On September 26, 2006, the United States District Court for the District of Delaware granted Intel's motion to dismiss foreign conduct claims. The effect of that decision was clarified by the Court's January 12, 2007, adoption of the Special Master's decision on our motion to compel foreign conduct discovery. As a result of these two decisions, we will be permitted to develop evidence of Intel's exclusionary practices wherever they occur, including practices foreclosing AMD from foreign customers or in foreign market segments. However, the court's ruling limits our damages to lost sales in the United States and lost sales abroad that would have originated from the United States. The Court also set an immovable trial date of April 27, 2009.

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.

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

Collectively, our top five customers accounted for almost half of our total revenue in 2006. Moreover, historically a significant portion of ATI's revenues were derived from sales to a small number of customers, and we expect that a small number of customers will continue to account for a substantial part of revenues from our graphics and consumer electronics businesses in the future. For example, for the period from October 25, 2006 to December 31, 2006, one handset manufacturer accounted for more than half of the revenue, and one game console provider accounted for a significant portion of the revenue, of our Consumer Electronics segment. Moreover, two customers accounted for approximately one third of the revenue of our Graphics and Chipsets segment. If one of our top microprocessor, graphics business or consumer electronics customers decided to stop buying our products, or if one of these customers were to materially reduce its operations or its demand for our products, we would be materially adversely affected.

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

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

Manufacturing capacity constraints and manufacturing capacity utilization rates may have a material adverse affect on us.

There may be situations in which our microprocessor manufacturing facilities are inadequate to meet the demand for certain of our microprocessor 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 result in an adverse effect on our relationships with customers, which could have a material adverse effect on us.

In November 2004, we entered into sourcing and manufacturing technology agreements with Chartered Semiconductor Manufacturing whereby Chartered agreed to become a contract manufacturer for our AMD64-based microprocessors. Although Chartered has begun production, the ability of Chartered to continue to ramp production on a timely basis depends on several factors beyond our control, including Chartered's ability to continue 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 and our plans to increase capacity at Fab 36 and convert Fab 30 into a 300-millimeter wafer manufacturing facility play a

fundamental role in our growth plans for the next several years. In order to transition Fab 30 to a 300-millimeter facility, we plan to incrementally bring down its 200-millimeter output beginning in mid 2007, and we do not expect to have any 300-millimeter output until early 2008. If we are not able to achieve our production plans on a timely basis, we may not have sufficient manufacturing capacity to meet anticipated demand for our microprocessor products. If we cannot obtain sufficient manufacturing capacity to meet demand for our microprocessor products, either in our own facilities or through foundry or similar arrangements, we could be materially adversely affected.

We rely on third party foundries and other contractors to manufacture certain products.

We rely on independent foundries such as Taiwan Semiconductor Manufacturing Company and United Microelectronics Corp. to manufacture our graphics and chipset products. Chartered Semiconductor manufactures some of our microprocessor products and products for consumer electronics devices. Independent contractors also perform the assembly, testing and packaging of these products. We obtain these manufacturing services for our graphics and chipset products and products for consumer electronics devices on a purchase order basis and these foundries are not required to provide us with any specified minimum quantity of product. Accordingly, our graphics and consumer electronics businesses depend on these suppliers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs, to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to us on a timely basis at acceptable prices. We cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements. The manufacturers we use fabricate wafers for other companies, including certain of our competitors. With respect to our graphics and chipset products and products for consumer electronics devices, they could choose to prioritize capacity for other users, reduce or eliminate deliveries to us, or increase the prices that they charge us on short notice.

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

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

Our microprocessor 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 manufacturing our microprocessor products or that are used in the manufacture of our graphics products are available only 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 that we use to manufacture our microprocessor products. We are also dependent on key chemicals from a limited number of suppliers and rely on a limited number of foreign companies to supply the majority of certain types of integrated circuit packages for our microprocessor products. Similarly, certain non-proprietary materials or components such as memory, PCBs, substrates and capacitors

used in the manufacture of our graphics products are currently available from only a limited number of sources and often subject to rapid changes in price and availability. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. 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.

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

Our ability to meet customer demand for our products depends, in part, on our ability to deliver the products our customers want on a timely basis. Accordingly, we must continually improve the management of our supply chain by synchronizing the entire supply chain, from sourcing through manufacturing, distribution and fulfillment. As we continue to grow our business, acquire new OEM customers and strengthen relationships with existing OEM customers, the efficiency of our supply chain will become increasingly important because OEMs tend to have specific requirements for particular products, and specific time-frames in which they require delivery of these products. In the second half of 2006, we experienced challenges in the ability of our supply chain to keep up with the significant ramp in microprocessor units sold across a diverse set of customers and geographies and to deliver products on a timely basis. Also, the breadth of our product portfolio increased significantly as a result of our acquisition of ATI, which put stress on our supply chain. If we fail to adequately improve the efficiency of our supply chain and adjust our operations in response to future increases or changes in OEM demand for our products, our business could be materially adversely affected.

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

Both we and our competitor, Intel, have added significant capacity in recent years, both by expanding capacity at wafer fabrication facilities and by transitioning to more advanced manufacturing technologies, and we plan on further increasing our capacity by expanding the production capacity of Fab 36 and converting Fab 30 into a 300-millimeter wafer manufacturing facility. 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 cyclicality 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 for which demand is lower than we anticipate.

In addition, during periods of industry overcapacity, 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. If the demand for our microprocessor products is not consistent with our increased expectations, we may under-utilize our manufacturing facilities or we may not fully utilize the reserved capacity at Chartered’s foundry. This may have a material adverse effect on us.

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 continually 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, and delays in the development or implementation of new process technologies, changes in our process technologies, upgrades or expansion of existing facilities, or impurities or other difficulties in the manufacturing process. For example, beginning in mid-2007 we plan to incrementally bring down 200-millimeter output at Fab 30 in order to transition this facility to 300-millimeter manufacturing. While this facility is being converted, we will have some fixed costs that cannot be scaled down in proportion.

Improving our microprocessor 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.

We have begun to ramp 65-nanometer production and 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.

Similarly, the operating results of our graphics and consumer electronics businesses are dependent upon achieving planned semiconductor manufacturing yields. Our graphics and chipset products and products for consumer electronics devices are manufactured at independent foundries, but we have the responsibility for product design and the design and performance of the tooling required for manufacturing. Semiconductor manufacturing yields are a function of both product design and process technology, which is typically proprietary to the manufacturer, and low yields can result from either design or process technology failures. In addition, yield problems require cooperation by and communication between us and the manufacturer and sometimes the customer as well. The offshore location of our principal manufacturers compounds these risks, due to the increased effort and time required to identify, communicate and resolve manufacturing yield problems. We cannot assure you that we or our foundries will identify and fix problems in a timely manner, and achieve acceptable manufacturing yields in the future. Our inability, in cooperation with our independent foundries, to achieve planned production yields for these products could have a material adverse effect on us. In particular, failure to reach planned production yields over time could result in us not having sufficient product supply to meet demand and/or higher production costs and lower gross margins for our graphics and consumer electronics businesses. This could materially adversely affect us.

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 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 2007, we plan to make approximately $2.5 billion of capital expenditures, primarily related to expanding production capacity at Fab 36, beginning the conversion of Fab 30 from manufacturing on 200-millimeter wafers to 300-millimeter wafers and purchasing equipment for a new facility to support bump and test activities. However, our ability to fund these capital expenditures in accordance with our business plan depends on generating sufficient cash flow from operations and the availability of external financing, if necessary.

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 future 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 financing. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. In addition, in order to finance our acquisition of ATI, we borrowed $2.5 billion pursuant to a Credit Agreement with Morgan Stanley Senior Funding Inc. dated October 24, 2006 (October 2006 Term Loan). While amounts remain outstanding under this agreement, we are required to prepay these amounts with (i) 100 percent of the net cash proceeds from any debt incurred by us or a restricted subsidiary, (ii) 50 percent of net cash proceeds from the issuance of any capital stock by us (subject to specified exceptions); (iii) 100 percent of extraordinary receipts (as defined in the October 2006 Term Loan) in excess of $30 million; (iv) 100 percent of net cash proceeds from asset sales outside of the ordinary course in excess of $30 million, subject to a reinvestment allowance; (v) commencing with the fiscal year ending December 30, 2007, 50 percent of excess cash flow; and (vi) 100 percent of net cash proceeds from sales of capital stock of Spansion Inc. See "Part II, Item 7, MD&A—Liquidity," for additional information on the definition of "excess cash flow." These mandatory prepayment requirements limit our ability to use our cash flow, borrow additional funds or conduct equity offerings for future working capital, capital expenditures, acquisitions or other general corporate purposes. Our inability to obtain needed 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.

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

As of December 31, 2006 we had consolidated debt of approximately $3.8 billion. In addition, a significant portion of our consolidated debt bears a variable interest rate, which increases our exposure to interest rate fluctuations. Our substantial indebtedness may:

- make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions and general corporate and other purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- 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 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, 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.

In addition, amounts outstanding under our October 2006 Term Loan are secured by, among other things, our accounts receivable, a pledge of the capital stock of specific material subsidiaries, specific intercompany debt, and proceeds from any sale of our equity interest in Spansion Inc. Moreover, as a result of the security interest granted to Morgan Stanley, holders of our outstanding 7.75% Senior Notes due 2012 (7.75% Notes) received an equal and ratable security interest. These assets are not available to be used as security in other borrowing arrangements, which may also have a material adverse effect on our ability to borrow additional 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 October 2006 Term Loan and the indenture governing our 7.75% Notes contain various covenants that limit our ability to:

- incur additional indebtedness, except specified permitted debt;
- pay dividends and make other restricted payments;
- make certain investments if a default or an event of default exists, or if specified financial conditions are not satisfied;
- create or permit certain liens;
- create or permit restrictions on the ability of certain restricted subsidiaries to pay dividends or make other distributions to us;
- consolidate, merge or sell assets as an entirety or substantially as an entirety unless specified conditions are met;
- enter into certain types of transactions with affiliates;
- make or commit to make any capital expenditures in the ordinary course of business exceeding a certain amount;
- issue or sell any shares of capital stock of our restricted subsidiaries;
- permit domestic wholly-owned restricted subsidiaries to guarantee our indebtedness unless they also guarantee the October 2006 Term Loan; and
- permit our Consolidated Net Senior Secured Leverage Ratio (as defined in the October 2006 Term Loan) to exceed 2.25 to 1.00.

In addition, the Fab 36 Loan Agreements contain restrictive covenants, including a prohibition on the ability of our Germany subsidiary, AMD Fab 36 Limited Liability Company & Co. KG, or 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 ability to satisfy these covenants, financial ratios and tests can be affected by events beyond our control. We cannot assure you that we will meet those requirements. A breach of any of these covenants, financial ratios or tests could result in a default under the applicable agreement.

Moreover, 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 or any failure to repay debt when due in an amount in excess of $50 million would cause a cross default under the October 2006 Term Loan or the indenture governing our 7.75% 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. If the lenders under the October 2006 Term Loan or the note holders or the trustee under the indenture governing our 7.75% Notes accelerates the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings and our other indebtedness.

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. 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 any of the covenants in the grant documents, we could be materially adversely affected.

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.

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

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

Our receipt of royalty revenues is dependent upon the success of third-party products.

Our graphics technology for the game console market is being used in the Nintendo GameCube, Nintendo Wii and Microsoft® Xbox 360™ game consoles. The only revenues that we receive from these technology platforms are in the form of non-recurring engineering revenues, as well as royalties paid to us by Nintendo and Microsoft based upon the market success of their products. Accordingly, our royalty revenues will be directly related to the sales of these products. We anticipate royalties in future years resulting from our agreements with Nintendo and Microsoft. However, we have no control over the marketing efforts of Nintendo and Microsoft and we cannot assure you that sales of those products will achieve expected levels in the current or future fiscal years. Consequently, the revenues from royalties expected by us from these technology platforms may not be fully realized, and our operating results may be adversely affected.

Our entry into new consumer markets is subject to a number of uncertainties.

As a result of the ATI acquisition, we sell products for the consumer electronics market, including digital TVs and color mobile phones. There are a significant number of competitors targeting this market. The delay in acceptance of digital TV technology has also provided further opportunities for competitors to enter this market. In addition, as the telecommunications, cable and consumer electronics industries and their suppliers undergo a period of convergence, we expect that competition will increase in these markets. Our ability to succeed in these new consumer markets is subject to a number of uncertainties, including acceptance of our graphics and multimedia processors, the development of new technologies sufficient to meet market demand, the need to develop customer relationships, different sales strategies and channels, new and different industry standards from those in the PC market and changing strategic alliances. We cannot assure you that we will be able to successfully compete in this new market. If we are unable to successfully introduce products and compete in this market, we could be materially adversely affected.

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

Our future success depends upon the continued service of numerous qualified engineering, manufacturing, marketing, sales and executive personnel, including the more than 4,000 employees we acquired through the ATI acquisition. 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 some of our manufacturing facilities. In addition, we rely on a third party in India to provide certain information technology services to us, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration, and voice, video and remote access. Our relationships with these providers are governed by fixed term contracts. We cannot guarantee that these providers will fulfill their respective responsibilities in a timely manner in accordance with the contract terms, in which case our internal operations, the distribution of our products to our customers and the distribution of materials for some 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.

We typically sell our products pursuant to individual purchase orders. We generally do not have long-term supply arrangements with our customers or minimum purchase requirements. Generally, our customers may cancel orders more than 30 days prior to shipment without incurring a significant penalty. We base our inventory levels on customers' estimates of demand for their products, which 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. Moreover, PC and consumer markets are characterized by short product lifecycles, which can lead to rapid obsolescence and price erosion. In addition, our customers may change their inventory practices on short notice for any reason. We may build inventories during periods of anticipated growth, and the cancellation or deferral of product orders, the return of previously sold products or overproduction due to failure of anticipated orders to materialize, could result in excess or obsolete inventory, which could result in write-downs of inventory and an adverse effect on profit margins. 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. Our third party distributors have been a significant factor in our ability to increase sales of our products in certain high growth international 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 and that is not more than twelve months older than the manufacturing code date. Some agreements with our distributors also contain standard stock rotation provisions permitting limited levels of product returns. We defer the gross margins on our sales to distributors, resulting from both our deferral of revenue and related product costs, until the applicable products are re-sold by the distributors. However, in the event of 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.

We maintain operations around the world, including in the United States, Canada, Europe and Asia. For example, all of our wafer fabrication capacity for microprocessors is located in Germany. Nearly all product assembly and final testing of our microprocessor products is performed at manufacturing facilities in China, Malaysia and Singapore. In addition, our graphics and chipset products and products for consumer electronics devices are manufactured, assembled and tested by independent third parties in the Asia-Pacific region and inventory related to those products is stored there. We also have international sales operations and as part of our business strategy, we are continuing to seek expansion of product sales in high growth markets. Our international sales as a percentage of our total consolidated revenue was 75 percent in 2006, and China was one of our largest and fastest growing markets.

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

- expropriation;
- changes in a specific country's or region's political or economic conditions;

- changes in tax laws, trade protection measures and import or export licensing requirements;
- difficulties in protecting our intellectual property;
- difficulties in achieving headcount reductions;
- changes in foreign currency exchange rates;
- restrictions on transfers of funds and other assets of our subsidiaries between jurisdictions;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities; and
- loss or modification of exemptions for taxes and tariffs.

Any conflict or uncertainty in the countries in which we operate, including public health or safety, natural disasters or general economic factors, could have a material adverse effect on our business. Any of the above risks, should they occur, could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, potentially longer payment cycles, potentially increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on us.

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

Worldwide economic conditions may adversely affect demand for our products. For example, China's economy has been growing at a fast pace over the past several years, and the Chinese government introduced various measures to slow down the pace of economic growth. A decline in economic conditions in China could lead to declining worldwide economic conditions. 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.

We have costs, assets and liabilities that are denominated in foreign currencies, primarily the euro and yen, and as a result of our recent acquisition of ATI, the Canadian dollar. As a consequence, movements in exchange rates could cause our Canadian dollar and euro-denominated expenses and yen-based raw material purchases to increase as a percentage of revenue, affecting our profitability and cash flows. Whenever we believe appropriate, we hedge a portion of our foreign currency exposure to protect against fluctuations in currency exchange rates. We determine our total foreign currency exposure using projections of expenditures for items such as payroll,

equipment and materials used in manufacturing. We cannot assure you that these activities will be effective in reducing foreign exchange rate exposure. Failure to do so could have an adverse effect on our business, financial condition, results of operations and cash flow.

In addition, the majority of our product sales are denominated in U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and the local currency can cause increases or decreases in the cost of our products in the local currency of such customers. An appreciation of the U.S. dollar relative to the local currency could reduce sales of our products.

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

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

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

We rely on a combination of protections provided by contracts, including confidentiality and nondisclosure agreements, copyrights, patents, trademarks and common law rights, such as trade secrets, to protect our intellectual property. However, we cannot assure you that we will be able to adequately protect our technology or other intellectual property from third party infringement or from misappropriation in the United States and abroad. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted 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.

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

From time to time we are a defendant or plaintiff in various legal actions. Litigation can involve complex factual and legal questions and its outcome is uncertain. In addition, as a result of our acquisition of ATI, we have assumed responsibility for ATI’s legal proceedings which include a securities litigation proceeding and a consumer class action. In November 2006, we received a subpoena for documents and information in connection with the U.S. Department of Justice’s criminal investigation into potential antitrust violations related to graphics processing units and cards. We also sell products to consumers, which could increase our exposure to consumer actions such as product liability claims. Any claim that is successfully asserted against us may cause us to pay substantial damages.

With respect to intellectual property litigation, 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 or to increase the costs of selling some of our products or could damage our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture and sale of some or all of our products, would have a material adverse effect on us. We could decide, in the alternative, to redesign our products or to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to our intellectual property rights or the intellectual property rights of others can always be avoided or successfully concluded.

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

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

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

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

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging, and we continue our work to ensure compliance across product lines. There is a risk that the cost, quality and manufacturing yields of lead-free products may be less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory. Other regulatory requirements potentially affecting our manufacturing processes and the design and marketing of our products are in development throughout the world. We have management

systems in place to identify and ensure compliance with such requirements and have budgeted for foreseeable associated expenditures. However, we cannot assure you that future environmental legal requirements will not become more stringent or costly in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past and future releases of, or exposure to, hazardous substances will not have a material adverse effect on us.

Our 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.

All of our wafer fabrication capacity for microprocessors is located in Germany. Nearly all product assembly and final testing of our microprocessor products is performed at manufacturing facilities in China, Malaysia and Singapore. The independent foundries used to manufacture our graphics and chipset products and products for consumer electronics devices are located in Hsin Chiu and Tainan, Taiwan. A significant amount of our inventories for our graphics and consumer electronics businesses are stored in Taiwan prior to delivery to customers. Many of our assembly, testing and packaging suppliers for our graphics products are also located in southern Taiwan. On September 22, 1999, Taiwan suffered a major earthquake that measured 7.6 on the Richter scale and disrupted the operations of these manufacturing suppliers and contributed to a temporary shortage of graphics processors. Additional earthquakes, fires or other occurrences that disrupt our manufacturing suppliers may occur in the future. To the extent that the supply from our independent foundries or suppliers is interrupted for a prolonged period of time or terminated for any reason, we may not have sufficient time to replace our supply of products manufactured by those foundries.

Moreover, our corporate headquarters are located near major earthquake fault lines in California. In the event of a major earthquake, or other natural or manmade disaster, we could experience loss of life of our employees, destruction of facilities or business interruptions, any of which could materially adversely affect us.

Our business is subject to potential tax liabilities.

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

For example, the Canadian Revenue Agency, or CRA, is in the process of auditing ATI for the years 1999 - 2004 with respect to transactions between ATI and its subsidiaries. We could be subject to significant tax liability as well as a loss of certain tax credits and other tax attributes as a result of the CRA audit.

Risks Related to Our Ownership of Spansion Inc. Common Stock

Spansion's financial position, results of operations and cash flows were consolidated with ours through December 20, 2005, but as a result of its initial public offering, we currently report our interest in Spansion using the equity method of accounting. Following Spansion's IPO, we owned approximately 38 percent of Spansion's outstanding common stock. In November 2006 we sold shares of Spansion's common stock, and as a result, as of December 31, 2006, we owned approximately 21 percent of Spansion's outstanding common stock. Our 21 percent share of Spansion's net income (loss) will impact our net income (loss). The following risks and uncertainties that Spansion faces could affect Spansion's financial position or results of operations and correspondingly our financial position and results of operations. These are not the only risks and uncertainties that Spansion faces. Spansion also faces many of the risks and uncertainties that we face as described above in this "Risk Factors" section, as well as those set forth in Spansion's Annual Report on Form 10-K and other SEC filings, to which we refer you.

The demand for Spansion's products depends in large part on continued growth in the industries into which they are sold. A market decline in any of these industries, or a decline in demand for Flash memory products in these industries, would have a material adverse effect on Spansion's results of operations.

Sales of Spansion's Flash memory products are dependent to a large degree upon consumer demand for mobile phones. In fiscal 2006, wireless customers, which primarily consist of mobile phone OEMs represented the largest market for NOR Flash memory. In fiscal 2006 and fiscal 2005, sales to wireless Flash memory customers drove a majority of Spansion's sales.

Similarly, sales of Spansion's products targeting embedded Flash memory customers are dependent upon demand for consumer electronics such as set top boxes, or STBs, and DVD players, automotive electronics, industrial electronics such as networking equipment, PCs and PC peripheral equipment such as printers. Sales of Spansion's products are also dependent upon the inclusion of increasing amounts of Flash memory content in some of these products. In fiscal 2005 and fiscal 2006, sales to embedded Flash memory customers drove a significant portion of Spansion's sales.

If demand for mobile phones or products in the embedded portion of the Flash memory market, or the Flash memory content of these products, is below Spansion's expectations, if the functionality of successive generations of such products does not require increasing Flash memory density or if such products no longer require Flash memory due to alternative technologies or otherwise, Spansion would be materially adversely affected.

Spansion has lost key intellectual property arrangements because it is no longer a beneficiary of our patent cross-license agreements and other licenses, which creates a greatly increased risk of patent or other intellectual property infringement claims against Spansion.

As a majority owned subsidiary through December 20, 2005, Spansion had been the beneficiary of our intellectual property arrangements with third parties, including patent cross-license agreements with other major semiconductor companies such as Intel, Motorola and IBM, and licenses from third parties for technology incorporated in Spansion's products and software used to operate its business. As a result of the conversion of Spansion's outstanding shares of Class D common stock into shares of Spansion's Class A common stock in November 2006, Spansion ceased to be a beneficiary under most of the remainder of these license agreements. As a result, Spansion may be subject to claims that it is infringing intellectual property rights of third parties through the manufacture and sale of Spansion's products and the operation of Spansion's business. Therefore, absent negotiating its own license agreements with the third parties who own such intellectual property, Spansion will be vulnerable to claims by such parties that Spansion's products or operations infringe such parties' patents or other intellectual property rights.

Spansion will continue to attempt to negotiate its own agreements and arrangements with third parties for intellectual property and technology that are important to Spansion's business, including the intellectual property that it previously had access to through its relationship with us. Spansion will also attempt to acquire new patents as Spansion's success in negotiating patent cross-license agreements with other industry participants will depend in large part upon the strength of its patent portfolio relative to that of the third party with which it is negotiating. If the third-party benefits from an existing patent cross-license agreement with us or Fujitsu, in many cases it will retain the rights that it has under that agreement, including rights to utilize the patents that we and Fujitsu transferred to Spansion in connection with Spansion's reorganization as Spansion LLC in June 2003. In many cases, any such third party will also retain such rights to utilize any patents that have been issued to Spansion or acquired by Spansion subsequent to Spansion's reorganization and prior to Spansion's IPO or, in some cases, at the time of the conversion of the Class D common stock. Spansion's negotiating position will therefore be impaired, because the other party will already be entitled to utilize a large number of Spansion's patents, while Spansion no longer has the right to utilize that party's patents. As a result, Spansion may be unable to obtain access to the other party's patent portfolio on favorable terms or at all. Similarly, with respect to licenses from third parties for technology incorporated in Spansion's products or software used to operate Spansion's business,

Spansion may not be able to negotiate prices with these third parties on terms as favorable to Spansion as those previously available to Spansion because it is not able to take advantage of our size and purchasing power. These parties, and other third parties with whom we had no prior intellectual property arrangement, may file lawsuits against Spansion seeking damages (potentially including treble damages) or an injunction against the sale of Spansion's products that incorporate allegedly infringed intellectual property or against the operation of Spansion's business as presently conducted. Such litigation could be extremely expensive and time-consuming. Spansion cannot be sure that such litigation would be avoided or successfully concluded. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture or sale of some or all of Spansion's products, would have a material adverse effect on Spansion.

A significant market shift to NAND architecture could materially adversely affect Spansion.

Flash memory products are generally based either on NOR architecture or NAND architecture. To date, Spansion's Flash memory products have been based on NOR architecture which are typically produced at a higher cost-per-bit than NAND-based products. Spansion does not currently manufacture products based on NAND architecture. Spansion has developed its MirrorBit ORNAND architecture to address certain portions of the integrated category of the Flash memory market served by NAND-based products, but it cannot be certain that its MirrorBit ORNAND-based products will satisfactorily address those market needs.

During 2004, industry sales of NAND-based Flash memory products grew at a higher rate than sales of NOR-based Flash memory 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 continued in 2005 and 2006 when sales of NAND-based Flash memory products represented a majority of the Flash memory products sold in the overall Flash memory market. In 2005, and the first half of 2006, sales of NAND-based Flash memory products represented a majority of the Flash memory products sold in the overall Flash memory market.

Moreover, the removable storage category of the Flash memory market, which is predominantly served by floating gate NAND vendors, is expected to be a significant 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 higher density floating gate NAND-based Flash memory products over MirrorBit NOR-, ORNAND- or Quad-based Flash memory products for their applications. If this occurs and OEMs continue to prefer the attributes and characteristics of floating gate NAND-based products over those of MirrorBit NOR-, ORNAND- or Quad-based products for their applications, Spansion may be materially and adversely affected. Moreover, some floating gate NAND vendors are manufacturing on 300-millimeter wafers or may choose to utilize more advanced manufacturing process technologies than Spansion uses today to offer products competitive to Spansion's at a lower cost. If floating gate NAND vendors continue to increase their share of the Flash memory market, Spansion's market share may decrease, which would materially adversely affect Spansion.

Competitors may introduce new memory or other technologies that may make Spansion's Flash memory products uncompetitive or obsolete.

Spansion's competitors are working on a number of new technologies, including FRAM, MRAM, polymer and phase-change based memory technologies. If successfully developed and commercialized as a viable alternative to Flash memory, these or other technologies could pose a competitive threat to a number of Flash memory companies, including Spansion. In addition, Spansion and some of Spansion's competitors have licensed Flash memory intellectual property associated with NROM technology from a third party. Use of this NROM intellectual property may allow these competitors to develop Flash memory technology that may compete with MirrorBit technology.

If Spansion fails to successfully develop products based on its new MirrorBit NOR, or MirrorBit ORNAND or MirrorBit Quad architectures, or if there is a lack of market acceptance of products based on these products, Spansion's future operating results would be materially adversely affected.

Spansion is positioning itself to address the increasing demand for higher density data optimized Flash memory by offering products based on its new MirrorBit ORNAND and MirrorBit Quad architectures. The success of these architectures requires that Spansion timely and cost effectively develop, manufacture and market products based on these architectures that are competitive with floating gate NAND-based Flash memory products. Spansion began commercial shipments of MirrorBit ORNAND-based products in the second quarter of fiscal 2006 and announced the MirrorBit Quad-based family of products in January 2007. However, if Spansion fails to develop and commercialize these products and additional products based on these architectures on a timely basis, Spansion's future operating results would be materially adversely affected. Furthermore, if market acceptance of products based on Spansion's MirrorBit technology occurs at a slower rate than Spansion anticipates, its ability to compete will be reduced, and Spansion would be materially adversely affected. If Spansion does not achieve market acceptance of these products or subsequent MirrorBit products, Spansion's future operating results would be materially adversely affected.

The loss of a significant customer or a reduction in demand for Spansion's Flash memory products from a significant customer in the mobile phone market could have a material adverse effect on Spansion.

Sales of Spansion's products are dependent to a large extent on demand for mobile phones. Historically, a small number of wireless Flash memory customers have driven a substantial portion of Spansion's net sales. If one of these customers decided to stop buying Spansion's Flash memory products, or if one of these customers were materially to reduce its operations or its demand for Spansion's products, Spansion could be materially adversely affected. For example, in the fourth quarter of fiscal 2006 Spansion was materially adversely affected by the reduced demand for mid-range wireless handsets that incorporate custom high density NOR-based Flash memory solutions.

Spansion has a substantial amount of indebtedness which could adversely affect its financial condition.

Spansion currently has and will continue to have for the foreseeable future, a substantial amount of indebtedness. This substantial indebtedness may:

- require Spansion to use a substantial portion of its cash flows from operations to make debt service payments;
- make it difficult for Spansion to satisfy its financial obligations;
- limit Spansion's ability to use its cash flows or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- limit Spansion's flexibility to plan for, or react to, changes in its business and industry;
- place Spansion at a competitive disadvantage compared to its less leveraged competitors; and
- increase Spansion's vulnerability to the impact of adverse economic and industry conditions.

If Spansion cannot generate sufficient operating cash flows and obtain external financing, it may be unable to make all of its planned capital expenditures.

Spansion's ability to fund anticipated capital expenditures depends on generating sufficient cash flows from operations and the availability of external financing. Spansion's capital expenditures, together with ongoing operating expenses, will be a substantial drain on its cash flows and may decrease its cash balances. The timing and amount of Spansion's capital requirements cannot be precisely determined at this time and will depend on a number of factors, including demand for its products, product mix, changes in industry conditions and market competition.

Spansion may need to assess markets for external financing, including debt and equity. Such financing may not be available when needed or, if available, may not be available on satisfactory terms. Any equity financing

would cause dilution to its stockholders. Spansion's inability to obtain needed financing or to generate sufficient cash from operations may require it to abandon projects or curtail capital expenditures. If Spansion cannot generate sufficient operating cash flows or obtain external financing, it may be delayed in achieving, or may not achieve, needed manufacturing capacity, and Spansion could be materially adversely affected.

If Spansion is unable to timely and efficiently expand its manufacturing capacity to implement 300-millimeter wafer capacity at SP1, Spansion's business, results of operations or financial condition could be materially adversely affected.

Spansion intends to expand its manufacturing capacity to produce approximately 15,000 to 20,000 300-millimeter wafers per month at SP1. Spansion's goal is to have 65- and 45-nanometer process technology on 300-millimeter wafer capacity in place in fiscal 2008. In fiscal 2006 Spansion commenced a plan to spend approximately $1.2 billion over three years to construct and equip its planned flash memory manufacturing facility in Aizu-Wakamatsu, Japan, which Spansion refers to as SP1. However, the actual cost and capacity achieved will vary depending on various factors, including available financing and future product demand. Financing for the construction of and equipment for SP1 may not be available when needed or, if available, may not be available on satisfactory terms. If Spansion does not achieve its desired capacity at the anticipated cost, or if Spansion cannot obtain suitable financing, Spansion may be delayed in achieving, or may not achieve, such capacity, and Spansion could be materially adversely affected.

The timing for implementing 300-millimeter capacity in SP1 will also depend in part on Spansion's ability to execute its plan for constructing and equipping the facility and other factors that may be beyond its control, such as delivery schedules for the required machinery and equipment and construction schedules. If Spansion is delayed in implementing this capability or is unable to obtain foundry services at competitive rates or to timely and efficiently ramp production on 300-millimeter wafers, it will not achieve anticipated cost savings associated with this technology and its gross margins could decline. Even if Spansion is successful in implementing this capacity, if the demand for its products is not sufficient to support the additional capacity when it becomes available, it could be materially and adversely affected.

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

Spansion continues to undertake a number of actions in an effort to significantly reduce its expenses. These actions include and have included streamlining operations, continuing to align manufacturing utilization to the level of demand for Spansion products, controlling increasing testing costs and working with us and Fujitsu to reduce 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, Spansion would be materially adversely affected.

Manufacturing capacity constraints may have a material adverse affect on Spansion.

There may be situations in which Spansion's manufacturing capacity is inadequate to meet the demand for some of its products. Spansion increasingly depends on foundry, subcontractor and similar arrangements with third parties to meet demand. Spansion's arrangements with third-party suppliers do not necessarily include capacity guarantees. If a third-party manufacturer on which it relies does not have the capacity to deliver an adequate amount of product to meet actual demand, Spansion may not be able to obtain the manufacturing capacity, either in its own facilities or through other third-party arrangements, to meet such demand. During fiscal 2006, demand for certain of Spansion's products exceeded the available supply. As a result, Spansion was unable to meet the demand of some of its customers for these products. This could adversely impact Spansion's relationships with customers, cause harm to Spansion's reputation in the marketplace, cause these customers to move future business to Spansion's competitors or cause Spansion to make financial concessions to its customers. Any of these occurrences could have a material adverse effect on Spansion. Also, in the third and fourth quarters of fiscal 2005 and the third quarter of fiscal 2006, Spansion experienced capacity constraints for

final test and assembly of some of its products. These constraints continued into the fourth quarter of fiscal 2006. While Spansion has worked internally and with subcontractors to increase capacity to meet anticipated demand, it cannot be assured that it will not experience similar constraints in the future. These capacity constraints limit Spansion's ability to respond to rapid and short-term surges in demand for its products. If Spansion is unable to obtain sufficient manufacturing capacity to meet anticipated demand, either in its own facilities or through foundry, subcontractor or similar arrangements with third parties, or if it is unable to obtain foundry services at competitive rates, Spansion's business may be materially adversely affected.

Spansion's increased reliance on third-party manufacturers entails risks that could materially adversely affect Spansion.

Spansion currently obtains foundry services from other companies, including Taiwan Semiconductor Manufacturing Company Limited, and following the sale of its JV1 and JV2 manufacturing facilities Spansion will also obtain foundry services from Fujitsu. Spansion also uses independent contractors to perform some of the assembly, testing and packaging of its products. Third-party manufacturers are often under no obligation to provide Spansion with any specified minimum quantity of product. Spansion depends on these manufacturers to allocate to Spansion a portion of their manufacturing capacity sufficient to meet Spansion's needs, to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to Spansion on a timely basis at acceptable prices. These manufacturers may not be able to meet Spansion's near-term or long-term manufacturing requirements. These manufacturers also make products for other companies, including certain of Spansion's competitors, and/or for themselves and could choose to prioritize capacity for themselves or other customers beyond any minimum guaranteed amounts, reduce deliveries to Spansion or, in the absence of price guarantees, increase the prices they charge Spansion on short notice, such that Spansion may not be able to pass cost increases on to Spansion's customers. Because it could take several quarters or more to establish a relationship with a new manufacturing partner, Spansion may be unable to secure an alternative supply for specific products in a short timeframe or at all at an acceptable cost to satisfy Spansion's production requirements. In addition, Spansion may be required to incur additional development, manufacturing and other costs to establish alternative sources of supply. Other risks associated with Spansion's increased dependence on third-party manufacturers include: their ability to adapt to Spansion's proprietary technology, reduced control over delivery schedules, quality assurance, manufacturing yields and cost, lack of capacity in periods of excess demand, misappropriation of Spansion's intellectual property, reduced ability to manage inventory and parts and risks associated with operating in foreign countries. If Spansion is unable to secure sufficient or reliable suppliers of wafers or obtain the necessary assembling, testing and packaging services, Spansion's ability to meet customer demand for its products may be adversely affected, which could have a material adverse effect on Spansion.

Spansion's business has been characterized by average selling prices that decline over relatively short time periods, which can negatively affect Spansion's results of operations unless it is able to reduce its costs or introduce new products with higher average selling prices.

Average selling prices for Spansion's products historically have declined over relatively short time periods. Spansion is unable to predict pricing conditions for future periods. Even in the absence of downturns or oversupply in the industry, average selling prices of Spansion's products have decreased during the products' lives. When Spansion's average selling prices decline, its net sales and net income decline unless it is able to compensate by selling more units, reducing its manufacturing costs or introducing new, higher margin products that have higher densities and/or incorporate advanced features. Spansion has experienced declining average selling prices in the past, and it has stated that it expects to continue to experience them in the future, although Spansion cannot predict when they may occur or how severe they will be. If Spansion's average selling prices continue to decline, its operating results could be materially adversely affected. In addition, average selling prices for Spansion's products may also be adversely affected by a significant decline in the price for NAND products. Such a decline may result in downward price pressure in the overall Flash memory market, which would adversely affect Spansion.

Spansion is party to intellectual property litigation and may become party to other intellectual property claims or litigation that could cause it to incur substantial costs or pay substantial damages or prohibit it from selling its products.

Tessera, Inc. filed a lawsuit against Spansion alleging that it has infringed certain of Tessera's patents. Tessera has sought to enjoin such alleged infringement and to recover an unspecified amount of damages. In addition, Fujitsu has informed Spansion that Texas Instruments has asserted that a number of its products infringe some of Texas Instruments' patents. Fujitsu has also provided Spansion with formal notice that they believe Spansion has a duty to defend or indemnify Fujitsu against Texas Instruments' claims under the terms of its distribution agreement. Since then, Spansion and Fujitsu have been discussing the issues raised by this notice and if Fujitsu were to terminate the distribution agreement with Spansion, it could have a material adverse effect on Spansion. Defending these alleged infringement claims and similar claims could be extremely expensive and time-consuming and an award of damages or an injunction could have a material adverse effect on Spansion.

Intense competition in the Flash memory market could materially adversely affect Spansion.

Spansion's 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., Renesas Technology Corp., Micron Technology, Inc. and Hynix Semiconductor Inc. In the future, Spansion's principal competitors may also include SanDisk Corporation and IM Flash Technology, LLC, the joint venture between Intel and Micron Technology, Inc. The Flash memory market is characterized by intense competition. The basis of competition is cost, selling price, performance, quality, customer relationships and ability to provide value-added solutions. In particular, in the past, Spansion's competitors have aggressively priced their products in order to increase market share, which resulted in decreased average selling prices for Spansion's products in the second half of fiscal 2004 and the first quarter of fiscal 2005 and adversely impacted its results of operations. Some of Spansion's competitors, including Intel, Samsung, STMicroelectronics, Toshiba, Sharp and Renesas, are more diversified than Spansion is and may be able to sustain lower operating margins in their Flash memory business based on the profitability of their other, non-Flash memory businesses. In addition, recent capital investments by competitors have resulted in substantial industry manufacturing capacity, which may further contribute to a competitive pricing environment.

Moreover, some of Spansion's competitors are able to manufacture on 300-millimeter wafers or may choose to utilize more advanced manufacturing process technologies than Spansion uses today to offer products competitive to Spansion's at a lower cost.

Spansion has stated that it expects competition in the market for Flash memory devices to intensify as existing manufacturers introduce new products, new manufacturers enter the market, industry-wide production capacity increases and competitors aggressively price their Flash memory products to increase market share. Competition also may increase if NOR memory vendors merge, if NAND memory vendors acquire NOR businesses or other NAND businesses, or if Spansion's competitors otherwise consolidate their operations. Furthermore, Spansion faces increasing competition from NAND Flash memory vendors in some portions of the integrated Flash memory market.

Spansion has also stated that it expects to face competition as it addresses new applications with the introduction of Spansion's MirrorBit ORNAND- and MirrorBit Quad-based products. These products are intended to allow Spansion to compete in the data storage portion of the integrated category and select portions of the removable category of the Flash memory market that might otherwise be served by NAND-based Flash memory products or other non-volatile storage technologies such as ROM or optical discs. As a result, Spansion may compete with a number of established NAND-based Flash memory vendors and other incumbent suppliers of alternative technology in marketing and selling these products. Moreover, Spansion's MirrorBit ORNAND- and MirrorBit Quad-based products may not have the price, performance, quality and other features necessary to compete successfully for these applications.

To compete successfully, Spansion must decrease its manufacturing costs and develop, introduce and sell products that meet the increasing demand for greater Flash memory content in mobile phones, consumer electronics and automotive applications, among other markets, at competitive prices. If Spansion is unable to compete effectively, it could be materially adversely affected.

If essential equipment or adequate supplies of satisfactory materials are not available to manufacture Spansion's products, Spansion could be materially adversely affected.

Spansion's manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. Spansion purchases equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to Spansion or increase prices due to capacity constraints or other factors. Because the equipment that Spansion purchases is complex, it is difficult for Spansion to substitute one supplier for another or one piece of equipment for another. Some raw materials Spansion uses in the manufacture of Spansion's products are available from a limited number of suppliers. Spansion's manufacturing operations also depend upon the quality and usability of the materials Spansion uses in its products, including raw materials and wafers Spansion receives from its suppliers. For example, in the third quarter of fiscal 2006, Spansion had lower than expected yields on 12,000 raw wafers received from one of its suppliers and Spansion's revenue and gross margins were adversely affected. If the materials Spansion receives from its suppliers do not meet Spansion's manufacturing requirements or product specifications, Spansion may be materially adversely affected.

Spansion also relies on purchasing commercial memory die from third-party suppliers to incorporate these die into multi-chip package, or MCP, products. The availability of these third-party purchased commercial die is subject to market availability, and the process technology roadmaps and manufacturing capacities of Spansion's vendors. For example, Spansion's production was constrained in the first half of fiscal 2004 because of difficulties in procuring adequate supply of pseudo static RAM, or pSRAM. In addition, some of Spansion's major suppliers, including Samsung, are also Spansion's competitors. Interruption of supply from a competitor that is a supplier or otherwise or increased demand in the industry could cause shortages and price increases in various essential materials. If Spansion is unable to procure these materials, or if the materials it receives from Spansion's suppliers do not meet Spansion's production requirements or product specifications, Spansion may have to reduce its manufacturing operations or its manufacturing yields may be adversely affected. Such a reduction and yield issues have in the past and could in the future have a material adverse effect on Spansion.

If the market value of our shares of Spansion common stock remains below our book value of such shares for an extended period of time, then our results of operations may be adversely affected.

If the market value of our shares of Spansion common stock remains below our book value of such shares and the decline in the market value level is deemed "other than temporary," then we may be required to take an impairment charge in the amount of the difference between the book value and the market value. For the quarter in which we take any such impairment charge, our results of operations could be adversely affected by the amount of such impairment charge. In addition, the carrying value of our investment in Spansion on our balance sheet would also be reduced. Therefore, sustained decreases in the market price of Spansion's common stock could have an adverse effect on us and our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received any written comments that were issued more than 180 days before December 31, 2006, the end of the fiscal year covered by this report, from the Securities and Exchange Commission staff regarding our periodic or current reports under the Securities Exchange Act of 1934 that remain unresolved.

ITEM 2. PROPERTIES

At December 31, 2006, we owned principal engineering, manufacturing, warehouse and administrative facilities located in the United States, Canada, China, Germany, Singapore and Malaysia. These facilities totaled approximately 2.8 million square feet. Of this amount, 2.2 million square feet were located in Dresden, Germany and were used primarily for wafer fabrication, research and development, and administrative offices.

Our main facility with respect to our graphics and chipset products and products for consumer electronics devices is located in Markham, Ontario, Canada. This facility consists of approximately 240,000 square feet of office and research and development space. We have a 50 percent interest in the joint venture company that owns this facility. We own five other facilities in Markham, Ontario that comprise over 165,000 square feet, including approximately 65,000 square-feet of manufacturing and warehouse space.

In some cases, we lease all or a portion of the land on which our facilities are located. We lease approximately 218,000 square feet of land in Singapore and 270,000 square feet of land in Suzhou, China for our microprocessor and test facility. In addition, Fab 30 and Fab 36 are located on approximately 9.7 million square feet of land. Of this amount, Fab 36 owns approximately 5.4 million square feet, and both the facility and the land are encumbered by a lien securing the obligations of AMD Fab 36 KG, the entity that owns the Fab 36 assets, under its EUR 700 Million Term Loan Facility Agreement with a consortium of banks in connection with the Fab 36 project, (Fab 36 Loan Agreements.) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements."

As of December 31, 2006, we also leased approximately 3.0 million square feet of space for engineering, manufacturing, warehouse and administrative use, including a number of smaller regional sales offices located in commercial centers near customers, principally in the United States, Latin America, Europe and Asia. These leases expire at varying dates through 2018.

We also have approximately 220,000 square feet of building space that is currently vacant. We continue to have lease obligations with respect to this space that expire at various dates through 2011. We are actively marketing this space for sublease. Spansion leases approximately 71,000 square feet from us.

In April 2005, we announced plans for a new campus for design and administrative functions to be developed on approximately 58 acres in Austin, Texas. We expect that the campus will consist of approximately 825,000 square feet. We intend to incorporate advanced environmentally sensitive building techniques and materials during the design, development and construction process and to concentrate development to approximately 33 of the available 58 acres. The remainder of the land would remain undeveloped. Construction of the new campus is underway and we expect that we will occupy the facility in the second half of 2007 or the first half of 2008.

We currently do not anticipate difficulty in either retaining occupancy of any of our facilities through lease renewals prior to expiration or through month-to-month occupancy, or replacing them with equivalent facilities. We believe that our existing facilities are suitable and adequate for our present purposes, and that, except as discussed above, the productive capacity of such facilities is substantially being utilized or we have plans to utilize it.

ITEM 3. LEGAL PROCEEDINGS

In addition to ordinary routine litigation incidental to the business, AMD or its indirectly wholly-owned subsidiary, ATI, were party to the following material legal proceedings. The outcome of any litigation is uncertain and should any of these actions or proceedings against us be successful, we may be subject to significant damages awards which could have a material adverse effect on our financial condition.

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, AMD 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; and
- Forcing PC makers and technology partners to boycott AMD product launches or promotions.

AMD has requested the following findings and remedies:

- A finding that Intel is 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;
- 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. On September 26, 2006, the United States District Court for the District of Delaware granted the motion of Intel Corporation to dismiss foreign conduct claims. The effect of that decision was clarified by the Court's January 12, 2007, adoption of the Special Master's decision on our motion to compel foreign conduct discovery. As a result of these two decisions, we will be permitted to develop evidence of Intel's exclusionary practices wherever they occur, including practices foreclosing AMD from foreign customers or in foreign market segments. However, the court's ruling limits our damages to lost sales in

the United States and lost sales abroad that would have originated from the United States. The Court also set an immovable trial date of April 27, 2009. The discovery process is ongoing.

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.

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.

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.

In re ATI Technologies, Inc. Securities Litigation.

In August and September 2005, five class action lawsuits were filed in the United States District Court for the Eastern District of Pennsylvania against ATI and certain of its directors and officers on behalf of shareholders who purchased ATI common shares between October 7, 2004 and on or about June 23, 2005. The claims allege that ATI and certain of its directors and officers violated United States securities laws by failing to disclose material facts and making statements that contained misrepresentations about its business and future outlook. It is alleged that as a result of the failure to disclose material facts and the alleged misrepresentations, ATI's common stock traded at artificially inflated prices until the stock price dropped on the news of ATI's third quarter results in June 2005. The claims further allege that while in possession of material undisclosed information, certain of ATI's directors and officers sold a portion of their common shares at inflated prices. On May 23, 2006, the Court dismissed one of the five actions because the plaintiff failed to serve the summons and complaint. The four remaining lawsuits were consolidated into a single action, and on September 8, 2006, the plaintiffs filed a consolidated amended complaint. ATI filed its Motion to Dismiss the Consolidated Amended Complaint on December 4, 2006. On January 25, 2007, class plaintiffs filed their opposition to ATI's motion to dismiss.

U.S. Consumer Class Action Lawsuits

In February and March 2006, two consumer class actions were filed in the United States District Court for the Northern District of California against ATI and three of its subsidiaries. The complaints allege that ATI had misrepresented its graphics cards as being "HDCP ready" when they were not, and on that basis alleged violations of state consumer protection statutes, breach of express and implied warranty, negligent misrepresentation, and unjust enrichment. On April 18, 2006, the Court entered an order consolidating the two actions. On June 19, 2006, plaintiffs filed a consolidated complaint, alleging violations of California's consumer protection laws, breach of express warranty, and unjust enrichment. On June 21, 2006, a third consumer class action that was filed in the United States District Court for the Western District of Tennessee in May 2006 alleging claims that are substantially the same was transferred to the Northern District of California, and on July 31, 2006, that case was also consolidated into the consolidated action pending in the Northern District of California. ATI filed an answer to the consolidated complaint on August 7, 2006.

Department of Justice Subpoena

On November 29, 2006, AMD received a subpoena for documents and information in connection with the U.S. Department of Justice (DOJ) criminal investigation into potential antitrust violations related to graphics processing units and cards. AMD entered the graphics processor business following our acquisition of ATI on October 25, 2006. The DOJ has not made any specific allegations against AMD or ATI. AMD is cooperating with the investigation.

GPU Class Actions

Currently approximately thirty-six related antitrust actions have been filed against AMD, ATI and Nvidia Corporation, in the Northern District of California, the Central District of California, the District of Massachusetts, the Western District of Wisconsin, the District of South Carolina, the District of Kansas and the District of Vermont. According to the complaints, plaintiffs filed each of the actions after reading press reports that AMD and Nvidia had received subpoenas from the U.S. Department of Justice Antitrust Division in connection with the DOJ's investigation into potential antitrust violations related to graphics processing units and cards. All of the actions appear to allege that the defendants conspired to fix, raise, maintain, or stabilize the prices of graphics processing units and cards in violation of federal antitrust law and/or state antitrust law. Further, each of the complaints is styled as a putative class action and alleges a class of plaintiffs (either indirect or direct purchasers) who purportedly suffered injury as a result of the defendants' alleged conduct. The majority of the complaints propose a class period from November or December 2002 to the present.

Environmental Matters

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

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

To address anticipated future remediation costs under the orders, we have computed and recorded an estimated environmental liability of approximately $4.2 million in accordance with applicable accounting rules and have not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The progress of future remediation efforts cannot be predicted with certainty, and these costs may change. We believe that the potential liability, if any, in excess of amounts already accrued, will not have a material adverse effect on our financial condition or results of operations.

Other Matters

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock (symbol "AMD") is listed on the New York Stock Exchange. On February 16, 2007, there were 7480 registered holders of our common stock. The following table sets forth on a per share basis the high and low intra-day sales prices on the New York Stock Exchange for our common stock for the periods indicated:

	High	Low
Fiscal year ended December 31, 2006		
First quarter	$ 42.70	$ 30.16
Second quarter	36.08	23.46
Third quarter	27.90	16.90
Fourth quarter	25.69	19.90

	High	Low
Fiscal year ended December 25, 2005		
First quarter	$ 22.37	$ 14.63
Second quarter	18.34	14.08
Third quarter	24.03	16.63
Fourth quarter	30.65	20.22

We have never paid any cash dividends on our common stock and have no present plans to do so. Under the terms of our October 2006 Term Loan and the terms of our Indenture for the 7.75% Notes dated October 29, 2004 with Wells Fargo Bank, N.A., as Trustee, we are limited in our ability to pay cash dividends unless we obtain the written consent of the lenders and bondholders. Specifically, we are prohibited from paying cash dividends if the aggregate amount of dividends and other restricted payments made by us since entering into the respective agreement would exceed the sum of specified financial measures including fifty percent of consolidated net income as that term is defined in the respective agreement. In addition, our German subsidiary, AMD Fab 36 KG is restricted by the terms of the Fab 36 Loan Agreement from paying cash dividends to us or providing loans or advances to us in certain circumstances without the prior written consent of the lenders.

The information under the caption, "Equity Compensation Plan Information," in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 3, 2007 (2007 Proxy Statement) is incorporated herein by reference.

During the period covered by this report, we issued or sold the following equity securities that were not registered under the Securities Act of 1933, or the Act.

On October 25, 2006, we acquired all the outstanding shares of ATI for a combination of approximately $4.3 billion in cash, and approximately 58 million shares of our common stock. The common stock was issued pursuant Section 3(a)(10) of the Act, which provides an exemption from the registration requirements of the Act. The Superior Court of Justice (Ontario) held a hearing regarding, among other things, the fairness of the transaction and approved the transaction. This hearing satisfied the requirements of Section 3(a)(10).

We have an ongoing authorization from the Board of Directors to repurchase up to $300 million worth of our common stock over a period of time to be determined by management. These repurchases may be made in the open market or in privately negotiated transactions from time to time in compliance with applicable rules and regulations, subject to market conditions, applicable legal requirements and other factors. We are not required to repurchase any particular amount of our common stock and the program may be suspended at any time at our discretion. During the fourth quarter of 2006, we did not repurchase any of our equity securities pursuant to this Board authorized program.

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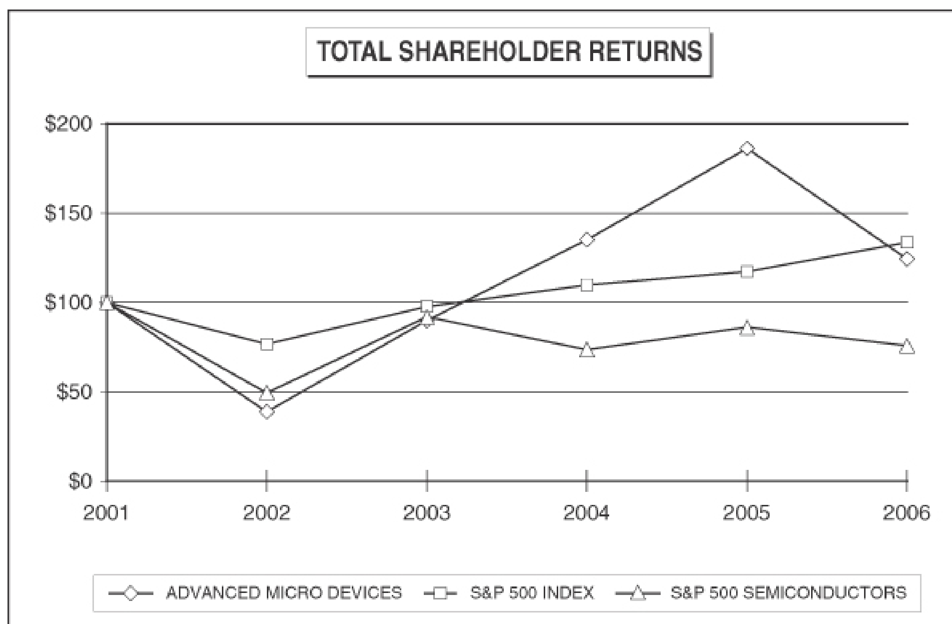
Performance Graph

Comparison of Five-Year Cumulative Total Returns
Advanced Micro Devices, S&P 500 Index and S&P 500 Semiconductor Index

The following graph shows a five-year comparison of cumulative total return on our common stock, the S&P 500 Index and the S&P 500 Semiconductor Index from December 28, 2001 through December 31, 2006. The past performance of our common stock is no indication of future performance.

Comparison of Five Year Total Return



This graph was plotted using the following data:

Company / Index	Base Period 12/28/01	Years Ending 12/29/02	12/28/03	12/26/04	12/25/05	12/31/06
AMD	**100**	38.77	89.74	135.04	186.20	124.24
S&P 500 Index	**100**	76.65	97.70	109.75	117.20	133.53
S&P 500 Semiconductors	**100**	49.40	91.76	73.56	86.05	75.77

ITEM 6. SELECTED FINANCIAL DATA

Five Years Ended December 31, 2006
(In millions except per share amounts)

	2006[1][2]	2005[2]	2004[3]	2003[4]	2002
Net Revenue	$ 5,649	$5,848	$5,001	$3,519	$ 2,697
Cost of sales	2,856	3,456	3,033	2,327	2,105
Gross margin	2,793	2,392	1,968	1,192	592
Research and development	1,205	1,144	934	852	816
Marketing, general and administrative	1,140	1,016	812	587	670
In-process research and development	416[5]	—	—	—	—
Amortization of acquired intangible assets and other integration charges	79[6]	—	—	—	—
Restructuring and other special charges (recoveries), net	—	—	—	(14)	331[7]
Operating income (loss)	(47)	232	222	(233)	(1,225)
Interest income	116	37	18	20	35
Interest expense	(126)	(105)	(112)	(110)	(71)
Other income (expense), net	(13)	(24)	(49)[8]	1	(3)
Income (loss) before minority interest, equity in net income (loss) of Spansion Inc. and other and income taxes	(70)	140	79	(322)	(1,264)
Minority interest in consolidated subsidiaries[9]	(28)	125	18	45	—
Equity in net income (loss) of Spansion Inc. and other	(45)	(107)[10]	—	6	6
Income (loss) before income taxes	(143)	158	97	(271)	(1,258)
Provision (benefit) for income taxes	23[12]	(7)	6	3	45[11]
Net income (loss)	$ (166)	$ 165	$ 91	$ (274)	$(1,303)
Net income (loss) per common share					
Basic—income (loss)	$ (0.34)	$ 0.41	$ 0.25	$ (0.79)	$ (3.81)
Diluted—income (loss)	$ (0.34)	$ 0.40	$ 0.25	$ (0.79)	$ (3.81)
Shares used in per share calculation					
Basic	492	400	359	347	342
Diluted	492	441	371	347	342
Long-term debt, capital lease obligations and other, less current portion[13]	$ 4,189	$1,786	$2,043	$2,328	$ 1,892
Total assets	$13,147	$7,288	$7,844	$7,050	$ 5,694

(1) 2006 includes the operations of ATI for the period from October 25, 2006 through December 31 2006. As a result 2006 is not fully comparable to prior periods.

(2) Consolidated statement of operations data for 2005 includes the results of operations for our former Memory Products segment through December 20, 2005. From December 21, 2005, the date that Spansion closed its IPO, through December 25, 2005 and for all of 2006 we used the equity method of accounting to reflect our share of Spansion's net income (loss). We include this information under the caption, "Equity in net income (loss) of Spansion Inc. and other," on our consolidated statement of operations. Therefore, 2006 is not fully comparable to prior periods.

(3) Consolidated statement of operations data for 2004 includes the results of operations for our former Memory Products segment for the entire year. Therefore, 2004 is not fully comparable to 2005 during which Spansion's results of operations were not consolidated with our results of operations for the last five days of the fiscal year.

(4) Consolidated statement of operations data for 2003 includes the results of operations of Spansion from June 30, 2003, the date of formation of Spansion LLC (formerly known as FASL LLC). Spansion's results

of operations were reported as part of our former Memory Products segment. We formed Spansion LLC with Fujistu Limited on June 30, 2003 by expanding an existing manufacturing joint venture that was formed in 1993 and in which we had an ownership interest of slightly less than 50 percent. Upon the formation of Spansion LLC, our ownership interest increased to 60 percent, From June 30, 2003 through December 20, 2005 we maintained our 60 percent ownership interest, Prior to June 30, 2003, we accounted for our interest in the manufacturing joint venture under the equity method. Therefore, consolidated statement of operations data for 2003 is not comparable to 2004, and consolidated statement of operations data for 2003 is not comparable to 2002 data. Minority interest consists primarily of the elimination of Fujitsu Limited's share of the income (loss) of Spansion. Fujitsu held a 40 percent minority ownership interest in Spansion, prior to the IPO of Spansion Inc (Spansion Related Minority Interest).

(5) Represents a write off of in-process research and development in connection with the ATI acquisition.

(6) Represents amortization of acquisition related intangible assets acquired as part of the ATI acquisition and charges incurred to integrate the operations of ATI with our operations.

(7) In 2002, we incurred approximately $331 million of charges in connection with the 2002 Restructuring Plan.

(8) Other income (expense), net, includes a charge of approximately $32 million associated with our exchange of $201 million of our 4.50% Convertible Senior Notes due 2007 (4.5% Notes) for common stock and a charge of approximately $14 million in connection with our prepayment of amounts outstanding under a term loan agreement among our German subsidiary, AMD Fab 30 Limited Liability Company & Co. KG, and the lenders party thereto (the Fab 30 Term Loan).

(9) The 2006 minority interest amount represents the guaranteed rate of return of between 11 and 13 percent related to the limited partnership contributions that AMD Fab 36 KG received from the unaffiliated partners (Fab 36 Minority Interest); the 2005 and 2004 minority interest amount includes the Fab 36 Minority Interest and Spansion Related Minority Interest; the 2003 minority interest amount represents the Spansion Related Minority Interest.

(10) Due to the dilution in our ownership interest in Spansion from 60 percent to approximately 38 percent in connection with Spansion's IPO, we recorded a loss of $110 million which represents the difference between Spansion's book value per share before and after the IPO multiplied by the number of shares owned by us.

(11) The 2002 income tax provision was recorded primarily for taxes due on income generated in certain state and foreign tax jurisdictions. No tax benefit was recorded in 2002 on pre-tax losses due to the establishment of a valuation allowance against the remainder of our U.S. deferred tax assets, net of U.S. deferred liabilities, in the fourth quarter, due to the incurrence of continuing substantial operating losses in the U.S.

(12) The 2006 income tax provision primarily results from current foreign taxes, plus deferred U.S. tax related to indefinite-lived goodwill, and reduced by deferred foreign benefits from removing part of the valuation allowance on German net operating loss carryovers of Fab 36.

(13) Includes long-term debt and capital lease obligations, less current portion and Other long-term liabilities.

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes as of December 31, 2006 and December 25, 2005 and for each of the three years in the period ended December 31, 2006, which are included in this Form 10-K.

Introduction

We are a global semiconductor company with facilities around the world. During most of 2006, within the global semiconductor industry, we offered primarily:

- x86 microprocessors, for the commercial and consumer markets, which are used for control and computing tasks; and
- Embedded microprocessors for commercial, commercial client and consumer markets.

As a result of our acquisition of ATI in October 2006, we began to supply 3D graphics, video and multimedia products and chipsets for desktop and notebook PCs, professional workstations, and servers as well as products for consumer electronic devices such as mobile phones, digital TVs and game consoles. Therefore, since the acquisition, we have actively participated in the semiconductor graphics and chipset markets as well as in the semiconductor market for consumer electronics devices.

Prior to the closing of the initial public offering, or IPO, of Spansion Inc., on December 21, 2005, which is described in more detail below, we also manufactured and sold Flash memory devices through Spansion LLC, our former majority-owned subsidiary.

In this section, we will describe the general financial condition and the results of operations for Advanced Micro Devices, Inc. and its consolidated subsidiaries, including a discussion of our results of operations for 2006 compared to 2005 and 2005 compared to 2004, an analysis of changes in our financial condition and a discussion of our contractual obligations and off balance sheet arrangements. Our results of operations include sales of graphics, video, multimedia and chipset products and products for consumer electronics devices from the closing date of the ATI acquisition on October 25, 2006 through December 31, 2006 in two new reportable segments: (i) Graphics and Chipsets and (ii) Consumer Electronics. We are not able to provide any comparative information for these two segments because prior to the ATI acquisition, we did not participate in these markets. This MD&A should be read in conjunction with the other sections of this Form 10-K, including "Part I, Item 1: Business;" "Part II, Item 6: Selected Financial Data;" and "Part II, Item 8: Financial Statements and Supplementary Data."

Overview

Total net revenue in 2006 amounted to $5.6 billion, an increase of 44 percent from net revenue, excluding the Memory Products segment, of $3.9 billion in 2005. 2006 included approximately $400 million of net revenue attributable to our two new reportable segments—Graphics and Chipsets, and Consumer Electronics. Overall growth, however, was primarily driven by the performance of our Computation Products segment where net revenue of $5.1 billion increased by 35 percent compared to 2005 due to increased unit sales of our desktop, mobile and server processors. We believe that our continued strategy of developing products based on our customers' needs combined with our open standards approach, which allows customers to choose the combination of technologies that best serve their needs, contributed to accelerating customer and end-user adoption of our products across all geographies.

During 2006 we also experienced the following: increasing adoption of our products among enterprises; increasing sales of our server and mobile processor products; establishment of relationships with key OEMs such as Dell Inc., Founder Technology and Tsinghua Tongfang and strengthening relationships with existing OEM customers; and a decrease in our dependence on mature markets such as North America and Europe by focusing on high growth markets, such as China. By the end of 2006, 95 percent of the top 100—and over 65 percent

of the top 500 of the *Forbes* Global 2000 were using AMD64 technology, and existing customers continued to expand the number of AMD-based solutions targeting the commercial market. Also, compared to 2005, sales of our mobile and server processor products grew faster than sales of our desktop products.

We believe our progress in the marketplace in 2006 will allow us to continue to develop products based on platform solutions. Platforms consist of a collection of technologies that are designed to work together to provide a better product than if the technologies were used separately. With our acquisition of ATI in October 2006, which is described in more detail below, we intend to develop and offer integrated CPU and GPU platforms to our customers. However, we also intend to continue to develop and provide discrete microprocessor and graphics processor products and to maintain open interface and software standards in order to allow our customers to choose the combination of technologies that best serve their needs.

We also continued to execute our microprocessor manufacturing plans during 2006. During the first quarter, we began commercial shipments of processors manufactured on 300-millimeter wafers at Fab 36. During June 2006, we began shipments of processors manufactured at Chartered Semiconductor, and during the fourth quarter we began commercial shipments of processors manufactured using 65-nanometer technology.

We also announced developments in our future manufacturing capacity strategy. In May 2006, we announced plans to significantly expand our 300-millimeter manufacturing capacity in Dresden, Germany by converting Fab 30 from manufacturing 200-millimeter wafers to 300-millimeter wafers, expanding the capacity of Fab 36 and adding a new facility to support bump and test activities. We also announced an agreement with the New York State Urban Development Corporation d/b/a Empire State Development Corporation pursuant to which we would receive financial incentives from the State of New York to build a new 300-millimeter wafer fabrication facility on the Luther Forest Technology Campus in Saratoga County, New York if we decide to build the facility. We believe that our investment in expanding the manufacturing capacity of our Dresden operations and the option to build a new manufacturing facility in New York will provide us with maximum flexibility to intelligently scale production to meet market demand.

We also faced challenges in 2006, particularly in the second half of the year, due to competitive market conditions. Despite a richer product mix in 2006 compared to 2005, average selling prices remained relatively flat. Higher average selling prices in the first half of 2006 were offset by lower average selling prices in the second half of 2006. Average selling prices decreased significantly in the fourth quarter of 2006 as compared to the third quarter of 2006 particularly for our server processor products, which had a negative impact on fourth quarter gross margin. Similarly, gross margins in 2006 decreased compared to gross margins, excluding the Memory Products segment, in 2005. Higher gross margins in the first half of 2006 were more than offset by lower gross margins in the second half of 2006 due to declining average selling prices, higher manufacturing costs and the consolidation of the operations of ATI, which historically has had lower gross margins than AMD’s business. We believe that 2007 will continue to be extremely competitive, particularly with respect to product pricing.

Another challenge in the second half of 2006 related to the ability of our supply chain to keep up with the significant ramp in microprocessor units sold across a diverse set of customers and geographies and to deliver products on a timely basis. One of our key goals in 2007 is to improve the efficiency and scalability of our supply chain.

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

ATI Acquisition

On October 25, 2006, we completed the acquisition of all of the outstanding shares of ATI, a publicly held company headquartered in Markham, Ontario, Canada for a combination of cash and our common stock.

The aggregate consideration that we paid for all outstanding ATI common shares consisted of approximately $4.3 billion of cash and 58 million shares of our common stock. In addition, we also issued options to purchase approximately 17.1 million shares of our common stock and approximately 2.2 million comparable AMD restricted stock units in exchange for outstanding ATI stock options and restricted stock units. To finance a portion of the cash consideration paid, we borrowed $2.5 billion under the October 2006 Term Loan. The total purchase price for ATI was $5.6 billion, including acquisition related costs of $25 million, and consisted of:

	(In millions)
Acquisition of all of the outstanding shares, stock options, restricted stock units and other stock-based awards of ATI in exchange for:	
Cash	$ 4,263
58 million shares of AMD common stock	1,172
Fair value of vested options and restricted stock units issued	144
Acquisition related transaction costs	25
Total purchase price	$ 5,604

The fair value of the common stock we issued was determined under EITF 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*, which reflected the average of the closing prices of our common stock on the NYSE for the three trading days prior to October 25, 2006. The fair value of the options and restricted stock units we issued was determined under SFAS 123R, *Share-Based Payment* (SFAS 123R). The vested portion of these options and restricted stock units was valued at approximately $144 million. The unvested portion valued at approximately $69 million will be amortized over the future remaining vesting periods. The stock compensation expense for 2006 related to these stock options and restricted stock units was approximately $10 million.

Preliminary Purchase Price Allocation

We accounted for the acquisition using the purchase method of accounting in accordance with the provisions of SFAS No. 141, *Business Combinations*. We included the operations of ATI in our consolidated financial statements from October 25, 2006 through December 31, 2006. The total purchase price was preliminarily allocated to ATI's tangible and identifiable intangible assets and liabilities based on their estimated fair values as of October 24, 2006 as set forth below:

	(In millions)
Cash and marketable securities	$ 500
Accounts receivable	290
Inventories	431
Goodwill	3,217
Developed product technology	752
Game console royalty agreement	147
Customer relationships	257
Trademarks and trade names	62
Customer backlog	36
In-process research and development	416
Property, plant and equipment	143
Other assets	25
Accounts payable and other liabilities	(631)
Reserves for exit costs	(8)
Debt and capital lease obligations	(31)
Deferred revenues	(2)
Total purchase price	$ 5,604

The primary areas of purchase price allocation that are not yet finalized relate to ATI-related exit costs, certain liabilities assumed, certain legal matters discussed in "Part I, Item 3, Legal Proceedings" and tax related contingencies. Resolution of ATI tax-related contingencies for amounts different than amounts recorded as of the close of the acquisition will result in adjustments to goodwill. Adjustments to amounts recorded as of the close of the acquisition related to the finalization of ATI-related exit costs and resolution of certain ATI legal contingencies will result in adjustments to goodwill or will be recorded in post-acquisition operating results, depending on the nature and timing of such adjustments.

Management performed an analysis to determine the fair value of each tangible and identifiable intangible asset, including the portion of the purchase price attributable to acquired in-process research and development projects.

In-Process Research and Development

Of the total purchase price, approximately $416 million was allocated to in-process research and development (IPR&D) and was expensed in the fourth quarter of fiscal year 2006. Projects that qualify as IPR&D represent those that have not reached technological feasibility and have no alternative future use at the time of the acquisition. The value assigned to IPR&D was determined using a discounted cash flow methodology, specifically an excess earnings approach, which estimates value based upon the discounted value of future cash flows expected to be generated by the in-process projects, net of all contributory asset returns. The approach includes consideration of the importance of each project to the overall development plan, estimating costs to develop the purchased IPR&D into commercially viable products. The revenue estimates used to value the purchased IPR&D were based on estimates of the relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by ATI and its competitors.

The discount rates applied to individual projects were selected after consideration of the overall estimated weighted average cost of capital for ATI and the discount rates applied to the valuation of the other assets acquired. Such weighted average cost of capital was adjusted to reflect the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, the percentage of completion of each project, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets.

We acquired and intend to continue developing approximately $306 million and $325 million in-process projects in the Graphics and Chipsets segment, and the Consumer Electronics segment. These projects include development of next generation GPU, chipset, handheld and digital TV products. The estimated fair value of the projects for the Graphics and Chipsets segment was approximately $193 million and we expect to incur approximately $113 million to complete these projects over the next two years. The estimated fair value of the projects for the Consumer Electronics segment was approximately $223 million and we expect to incur approximately $102 million to complete these projects over the next two years. In developing the estimated fair values, we used discount rates ranging from 14 percent to 15 percent.

The development of these technologies remains a risk due to the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for new products, and significant competitive threats from our competitors. Failure to develop these technologies into commercially viable products and/or failure to bring them to market in a timely manner could result in a loss of market share and could have a material adverse impact on our business and operating results and could negatively impact the return on investment expected at the time that this acquisition was completed and may result in impairment charges.

The estimates used in valuing these IPR&D were based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable, and, as a result, actual results may differ from estimates.

There have not been any significant changes in the status of the efforts to complete these projects as of December 31, 2006.

Other Acquisition Related Intangible Assets

Developed product technology consists of products that have reached technological feasibility and includes technology in ATI's discrete GPU products, integrated chipset products, handheld products, and digital TV products divisions. We expect this intangible asset to have a useful life of five years.

Game console royalty agreements represent agreements existing as of October 24, 2006 with video game console manufacturers for the payment of royalties to ATI for intellectual property design work performed and were estimated to have an average useful life of five years.

Customer relationship intangibles represent ATI's customer relationships existing as of October 24, 2006 and were estimated to have an average useful life of four years.

We expect trademarks and trade names to have an average useful life of seven years.

Customer backlog represents customer orders existing as of October 24, 2006 that had not been delivered and were estimated to have a useful life of 14 months.

We determined the fair value of intangible assets using income approaches based on the most current financial forecast available as of October 24, 2006. The discount rates we used to discount net cash flows to their present values ranged from 12 percent to 15 percent. We determined these discount rates after consideration of our estimated weighted average cost of capital and the estimated internal rate of return specific to the acquisition. We recorded the excess of the purchase price over the net tangible and identifiable intangible assets as goodwill.

We based estimated useful lives for the intangible assets on historical experience with technology life cycles, product roadmaps and our intended future use of the intangible assets. We are amortizing the acquisition related intangible assets using the straight-line method over their estimated useful lives.

Integration Costs

Concurrent with the acquisition, we implemented an integration plan, which included the termination of some ATI employees, the relocation or transfer to other sites of other ATI employees and the closure of duplicate facilities. We estimated the costs associated with employee severance and relocation to be $7 million. We estimated the costs associated with the closure of duplicate facilities to be $1 million. These costs were included as a component of net assets acquired. Additionally, the integration plan also included termination of some AMD employees, cancellation of some existing contractual obligations, and other costs to integrate the operations of the two companies. We estimated these costs to be $32 million for the year ended December 31, 2006, and they are included in the caption, "Amortization of acquired intangible assets and integration charges" on our consolidated statement of operations.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. 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 revenues, inventories, asset impairments, goodwill, business combination, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been reasonably consistent with management's expectations, actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

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

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

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

Impairment of Long-Lived Assets. We consider no less frequently than quarterly whether indicators of impairment of long-lived assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset and significant changes in the extent or manner in which an asset is used. If these or other indicators are present, we determine whether the estimated undiscounted cash flows attributable to the assets in question are less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the asset determined to be impaired is to be held and used, we recognize an impairment loss through a charge to our operating results which also reduces the carrying basis of the related asset(s). The new carrying value of the related asset(s) is depreciated over the remaining estimated useful life of the asset(s). We may incur additional impairment losses in future periods if factors influencing our estimates of the undiscounted cash flows change.

Goodwill. As a result of the ATI acquisition, we recorded approximately $3.2 billion of goodwill on our books. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* we are required to review goodwill for impairment at least annually or more often if there are indicators of impairment present. We will perform our annual impairment analysis during the fourth quarter of each year, with the first impairment test related to ATI goodwill to be performed during the fourth quarter of 2007. The provisions of SFAS 142 require that a two-step impairment test be performed on goodwill. In the first step, we will compare the fair value of each reporting unit to which goodwill has been allocated to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the number of reporting units and the fair value of a reporting unit requires us to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted

discount rates, future economic and market conditions and determining of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our reporting units.

Business Combinations. In accordance with business combination accounting, we have allocated the purchase price of ATI to tangible and acquisition related intangible assets acquired and liabilities assumed as well as to in-process research and development based on their estimated fair values. These valuations require us to make significant estimates and assumptions, especially with respect to acquisition related intangible assets.

We will review the acquisition related intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recovered.

We make estimates of fair value using reasonable assumptions based on historical experience and information obtained from the management of the acquired company. Critical estimates in valuing certain of the acquisition related intangible assets include but are not limited to: future expected cash flows from sale of products, expected costs to develop in-process research and development projects into commercially viable products and estimated cash flows from the projects when completed; the market's awareness of the acquired company's brand and the acquired company's market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and discount rates. Unanticipated events may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

Income Taxes. In determining taxable income for financial statement reporting purposes, we must make certain estimates and judgments. These estimates and judgments are applied in the calculation of certain tax liabilities and in the determination of the recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.

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

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the Internal Revenue Service or other taxing jurisdiction. If our estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result.

Results of Operations

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

Prior to December 21, 2005, we had the following three reportable segments:

- the Computation Products segment, which included microprocessor products for desktop and mobile PCs, servers and workstations and AMD chipset products;
- the Memory Products segment, which included Spansion Flash memory products; and
- the Personal Connectivity Solutions segment, which consisted of embedded processors for global commercial and consumer markets.

On December 21, 2005, Spansion Inc., our former majority-owned subsidiary, completed its initial public offering, or IPO. Following the IPO, our ownership interest in Spansion was reduced from 60 percent to approximately 38 percent of Spansion's outstanding common stock. In November 2006, we sold 21 million shares of Spansion's Class A common stock in an underwritten public offering. As a result of this sale, as of December 31, 2006 we owned approximately 21 percent of Spansion's outstanding common stock.

As a result of Spansion's IPO, our financial results of operations include Spansion's financial results of operations as a consolidated subsidiary only through December 20, 2005. From December 21, 2005, Spansion's operating results and financial position are not consolidated as part of our financial results. Instead, we applied the equity method of accounting to reflect our share of Spansion's net income (loss) from December 21, 2005 through December 31, 2006. Accordingly, our operating results, including the segment operating results for the Memory Products segment, for the year ended December 25, 2005 are not fully comparable with our results for 2004 or 2006. Because we currently report our interest in Spansion's results of operations using the equity method of accounting, our share of Spansion's net income (loss) will impact our net income (loss).

Following Spansion's IPO, from December 21, 2005 through October 24, 2006, we had two reportable segments: the Computation Products segment and the Embedded Products segment, which prior to the first quarter of 2006, we referred to as the Personal Connectivity Solutions segment. In addition we also had an All Other category, which was not a reportable segment. This category included sales of Personal Internet Communicator (PIC) products, which the Company's Chief Operating Decision Maker (CODM), who is also our Chief Executive Officer, began to review separately starting in the third quarter of 2005, and certain operating expenses and credits that were not allocated to any of our reportable segments because the CODM did not consider these operating expenses and credits in evaluating the operating performance of our reportable segments. Effective as of the third quarter of 2006, PIC products have not been manufactured.

As a result of the acquisition of ATI, effective October 25, 2006, we now have the following four reportable segments:

- the Computation Products segment, which includes microprocessors, chipset products that we manufactured prior to the ATI acquisition and related revenue;
- the Embedded Products segment, which includes embedded processors and related revenue;
- the Graphics and Chipsets segment, which includes 3D graphics, video and multimedia products and chipsets sold by ATI prior to the acquisition for use in desktop and notebook PCs, including home media PCs, professional workstations and servers, and related revenue; and
- the Consumer Electronics segment, which includes products used in handheld devices, such as mobile phones and PDAs, digital televisions and other consumer electronics products as well as related revenue and revenue for royalties received in connection with sales of game console systems that incorporate our products.

In addition to the reportable segments, we have an All Other category, which is not a reportable segment. The All Other category includes certain operating expenses and credits that are not allocated to any of the operating segments because the CODM does not consider these operating expenses and credits in evaluating the operating performance of the operating segments. Also, following the acquisition of ATI, we began including employee stock-based compensation expense, profit sharing expense, and ATI acquisition-related and integration charges in the All Other category. We reclassified prior period segment information to conform to the current period's presentation.

We use a 52- to 53-week fiscal year ending on the last Sunday in December. The year ended December 31, 2006 consisted of 53 weeks, and the years ended December 25, 2005, and December 26, 2004 each included 52 weeks. References in this report to 2006, 2005 and 2004 shall refer to the fiscal year unless explicitly stated otherwise. Commencing in 2007, we will use a 52- to 53-week fiscal year ending on the last Saturday in December.

The following is a summary of our net revenue and operating income (loss) by segment for 2006, 2005 and 2004.

	2006	2005	2004
		(In millions)	
Net revenue:			
Computation Products	$5,104	$3,793	$2,528
Embedded Products	149	136	130
Graphics and Chipsets	278	—	—
Consumer Electronics	120	—	—
All Other	(2)	6	—
Memory Products	—	1,913	2,343
Total Net Revenue	$5,649	$5,848	$5,001
Operating income (loss):			
Computation Products	$ 706	$ 641	$ 280
Embedded Products	(18)	(55)	(54)
Graphics and Chipsets	(33)	—	—
Consumer Electronics	20	—	—
All Other	(722)	(43)	(39)
Memory Products	—	(311)	35
Total Operating Income (Loss)	$ (47)	$ 232	$ 222

Computation Products

Computation Products net revenue of $5.1 billion in 2006 increased 35 percent compared to net revenue of $3.8 billion in 2005 primarily as a result of a 35 percent increase in unit shipments. Unit shipments increased in 2006 compared to 2005 due to increased demand for processors in each of the desktop, server and mobile products. However, we believe that the challenge we experienced with the ability of our supply chain to keep up with the increased demand across a diverse set of customers and geographies and to deliver products on a timely basis had an adverse impact on unit shipments. Despite a richer product mix in 2006, average selling prices remained relatively flat in 2006 as compared to 2005. Higher average selling prices in the first half of 2006 were offset by lower average selling prices in the second half of 2006 due to competitive market conditions. Specifically, in the second half of 2006 aggressive pricing by our principal competitor in an attempt to regain market share adversely impacted our average selling prices. Our competitor also launched its quad-core multi-chip module processors during the fourth quarter of 2006, and since we did not offer quad-core products during this period, we discounted the selling price of certain of our competing products which adversely impacted our average selling prices, margins and profitability. We do not anticipate shipping our first quad-core products until mid-2007. We anticipate that 2007 will continue to remain extremely competitive, particularly with respect to product pricing.

Computation Products net revenue of $3.8 billion in 2005 increased 50 percent compared to net revenue of $2.5 billion for 2004 primarily due to an increase of 37 percent in unit shipments and an increase of nine percent in average selling prices. Unit shipments increased due to greater demand for our desktop, mobile and server products across all geographic regions, particularly in North America and Greater China. In addition, our introduction of AMD Turion 64 processors for notebook PCs in March 2005, AMD Opteron dual-core processors for servers and workstations in April 2005 and AMD Athlon 64 dual-core processors for desktop PCs in May 2005 helped drive increasing customer adoption of our products. The increase in average selling prices was primarily due to increased sales of our higher priced, high-performance AMD64-based processors which contributed to a richer product mix.

Computation Products operating income of $706 million in 2006 increased by $65 million, or 10 percent, compared to operating income of $641 million in 2005. This increase was primarily due the 35 percent increase

in net revenue partially offset by an increase in marketing, general and administrative expenses of $258 million and an increase in research and development expenses of $222 million.

Computation Products operating income of $641 million in 2005 increased by $361 million, or 129 percent, compared to operating income of $280 million in 2004. This increase was primarily due to a 50 percent increase in net revenue whereas cost of sales increased by only 45 percent. Partially offsetting this increase was an increase in marketing, general and administrative expense of $199 million and an increase in research and development expenses of $203 million.

Embedded Products

Embedded Products net revenue of $149 million in 2006 increased by $13 million, or 10 percent, compared to net revenue of $136 million in 2005. The increase was primarily due to a $16 million increase in sales of AMD Geode products, offset by $4 million decrease in legacy networking products.

Embedded Products net revenue of $136 million in 2005 increased by $6 million, or four percent, compared to net revenue of $130 million in 2004. The increase was primarily due to a $13 million increase in sales of AMD Geode products and an $8 million increase in sales of other embedded processors, partially offset by a $15 million decrease in sales of legacy networking products and MIPS-architecture based products.

Embedded Products operating loss of $18 million in 2006 decreased $37 million as compared to an operating loss of $55 million in 2005. The decrease in operating loss was primarily due to a $20 million decrease in research and development expenses and $12 million in sales of products that we had previously written off.

Embedded Products operating loss of $55 million in 2005 was flat compared to an operating loss of $54 million in 2004. The increase in net revenue of $6 million from 2004 to 2005 was offset by an increase in operating expenses of $6 million.

Graphics and Chipsets

Net revenue and operating loss represents the operating results of this segment for the period of October 25, 2006 through December 31, 2006. We are not able to provide any comparative information for this segment because prior to the ATI acquisition we did not sell comparable products. Sales of AMD chipsets are included in the Computation Products segment.

Consumer Electronics

The revenue and operating income represents the operating results of this segment for the period of October 25, 2006 through December 31, 2006. We are not able to provide any comparative information for this segment because prior to the ATI acquisition we did not sell comparable products.

Memory Products

As a result of Spansion’s IPO in December 2005, we stopped manufacturing and selling memory products. Therefore, we did not have a Memory Products segment in 2006.

Memory Products net revenue of $1.9 billion in 2005 decreased 18 percent compared to net revenue of $2.3 billion in 2004. In 2005, we consolidated Spansion’s net revenue into our Memory Product segment only through December 20, 2005. Therefore, approximately $104 million of Spansion’s net revenue from December 21, 2005 through December 25, 2005 was excluded from Memory Products net revenue in 2005. In addition, Memory Products net revenue was adversely impacted due to a decrease of 28 percent in average selling prices in 2005 compared to 2004, partially offset by an increase of 14 percent in unit shipments in 2005 compared to 2004. Net

revenue for the Memory Products segment for 2005 is not fully comparable with net revenue for 2004 because Spansion's net revenue was not consolidated with our net revenue from December 21, 2005 through December 25, 2005.

We experienced an operating loss of $311 million in 2005 in the Memory Products segment compared to operating income of $35 million in 2004. The decline in operating results was primarily due to a decrease in net revenue of $430 million while the cost of sales only decreased $109 million. Net revenue decreased as a result of a decrease of 28 percent in average selling prices in 2005 compared to 2004. Net revenue for the Memory Products segment for 2005 is not fully comparable with net revenue for 2004 because Spansion's net revenue was not consolidated with our net revenue from December 21, 2005 through December 25, 2005. In addition, we recorded a goodwill impairment charge of approximately $16 million during the fourth quarter of 2005. Goodwill in the amount of $16 million was generated on June 30, 2003 as a result of the formation of Spansion LLC, which we accounted for as a partial step acquisition and purchase business combination. In the fourth quarter of 2005, after considering the fact that the estimated fair value of Spansion was less than our carrying net book value and after comparing the estimated fair value of Spansion's assets (other than goodwill) to our carrying net book value for such assets, we concluded that the implied fair value of goodwill is zero. Therefore, we wrote off the entire $16 million of recorded goodwill.

All Other Category

All Other net revenue in 2006 decreased by $8 million from 2005, primarily because, we had minimal revenue from sales of PIC products and customers returned previously sold PIC products. Effective as of the third quarter of 2006, PIC products have not been manufactured.

All Other net revenue in 2005 was $6 million because of sales of PIC products. We launched the PIC in October 2004, and we did not generate any material sales from PIC products in 2004.

All Other operating loss of $722 million in 2006 increased by $679 million compared to an operating loss of $43 million in 2005. The increase in operating loss was primarily attributable to ATI acquisition-related charges of $557 million and an increase in employee stock-based compensation expense and profit sharing expense of $104 million. The ATI acquisition-related charges include the in-process research and development write-off of $416 million, amortization of acquired intangible assets of $47 million, cost of fair value adjustments to acquired inventory of $62 million and a $32 million charge associated with the integration plan which included termination of some AMD employees, cancellation of some existing contractual obligations and other costs that we incurred to integrate the operations of the two companies.

All Other operating loss of $43 million in 2005 increased from $39 million in 2004, primarily due a $10 million increase in employee stock-based compensation expense and profit sharing expense, partially offset by the fact that in 2004 we incurred restructuring and other special charges of $5 million, whereas there were no comparable charges in 2005.

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

The following is a summary of certain consolidated statement of operations data for the years ended December 31, 2006, December 25, 2005 and December 26, 2004:

	2006	2005	2004
		(In millions except for percentages)	
Cost of sales	$2,856	$3,456	$3,033
Gross margin	2,793	2,392	1,968
Gross margin percentage	49%	41%	39%
Gross margin percentage excluding Memory Products	49%	56%	55%
Research and development	$1,205	$1,144	$ 934
Marketing, general and administrative	1,140	1,016	812
In-process research and development	416	—	—
Amortization of acquired intangible assets and integration charges	79	—	—
Interest income	(116)	(37)	(18)
Interest expense	126	105	112
Other income (expense), net	(13)	(24)	(49)
Equity in net loss of Spansion Inc. and other	(45)	(107)	—
Income tax provision (benefit)	23	(7)	6

Gross Margin

Gross margin increased to 49 percent in 2006 compared to 41 percent in 2005 because we did not consolidate Spansion's results of operations with ours in 2006. Gross margin decreased to 49 percent in 2006 compared to gross margin, excluding the Memory Products segment, of 56 percent in 2005. Higher gross margin in the first half of 2006 was more than offset by lower gross margin in the second half of 2006. The decrease in gross margin in 2006 compared to 2005 was primarily due to increased manufacturing costs and flat average selling prices. The increase in manufacturing costs was primarily due to a shift in our product mix to higher-end microprocessor products. In addition, consolidated gross margin was adversely impacted by approximately two percent due to the consolidation of ATI's operations into ours from October 25, 2006 through December 31, 2006. Historically, the ATI business had lower gross margins as compared to AMD. Gross margin was also adversely impacted by approximately one percent due to the costs of fair value adjustments related to the inventory we acquired through the ATI acquisition. To the extent that average selling prices decrease without a corresponding decrease in manufacturing costs, our gross margins will be adversely impacted.

Gross margin increased to 41 percent in 2005 compared to 39 percent in 2004. The improvement in gross margin was primarily due to increased sales of our microprocessor products, which comprised a greater percentage of total net revenue in 2005 as compared to 2004. Computation Products net revenue carried a higher gross margin than Memory Products net revenue. In addition, the improvement in gross margin was due to a 1.5 percent increase in gross margin for Computation Products. Computation Products gross margin improved as a result of a nine percent increase in average selling prices discussed above, partially offset by increased manufacturing costs caused by the shift in our product mix to higher-end microprocessor products. Gross margin also improved because we were better able to absorb our fixed manufacturing costs due in part to improving yields at Fab 30. The improvement in gross margin was partially offset by a 12 percent decrease in gross margin for Memory Products due primarily to a decrease of 28 percent in average selling prices in 2005 compared to 2004, partially offset by an increase of 14 percent in unit shipments in 2005 compared to 2004**.**

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 as long-term liabilities on our consolidated 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 $116 million in 2006, $72 million in 2005, and $67 million in 2004. The fluctuations in the recognition of these credits have not significantly impacted our gross margins.

Expenses

Research and Development Expenses

Research and development expenses increased $61 million, or 5 percent, from $1,144 million in 2005 to $1,205 million in 2006. This increase was primarily attributable to: a $222 million increase in research and development expenses attributable to our Computation Products segment primarily due to an increase in silicon design, platform and product development costs for our microprocessor products, a $90 million increase due to the consolidation of ATI's research and development expenses from October 25, 2006, and a $39 million increase in stock-based compensation, corporate bonus and profit sharing expenses. Research and development expenses were partially offset by the absence of Spansion research and development expenses because we did not consolidate Spansion's results of operations into ours in 2006. In 2005, research and development expenses attributable to our Memory Products segment were $290 million.

Research and development expenses increased $210 million, or 22 percent, from $934 million in 2004 to $1,144 million in 2005 primarily due to an increase of $103 million in product design and process improvement costs for new generations of our microprocessors and an increase in start-up costs associated with the Fab 36 project of $96 million.

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 totaled $27 million in 2006, $44 million in 2005, and $21 million in 2004.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of $1,140 million in 2006 increased $124 million, or 12 percent, from $1,016 million in 2005. This increase was primarily attributable to a $258 million increase in marketing, general and administrative expenses attributable to our Computation Products segment primarily due to: a $215 million increase in marketing, branding and cooperative advertising costs, a $36 million increase due to the consolidation of ATI's marketing, general and administrative expenses from October 25, 2006, and a $27 million increase in stock-based compensation, corporate bonus and profit sharing expenses. Marketing, general and administrative expenses were partially offset by the absence of Spansion market, general and administrative expenses because we did not consolidate Spansion's results of operations into ours in 2006. In 2005, marketing, general and administrative expenses attributable to our Memory Products segment were $208 million.

Marketing, general and administrative expenses of $1,016 million in 2005 increased $204 million, or 25 percent, compared to $812 million in 2004, primarily due to an increase of $110 million in marketing and cooperative advertising costs and other expenses related to the 17 percent increase in revenue in 2005 compared to 2004. In addition, in 2005 we wrote off goodwill of $16 million, which was originally recorded in 2003 as a result of the formation of Spansion LLC.

In-process research and development, and amortization of acquired intangible assets and integration charges

In-process research and development of $416 million in 2006 relates to projects acquired in connection with the acquisition of ATI. Amortization of acquired intangible assets and integration charges in 2006 includes amortization of $47 million and integration charges of $32 million. See "Part II, Item 7, MD&A—ATI

Acquisition—In-Process Research and Development,—Other Acquisition Related Intangible Assets and—Integration Costs," for additional information.

Effects of 2002 Restructuring Plan

In December 2002, we began implementing a restructuring plan (the 2002 Restructuring Plan) to further align our cost structure to industry conditions resulting from weak customer demand and industry-wide excess inventory.

The 2002 Restructuring Plan resulted in the consolidation of facilities, primarily at our Sunnyvale, California site and at sales offices worldwide. We vacated and are attempting to sublease certain facilities that we currently occupy under long-term operating leases through 2011. We also terminated the implementation of certain partially completed enterprise resource planning software and other information technology implementation activities, resulting in the abandonment of certain software, hardware and capitalized development costs.

With the exception of exit costs consisting primarily of remaining lease payments on abandoned facilities net of estimated sublease income that 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 for the three years ended December 31, 2006 (in millions):

	Severance and Employee Benefits	Exit and Equipment Decommission Costs	Total
Accruals at December 28, 2003	$ 7	$ 121	$128
Cash payments	(7)	(20)	(27)
Non-cash adjustments	—	5	5
Accruals at December 26, 2004	—	106	106
Cash payments	—	(21)	(21)
Accruals at December 25, 2005	—	85	85
Cash payments	—	(18)	(18)
Accruals at December 31, 2006	$ —	$ 67	$ 67

Interest Income

Interest income of $116 million in 2006 increased from $37 million in 2005, primarily due to a combination of an increase in average cash and marketable securities during 2006 compared to 2005 and a 54 percent increase in weighted-average interest rates.

Interest income of $37 million in 2005 increased from $18 million 2004, primarily due to a 135 percent increase in weighted-average interest rates and an increase in average cash and marketable securities in 2005 compared to 2004.

We expect interest income will be significantly lower in 2007 due to lower average cash and marketable securities balances.

Interest Expense

	2006	2005	2004
		(In millions)	
Total interest charges	$136	$140	$121
Less: interest capitalized	(10)	(35)	(9)
Interest expense	$126	$105	$112

Interest expense of $126 million in 2006 increased from $105 million in 2005 primarily for the following reasons:

- Interest expense incurred on the October 2006 Term Loan and the Fab 36 Term Loan was $38 and $10 million, and these loans were not outstanding in 2005;
- Interest expense incurred on capital lease payments was approximately $11 million higher in 2006 due to increased assets acquired under capital leases; and
- Capitalized interest expense which was primarily related to Fab 36 was $25 million lower in 2006 compared to 2005.

These factors were offset by the following factors:

- During 2006 we did not consolidate Spansion's results of operations, and, therefore interest expense on Spansion's third-party debt, which was $24 million for 2005, was not included in 2006;
- Interest expense incurred on our 4.75% Debentures decreased by $21 million in 2006 compared to 2005 because holders of the 4.75% Debentures converted their debentures into shares of our common stock during the first quarter of 2006 whereas during 2005, $500 million of the aggregate principal amount of our 4.75% Debentures was outstanding; and
- Interest expense incurred on our 7.75% Notes decreased by $13 million because we redeemed $210 million of the aggregate principal amount outstanding during the first quarter of 2006.

We expect that interest expense will be significantly higher in 2007 due to additional interest incurred pursuant to the October 2006 Term Loan and the Fab 36 Term Loan.

Interest expense of $105 million in 2005 decreased $7 million compared to $112 million in 2004 primarily for the following reasons:

- In 2004, interest expense included approximately $26 million of interest under the Fab 30 Term Loan. Because we prepaid this loan on November 2, 2004, we did not incur any interest in connection with this loan in 2005;
- Interest expense incurred on our 4.50% Convertible Senior Notes due 2007 was $9 million in 2005 compared with $19 million in 2004 because the holders of an aggregate principal amount of $201.5 million of these notes converted their notes into our common stock during the fourth quarter of 2005, and we exchanged an aggregate principal amount of $200 million of these notes in a series of transactions during the fourth quarter of 2004 for shares of our common stock, and
- During 2005, we capitalized interest of $35 million in connection with Fab 36 construction activities in Dresden, Germany compared with $9 million in 2004.

These factors were offset by the following:

- During 2005 we incurred higher interest expense of $48 million in connection with our 7.75% Notes, which we sold on October 29, 2004, compared with $8 million in 2004; and
- Interest expense incurred pursuant to capital leases increased by approximately $10 million in 2005 compared with 2004.

Other Income (Expense), Net

Other income (expense), net of $13 million expense in the 2006 consisted primarily of a charge of $16 million related to a redemption premium and a charge of $4 million related to unamortized issuance costs incurred in connection with our redemption of 35 percent of the principal outstanding amount, or $210 million, of our 7.75% Notes, and $12 million of finance charges related to the Fab 36 Term Loan, partially offset by a gain of $10 million associated with Spansion LLC's repurchase of its 12.75% Senior Subordinated Notes due 2016 and other miscellaneous items of income, net totaling $9 million.

Other income (expense), net of $24 million expense in 2005 consisted primarily of a loss of approximately $10 million during the fourth quarter of 2005 resulting from the mark-to-market to earnings of certain foreign currency forward contracts which became ineffective in hedging against certain forecasted foreign currency transactions and approximately $14 million of commitment and guarantee fees incurred in connection with the Fab 36 Term Loan. We don't expect these foreign currency transactions to occur in the future due to the change of functional currency for AMD Fab 36 KG from the euro to the U.S. dollar.

Other income (expense), net of $49 million in 2004 was due primarily to a charge of approximately $32 million related to a series of transactions pursuant to which we exchanged $201 million of our 4.50% Convertible Senior Notes due 2007 for our common stock. The charge represented the difference between the fair value of the common stock issued in the transactions and the fair value of common stock issuable pursuant to the original conversion terms of these notes. In addition, interest income and other income (expense), net, in 2004 included a charge of approximately $14 million in connection with our prepayment of the term loan agreement between our German subsidiary, AMD Saxony Limited Liability Company & Co. KG and a consortium of banks in order to finance Fab 30, and a loss of approximately $6 million during the second quarter of 2004 resulting from the mark-to-market to earnings of certain foreign currency forward contracts that we used as economic hedges of forecasted capital contributions to AMD Fab 36 KG, which did not qualify as accounting hedges.

Equity in net loss of Spansion Inc. and other

Prior to the Spansion IPO, we held a 60 percent controlling ownership interest in Spansion, and Spansion's financial position, results of operations and cash flows were consolidated with ours. Consequently, Spansion's results of operations through December 20, 2005 were included in our consolidated statements of operations and cash flows in 2005. Following Spansion's IPO, our ownership interest was diluted from 60 percent to approximately 38 percent and we no longer exercised control over Spansion. As a result, from December 21, 2005, the closing date of the IPO, through December 25, 2005 and during 2006 we used the equity method of accounting to reflect our share of Spansion's net income (loss), and we no longer consolidated Spansion's financial position, operating results or cash flows with ours. In connection with the reduction of our ownership interest in Spansion, we recorded a loss of $110 million in 2005 which represents the difference between Spansion's book value per share before and after the IPO multiplied by the number of shares of Spansion's common stock owned by us.

In November 2006, we sold 21,000,000 shares of Spansion's Class A common stock in an underwritten public offering. We received $278 million in net proceeds from the offering and realized a gain of $6 million from the sale, which was included in the caption, "Equity in net loss of Spansion, Inc. and other" in our consolidated statements of operations. As a result of the offering, as of December 31, 2006 we own a total of 27,529,403 shares or approximately 21 percent of Spansion's outstanding common stock. During 2006, our equity in net loss of Spansion Inc. was $51 million. As of December 31, 2006, the carrying net book value of our net equity investment in Spansion, which includes our proportionate share of Spansion's accumulated other comprehensive income, amounted to approximately $361 million. The fair value of this investment was approximately $409 million based on Spansion's common stock closing market price on December 29, 2006, the last trading day of the fiscal year.

To the extent that our ownership in Spansion decreases in the future whether it is caused by disposal of our ownership interest or by Spansion's issuance of additional common stock, we would record either a gain or a loss on such further dilution depending on Spansion's book value and fair value at that time, which could have a material effect on our results of operations in the period in which this ownership dilution occurs.

Income Taxes

We recorded an income tax provision of $23 million in 2006, a tax provision benefit of $7 million in 2005, and an income tax provision of $6 million in 2004. The income tax provision in 2006 primarily results from

current foreign taxes, plus deferred U.S. taxes related to indefinite-lived goodwill, and reduced by deferred foreign benefits from removing part of the valuation allowance on German net operating loss carryovers of Fab 36. The income tax benefit in 2005 primarily reflects U.S. tax benefits realized from the utilization of net operating losses and tax credits and foreign tax benefits generated by Spansion in certain foreign jurisdictions. Spansion's IPO did not have a material impact on our tax provision. The income tax provision in 2004 primarily reflects U.S. income taxes, including taxes on the dividends repatriated from controlled foreign corporations, partially offset by foreign tax benefits because of losses in various foreign jurisdictions.

As of December 31, 2006, we had U.S. federal and state net operating loss carry-forwards of approximately $38 million and $99 million. We also had U.S. federal and state tax credit carry-forwards of approximately $310 million and $112 million. The U.S. net operating loss and tax credit carry-forwards subject to expiration will expire at various dates beginning in 2007 through 2026, if not utilized. Approximately $28 million of our U.S. federal net operating loss carry-forwards are subject to annual limitations as a result of the ATI acquisition and prior purchase transactions. Less than $6 million of U.S. federal tax credit carry-forwards will expire unused by the end of 2009 should U.S. federal income tax liabilities not be large enough to utilize them in these future years.

We had German federal income and state trade tax operating loss carry-forwards of approximately $469 million and $414 million. German federal income and trade tax net operating losses are not subject to expiration. However, German losses are limited to 60 percent of taxable income in any one year.

We had Canadian federal and provincial tax operating loss carry-forwards of approximately $31 million. These losses expire in 2026. We also had Canadian investment tax credits of approximately $139 million. $72 million of these investment tax credits expires in 2012 and 2013 with the remainder expiring by 2026. We also had Canadian federal and provincial research and development pools of $523 million and $275 million, respectively, which are not subject to expiration.

We had net operating losses of $154 million in Barbados which expire beginning in 2012 through 2015.

We also had foreign loss carry-forwards totaling approximately $34 million in other countries with various expiration dates.

We maintain a full valuation allowance against all our net U.S. federal, state and Canadian deferred tax assets and certain of our other foreign deferred tax assets ($1.046 billion at December 31, 2006) because of our prior history of losses.

In 2006 the net valuation allowance increased by $305 million primarily to provide valuation allowance for tax assets in Canada and for losses in the U.S. as a result of our purchase accounting related to the ATI acquisition. If we in the future determine that it is more likely than not that some or all of the net deferred tax assets will be realized, an appropriate amount of the previously provided valuation allowance will be reversed, resulting in a benefit to our operating results or a reduction of goodwill if the valuation allowance is related to acquired deferred tax assets. Such benefits would be recorded on the income tax (benefit) provision line of our statement of operations in the quarter such determination is made.

We have placed a full valuation allowance on our Canadian net deferred tax assets acquired from the acquisition of ATI. These new Canadian operations are subject to immediate taxation in the U.S. as a branch. Future profits will be taxed at U.S. corporate tax rates net of any Canadian income taxes allowable as U.S. foreign income tax credits.

We have a deferred tax liability associated with a portion of the indefinite-lived goodwill resulting from the acquisition of ATI, as this portion of the purchase price is tax deductible. Because we also have a full valuation allowance against our net deferred tax assets without this item, future increases to this deferred tax liability will increase our provision for income taxes independent of the changes in deferred tax assets, liabilities, and

valuation allowance related to other temporary differences. This deferred tax liability cannot be used as a source of realization for deferred tax assets because the underlying tax deductible goodwill is indefinite lived. Once the valuation allowance on U.S. deferred tax assets, net of deferred tax liabilities, is removed continued increases to this deferred tax liability may not directly increase the tax provision as this increase will be aggregated with other deferred tax changes. While the valuation allowance is present our tax expenses will not decline proportionately with declines in our consolidated income.

Stock-Based Compensation Expense

On December 26, 2005, we adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to our Employee Stock Purchase Plan, based on estimated fair values. We adopted SFAS 123R using the modified prospective transition method. Prior to the adoption of SFAS 123R, we recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees.* Upon adoption of SFAS 123R, we changed our method of attributing the value of stock-based compensation expense from the multiple-option (i.e. accelerated) approach to the single option (i.e. straight-line) method. Also, upon adoption of SFAS 123R, we changed the method of valuing stock option awards from the Black-Scholes option pricing model, which was previously used for our pro forma information disclosures of stock-based compensation expense as required under SFAS No. 123, *Stock Based Compensation* (SFAS 123) to a lattice-binomial option-pricing model. The following table summarizes our stock-based compensation expense related to employee stock options, restricted stock, restricted stock units and employee stock purchases pursuant to our Employee Stock Purchase Plan under SFAS 123R for the year ended December 31, 2006, which we recorded in our consolidated results of operations as follows:

Stock-based compensation included as a component of:

	Year Ended December 31, 2006
	(In millions)
Cost of sales	$ 8
Research and development	30
Marketing, general, and administrative	39
Total stock-based compensation expense related to employee stock options, restricted stock, restricted stock units, and employee stock purchases	77
Tax benefit	—
Stock-based compensation expense related to employee stock options, restricted stock, restricted stock units, and employee stock purchases, net of tax	$ 77

We recognized minimal stock-based compensation expense for the years ended December 25, 2005, and December 26, 2004.

In anticipation of the adoption of SFAS 123R, beginning in the first quarter of 2006 we changed the quantity and type of instrument we primarily use in stock-based payment programs for our employees by shifting from granting primarily stock options to granting primarily restricted stock units. Restricted stock units are awards that obligate us to issue a specific number of shares of our common stock if the vesting terms and conditions are satisfied. Restricted stock units based on continued service generally vest over three to four years from the date of grant. Restricted stock units based solely on performance conditions generally do not vest for at least one year from the date of grant. Beginning in the first quarter of 2006, all employees below the level of vice president receive restricted stock units and employees at the vice president level and above receive grants of restricted stock units and stock options. As of December 31, 2006, we had $56 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock options that will be recognized over the weighted average

period of 1.05 years. Also, as of December 31, 2006, we had $110 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock and restricted stock units that will be recognized over the weighted average period of 1.64 years. For additional information on stock-based compensation expense, see Note 2 to our consolidated financial statements.

On April 27, 2005, we accelerated the vesting of all stock options outstanding under the 2004 Equity Incentive Plan and our prior equity compensation plans that had exercise prices per share higher than the closing price of our stock on April 27, 2005, which was $14.51. Options to purchase approximately 12 million shares of our common stock became exercisable immediately. Options held by non-employee directors were not included in the vesting acceleration.

The primary purpose for accelerating the vesting was to eliminate future compensation expense we would otherwise recognize in our statement of operations with respect to these accelerated options upon the adoption of SFAS 123R. The acceleration of the vesting of these options did not result in a charge based on U.S. generally accepted accounting principles.

On December 15, 2005, we accelerated the vesting of all outstanding AMD stock options and restricted stock units held by Spansion employees that would otherwise have vested from December 16, 2005 to December 31, 2006. In connection with the modification of the terms of these options to accelerate their vesting, $1.2 million was recorded as non-cash compensation expense on a pro forma basis in accordance with SFAS 123, and this amount was included in the pro forma stock compensation expense for the year ended December 25, 2005.

The primary purpose for accelerating the vesting of these awards was to minimize future compensation expense that we and Spansion would otherwise have been required to recognize in Spansion's and our respective statements of operations with respect to these awards. If we had not accelerated the vesting of these awards, they would have been subject to variable accounting in accordance with the guidance provided in EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Service* and EITF Issue No. 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee*. This accounting treatment would have applied because following Spansion's IPO, we no longer consolidate Spansion's results of operations in our financial statements. Accordingly, Spansion employees are no longer considered our employees. Under variable fair value accounting, we would have been required to re-measure the fair value of unvested stock-based awards of our common stock held by Spansion employees after Spansion's IPO at the end of each accounting period until such awards were fully vested.

In connection with the acceleration of the vesting of these awards, we recorded a compensation charge in the fourth quarter of 2005 of $1.5 million, which was based on the estimated forfeiture rate of 7.94 percent. The actual forfeitures for 2006 were not materially different from the estimate used.

International Sales

International sales as a percent of net revenue were 75 percent in 2006, 79 percent in 2005 and 79 percent in 2004. In 2006, all of our net revenue was denominated in U.S. dollars. During 2005 and 2004, approximately 14 and 22 percent of our net revenue was denominated in currencies other than the U.S. dollar, primarily the Japanese yen. However, as a result of the closing of Spansion's IPO on December 21, 2005, we do not expect to have significant sales denominated in the Japanese yen in the future.

FINANCIAL CONDITION

Our cash, cash equivalents and marketable securities at December 31, 2006 totaled $1.5 billion and our debt and capital lease obligations totaled $3.8 billion.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was approximately $1.3 billion in 2006. Net loss of $166 million was adjusted for non-cash charges consisting primarily of $837 million of depreciation and amortization expense, $416 million for the write-off of in-process research and development expenses related to the ATI acquisition, stock-based compensation expense of $77 million, and $45 million related to an equity interest in the net loss of Spansion. These charges were offset by amortization of foreign grants and subsidies of $151 million. The net changes in operating assets at December 31, 2006 compared to December 25, 2005 included a decrease in payables to related parties of $229 million because we no longer ship products and invoice customers on behalf of Spansion. Prior to the second quarter of 2006, we shipped products to and invoiced Spansion's customers in our name on behalf of Spansion and remitted the receipts to Spansion. The increase in other assets was primarily due to purchases of new technology licenses. The increase in accounts payable and accrued liabilities of $530 million was primarily related to higher purchases of raw materials, future payment of technology licenses, and marketing accruals due to increased operations in the Computation Products segment.

Net cash provided by operating activities was approximately $1.5 billion in 2005. Net income of $165 million was adjusted for non-cash charges consisting primarily of $1.2 billion of depreciation and amortization expense, a non-cash charge of approximately $110 million that we incurred as a result of the dilution of our ownership in Spansion from 60 percent to approximately 38 percent as a result of Spansion's IPO, and a non-cash charge of $16 million in connection with our write-off of goodwill that was generated as of June 30, 2003 as a result of the formation of Spansion LLC, contributed to the positive cash flows from operations. The net changes in operating assets in 2005 compared to 2004 included an increase in accounts receivable due to higher net revenue and decreased inventories due primarily to the deconsolidation of Spansion's results of operations from ours as a result of Spansion's IPO.

Net cash provided by operating activities was approximately $1.1 billion in 2004. Net income of $91 million was adjusted for non-cash charges consisting primarily of $1.2 billion of depreciation and amortization expense and $32 million associated with our exchange of $201 million of our 4.50% Notes for common stock in the fourth quarter of 2004, contributed to the positive cash flows from operations. The net changes in operating assets in 2004 as compared to 2003 included an increase in accounts receivable due to higher net revenue, and increased inventories due primarily to an increase in microprocessor inventories resulting from a higher percentage of AMD64-based processors and improved market conditions.

Net Cash Used in Investing Activities

Net cash used in investing activities was $4.3 billion in 2006. We used $3.9 billion, net of cash and cash equivalents acquired, to acquire ATI, and $1.9 billion to purchase property, plant and equipment, including approximately $987 million to purchase equipment for Fab 36. This was partially offset by a net cash inflow of $947 million from sales and maturities of available for sale securities, $278 million from the sale of part of our investment in Spansion, Inc., and $175 million of proceeds from Spansion LLC's repurchase of its 12.75% Senior Subordinated Notes due 2016.

Net cash used in investing activities was $2.3 billion in 2005. We used $1.5 billion to purchase property, plant and equipment, including approximately $726 million for Fab 36, and a net cash outflow of $726 million from purchases of available-for-sale securities, including a purchase of $175 million aggregate principal amount of Spansion's 12.75% Senior Subordinated Notes for approximately $158.9 million, partially offset by $261 million in proceeds from Spansion's repayment of amounts outstanding under promissory notes to us and $133 million cash decrease due to the deconsolidation of Spansion's results of operations from ours.

Net cash used in investing activities was $1.6 billion in 2004. We used $1.4 billion to purchase property, plant and equipment, including approximately $569 million to construct Fab 36, and a net cash outflow of $150 million from purchases of available-for-sale securities, offset by $34 million in proceeds from sales of property, plant and equipment.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $3.8 billion in 2006, and consisted primarily of proceeds from: borrowings of $3.4 billion pursuant to the October 2006 Term Loan and the Fab 36 Term Loan; proceeds of $495 million from the sale of our common stock in an equity offering, issuance of stock under our Employee Stock Purchase Plan and the exercise of employee stock options of $231 million; and capital investment grants and allowances from the Federal Republic of Germany and the State of Saxony for the Fab 36 project of $210 million. These amounts were offset by $539 million in payments on debt and capital lease obligations, primarily due to our redemption of 35 percent of the aggregate principal amount outstanding (or $210 million) of our 7.75% Notes, and $284 million to repay a portion of the amount outstanding under the October 2006 Term Loan. During 2006, we did not realize any excess tax benefits related to stock-based compensation. Therefore, we did not record any related financing cash flow.

Net cash provided by financing activities was $494 million in 2005. This amount included $186 million in proceeds from borrowings by Spansion and $60 million of silent partnership contributions from the unaffiliated partners of AMD Fab 36 KG which we classify as debt, approximately $90 million in investments from the these unaffiliated partners, $189 million in proceeds from the issuance of stock under our Employee Stock Purchase Plan and the exercise of stock options, $163 million of capital investment grants and allowances from the Federal Republic of Germany and the Free State of Saxony for the Fab 36 project and $129 million of proceeds from equipment sale and leaseback transactions completed by Spansion. These amounts were offset by $316 million in payments on debt and capital lease obligations.

Net cash provided by financing activities was $413 million in 2004. This amount included $745 million of proceeds from financing activities, including $588 million in proceeds, net of $13 million in debt issuance costs, from the issuance of our 7.75% Notes, approximately $250 million in investments from the un-affiliated partners of AMD Fab 36 KG, $60 million of proceeds from equipment sale and leaseback transactions, $30 million of capital investment grants and allowances from the Federal Republic of Germany and the Free State of Saxony for the Fab 36 project, $124 million in proceeds from the issuance of stock under our Employee Stock Purchase Plan and the exercise of stock options and the elimination of our $224 million compensating cash balance due to the prepayment of our Fab 30 Term Loan. These amounts were offset by $898 million in payments on debt and capital lease obligations, including approximately $647 million used to prepay amounts outstanding under the Fab 30 Term Loan, including accrued and unpaid interest.

Liquidity

We believe that cash flows from operations and current cash, cash equivalents and marketable securities balances together with available external financing will be sufficient to fund our operations and capital investments in the short term and long term, including the estimated additional $2.5 billion in capital expenditures in 2007. Should additional funding be required, such as to meet payment obligations of our long-term debt when due, we may need to raise the required funds through borrowings or public or private sales of debt or equity securities, which may be issued from time to time under an effective registration statement; through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933 or a combination of one or more of the foregoing.

Additionally, under the terms of the October 2006 Term Loan, we must prepay the October 2006 Term Loan with: (i) 100 percent of the net cash proceeds from any debt incurred by us or a restricted subsidiary; (ii) 50 percent of net cash proceeds from the issuance of any capital stock by us (subject to specified exceptions); (iii) 100 percent of extraordinary receipts (as defined in the October 2006 Term Loan) in excess of $30 million; (iv) 100 percent of net cash proceeds from asset sales outside of the ordinary course of business in excess of $30 million, subject to a reinvestment allowance; (v) commencing with the fiscal year ending December 30, 2007, 50 percent of excess cash flow; and (vi) 100 percent of net cash proceeds from sale of capital stock of Spansion Inc. Prepayment of the October 2006 Term Loan from 50 percent of “excess cash flow” as used in the preceding clause (v), is intended to reach our cash income that is not actually applied to certain limited uses that merit priority over prepayment of the amount outstanding under the October 2006 Term Loan. Excess cash flow is

defined as consolidated net income adjusted for non-cash items and changes in working capital, but subtracting actual capital expenditures and mandatory and optional repayment of any funded debt (other than revolving loans, except to the extent the revolving loan commitment is permanently reduced). See “Part II, Item 7, MD& A- October 2006 Term Loan,” below for more information regarding the terms of this loan.

Despite these mandatory prepayment obligations, we believe that, in the event additional funding is required, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, there can be no certainty that such funding will be available on terms favorable to us or at all.

We have an ongoing authorization from the Board of Directors to repurchase up to $300 million worth of our common stock over a period of time to be determined by management. These repurchases may be made in the open market or in privately negotiated transactions from time to time in compliance with applicable rules and regulations, subject to market conditions, applicable legal requirements and other factors. We are not required to repurchase any particular amount of our common stock and the program may be suspended at any time at our discretion. During the fourth quarter of 2006, we did not repurchase any of our equity securities pursuant to this Board authorized program.

Contractual Obligations

The following table summarizes our principal contractual cash obligations at December 31, 2006, and is supplemented by the discussion following the table.

Contractual obligations at December 31, 2006 were:

	Payment due by period						
Contractual Obligations	**Total**	**Fiscal 2007**	**Fiscal 2008**	**Fiscal 2009**	**Fiscal 2010**	**Fiscal 2011**	**Fiscal 2012 and beyond**
				(In millions)			
October 2006 Term Loan	$ 2,216	$ 18	$ 23	$ 22	$ 22	$ 22	$ 2,109
Fab 36 Term Loan	893	53	179	268	304	89	—
Repurchase obligations to Fab 36 Partners[1]	126	42	42	42	—	—	—
7.75% Senior Notes Due 2012	390	—	—	—	—	—	390
Other debt	12	3	1	1	1	1	5
Other long-term liabilities	87	6	51	20	—	—	10
Aggregate interest obligation[2]	1,522	299	274	247	216	195	291
Obligations under capital leases[3]	315	25	25	26	26	26	187
Operating leases	381	69	64	54	49	26	119
Unconditional purchase commitments[4]	3,035	1,240	624	364	105	102	600
Total contractual obligations	$ 8,977	$ 1,755	$ 1,283	$ 1,044	$ 723	$ 461	$ 3,711

(1) Represents the amount of silent partnership contributions that our subsidiaries are required to repurchase from the unaffiliated limited partners of AMD Fab 36 KG and is exclusive of the guaranteed rate of return. See “Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements,” below.

(2) Represents estimated aggregate interest obligations for our debt obligations (excluding capital lease obligations), including the guaranteed rate of return on our repurchase of the unaffiliated partners’ silent partnership contributions, based on our assumptions regarding wafer output.

(3) Includes principal and interest.

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

October 2006 Term Loan

On October 24, 2006, we entered into a credit agreement with Morgan Stanley Senior Funding, Inc., as Syndication Agent and Administrative Agent, Wells Fargo Bank, N.A., as Collateral Agent, and other lenders that may become party thereto from time to time (October 2006 Term Loan), pursuant to which we borrowed an aggregate amount of $2.5 billion to finance a portion of the acquisition of ATI and related fees and expenses.

Amounts borrowed under the October 2006 Term Loan bear interest, in the case of base rate loans, at a rate equal to the "base rate," which is the higher of (i) the prime rate published by the Wall Street Journal and (ii) 0.5 percent per annum above the Federal Funds Effective Rate (as defined in the October 2006 Term Loan) plus a 1.25 percent margin, or in the case of Eurodollar loans, at a rate equal to the Eurodollar Rate (as defined in the October 2006 Term Loan) plus a 2.25 percent margin. Such margins will reduce by 0.25 percent when the outstanding aggregate principal amount of the October 2006 Term Loan is less than $1.75 billion. As of October 24, 2006, the base rate was 8.25 percent, without the margin, and the Eurodollar Rate was 5.32 percent, without the margin. Pursuant to the October 2006 Term Loan, we may select an interest period of one, two, three, six, or if available to all the lenders, nine or twelve months for each loan. The rate of interest is reset at the beginning of each new interest period. The October 2006 Term Loan is repayable in quarterly installments commencing in December 2006 and terminating in December 2013. The initial twenty-five quarterly payments are in the principal amount of approximately $6 million. The final four quarterly repayments are in the principal amount of approximately $521 million. As of December 31, 2006, the interest rate, which was based on the Eurodollar Rate, was 7.62 percent.

We may prepay the October 2006 Term Loan at any time without premium or penalty. In addition, we are required to prepay the October 2006 Term Loan with: (i) 100 percent of the net cash proceeds from any debt incurred by us or a restricted subsidiary; (ii) 50 percent of net cash proceeds from the issuance of any capital stock by us (subject to specified exceptions); (iii) 100 percent of extraordinary receipts (as defined in the October 2006 Term Loan) in excess of $30 million; (iv) 100 percent of net cash proceeds from asset sales outside of the ordinary course of business in excess of $30 million, subject to a reinvestment allowance; (v) commencing with the fiscal year ending December 29, 2007, 50 percent of excess cash flow; and (vi) 100 percent of net cash proceeds from sale of capital stock of Spansion Inc. See "Part II, Item 7, MD&A—Liquidity," for additional information on the definition of "excess cash flow."

The October 2006 Term Loan contains certain covenants that limit, among other things, our ability and the ability of our restricted subsidiaries (which at this time are all of our subsidiaries) from:

- incurring additional indebtedness, except specified permitted debt;
- creating or permitting certain liens;
- consolidating, merging or selling assets as an entirety or substantially as an entirety unless specified conditions are met;
- paying dividends and making other restricted payments if a default or an event of default exists, or if specified financial conditions are not satisfied;
- making or committing to make any capital expenditures in the ordinary course of business exceeding a specified amount;
- issuing or selling any shares of capital stock of our restricted subsidiaries;
- entering into certain types of transactions with affiliates;
- creating restrictions on the making of certain distributions by our restricted subsidiaries, such as dividends, loans or transfer of properties to us;
- permitting domestic wholly-owned restricted subsidiaries to guarantee our indebtedness unless they also guarantee the October 2006 Term Loan; and
- permitting our Consolidated Net Senior Secured Leverage Ratio (as defined in the October 2006 Term Loan) to exceed 2.25 to 1.00.

Amounts outstanding under the October 2006 Term Loan may become due and payable upon the occurrence of specified events, including, among other things: failure to pay any obligations under the October 2006 Term Loan that have become due; breach of any representation or warranty, or specific covenants; any default in making any payment of principal or interest of any debt the outstanding amount of which exceeds $50 million or any default in the observance or performance of any other obligations under such debt; any default in the related security documents executed in connection with the October 2006 Term Loan, or the security documents or any lien created by the security documents ceasing to be in full force or effect; filings or proceedings in bankruptcy; judgment or awards entered against us or any significant subsidiary involving aggregate liability of $50 million or more; or a change of control (as defined in the October 2006 Term Loan).

In connection with the October 2006 Term Loan we and our subsidiaries, AMD International Sales & Service, Ltd., AMD (U.S.) Holdings, Inc., AMD US Finance, Inc., ATI Research Silicon Valley Inc., ATI Research, Inc., and ATI Technologies Systems Corp. (collectively referred to as the Grantors) entered into a collateral agreement in favor of Wells Fargo, as Collateral Agent. Under the Collateral Agreement, each Grantor granted Wells Fargo a security interest in, among other things, and subject to certain exceptions, now owned and hereafter acquired: (i) accounts receivable; (ii) proceeds and products from the sale of capital stock of Spansion Inc.; (iii) the Spansion Collateral Account (as defined in the October 2006 Term Loan), if and when it is created; (iv) certain of the Grantors' respective equity interests in certain affiliates; and (v) all indebtedness for borrowed money owed to any Grantor by an affiliate.

In connection with the October 2006 Term Loan and the Collateral Agreement, the Grantors and Wells Fargo, as Collateral Agent, entered into a collateral trust agreement (Collateral Trust Agreement) whereby Wells Fargo holds in trust the pledged collateral under the Collateral Agreement. The Collateral Trust Agreement is the principal document by which the holders of our 7.75% Notes are secured equally and ratably with the lenders under the October 2006 Term Loan, as is required by the Indenture, dated as of October 29, 2004, between us and Wells Fargo, as trustee.

In November 2006, we repaid $278 million of the October 2006 Term Loan out of the net cash proceeds from the sale of Spansion common stock. In addition, in December 2006, we repaid the first quarterly installment of $6 million. As of December 31, 2006, $2.2 billion was outstanding under this loan.

Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements

Our new 300-millimeter wafer fabrication facility, Fab 36, is located in Dresden, Germany adjacent to our other wafer manufacturing facility, Fab 30. Fab 36 is owned by AMD Fab 36 Limited Liability Company & Co. KG (or AMD Fab 36 KG), a German limited partnership. 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.

To date, we have provided a significant portion of financing for the Fab 36. In addition to our financing, Leipziger Messe GmbH, a nominee of the State of Saxony, Fab 36 Beteiligungs GmbH, an investment consortium arranged by M+W Zander Facility Engineering GmbH, the general contractor for the project, and a consortium of banks have provided financing for the project. Leipziger Messe and Fab 36 Beteiligungs are limited partners in AMD Fab 36 KG. We also anticipate receiving grants and allowances from federal and state German authorities for the Fab 36 project. We expect that our capital expenditures for Fab 36 from 2007 through 2008 will be approximately $1.0 billion in the aggregate.

The funding to construct and facilitize Fab 36 consists of:

- equity contributions from us of $772 million under the partnership agreements, revolving loans from us of up to approximately $990 million, and guarantees from us for amounts owed by AMD Fab 36 KG and its affiliates to the lenders and unaffiliated partners;

- investments of approximately $422 million from Leipziger Messe and Fab 36 Beteiligungs;
- loans of approximately $893 million from a consortium of banks, which was fully drawn as of December 31, 2006;
- up to approximately $716 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 $364 million of cash has been received as of December 31, 2006; 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 December 31, 2006, we had contributed to AMD Fab 36 KG the full amount of equity required under the partnership agreements and no loans from us were outstanding. These equity amounts have been eliminated in our consolidated financial statements.

On April 21, 2004, AMD Fab 36 KG entered into a EUR 700 million Term Loan Facility Agreement among AMD Fab 36 KG, as borrower, and a consortium of banks led by Dresdner Bank AG, as lenders, dated April 21, 2004 (Fab 36 Term Loan) and other related agreements (collectively, the Fab 36 Loan Agreements) to finance the purchase of equipment and tools required to operate Fab 36. The consortium of banks agreed to make available up to $893 million in loans to AMD Fab 36 KG upon its achievement of specified milestones, including attainment of "technical completion" at Fab 36, which 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 approximately $1.3 billion.

On October 13, 2006, we executed an Amendment Agreement dated as of October 10, 2006, which amended the terms of the Fab 36 Term Loan. Under the amended and restated Fab 36 Term Loan, AMD Fab 36 KG has the option to borrow in U.S. dollars as long as our group consolidated cash (which is defined as the sum of our unsecured cash, cash equivalents and short-term investments less the aggregate amount outstanding under any revolving credit facility) is at least $500 million. Moreover, to protect the lenders from currency risks, if our consolidated cash is below $1 billion or our credit rating drops below B3 by Moody's and B- by Standard & Poor's, AMD Fab 36 KG will be required to maintain a cash reserve account with deposits equal to 5 percent of the amount of U.S. dollar loans outstanding under the Fab 36 Term Loan and to make balancing payments into this account equal to the difference between (x) the total amount of U.S. dollar loans outstanding under the Fab 36 Term Loan and (y) the U.S dollar equivalent of 700 million euros (as reduced by repayments, prepayments, cancellations, and any outstanding loans denominated in euros.

In October 2006, AMD Fab 36 KG borrowed $645 million in U.S. dollars under the Fab 36 Term Loan (the First Installment). In December 2006, AMD Fab 36 KG borrowed $248 million in U.S. dollars under the Fab 36 Term Loan (the Second Installment). As of December 31, 2006, AMD Fab 36 KG had borrowed the full amount available under the Fab 36 Term Loan and the total amount outstanding under the Fab 36 Term Loan was $893 million. AMD Fab 36 KG may select an interest period of one, two, or three months or any other period agreed between AMD Fab 36 KG and the lenders. The rate of interest on each installment for the interest period selected is the percentage rate per annum which is the aggregate of the applicable margin, plus LIBOR plus minimum reserve cost if any. As of December 31, 2006, the rate of interest for the initial interest period was 7.1259 percent for the First Installment and 7.11563 percent for the Second Installment. This loan is repayable in quarterly installments commencing in September 2007 and terminating in March 2011.

The amended and restated Fab 36 Term Loan also amends certain covenants applicable to AMD Fab 36 KG. For example, for as long as group consolidated cash is at least $1 billion, our credit rating is at least B3 by Moody's and B- by Standard & Poor's, and no event of default has occurred, the only financial covenant that AMD Fab 36 KG is required to comply with is a loan to fixed asset value covenant. Specifically, the loan to fixed

asset value (as defined in the agreement) as at the end of any relevant period specified in Column A below cannot exceed the percentage set out opposite such relevant period in Column B below:

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

As of December 31, 2006, AMD Fab 36 KG was in compliance with this covenant.

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

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 Agreement among us, as guarantor, AMD Fab 36 KG, Dresdner Bank AG and Dresdner Bank AG, Niederlassung Luxemburg, we have to comply with specified adjusted tangible net worth and EBITDA financial covenants if the sum of our group consolidated cash declines below the following amounts:

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

As of December 31, 2006, group consolidated cash was greater than $500 million and therefore, the preceding financial covenants were not applicable.

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

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

In addition, if our group consolidated cash declines below the amounts set forth above, we would be required to maintain EBITDA (as defined in the agreement) as of the last day of each preceding fiscal period set

forth below in an amount not less than the amount set forth below opposite the date of such preceding fiscal period:

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

Also on April 21, 2004, AMD, AMD Fab 36 KG, AMD Fab 36 LLC, AMD Fab 36 Holding GmbH, a German company and wholly owned subsidiary of AMD that owns substantially all of our limited partnership interest in AMD Fab 36 KG, and AMD Fab 36 Admin GmbH, a German company and wholly owned subsidiary of AMD Fab 36 Holding 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 limited partner and silent partner contributions in AMD Fab 36 KG. The partnership was 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 will not be effective before December 31, 2015.

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 $772 million, Leipziger Messe agreed to provide an aggregate of $264 million and Fab 36 Beteiligungs agreed to provide an aggregate of $158 million. The capital contributions of Leipziger Messe and Fab 36 Beteiligungs are comprised of limited partnership contributions and silent partnership contributions. These contributions were due at various dates upon the achievement of milestones relating to the construction and operation of Fab 36. As of December 31, 2006, all capital contributions were made in full.

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 investment 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 $66 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 limited partnership interests held by Leipziger Messe and Fab 36 Beteiligungs, first exercisable three and one-half years after the relevant partner has completed the applicable 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 limited 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 limited 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

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 $4.6 million to Leipziger Messe and a premium of $2.8 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 the silent partnership interest of Leipziger Messe's and Fab 36 Beteiligungs' 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 were required to repurchase Leipziger Messe's silent partnership interest of $106 million in annual 25 percent installments commencing in December 2006, and Fab 36 Beteiligungs' silent partnership interest of $79 million in annual 20 percent installments commencing in October 2005. As of December 31, 2006, AMD Fab 36 Holding and AMD Fab 36 Admin repurchased $32 million of Fab 36 Beteiligungs' silent partnership contributions and $26 million of Leipziger Messe's silent partnership contribution.

Under U.S. generally accepted accounting principles, we initially classified the portion of the silent partnership contribution that is mandatorily redeemable as debt on the consolidated balance sheets at its fair value at the time of issuance because of the mandatory redemption features described in the preceding paragraph. Each accounting period, we increase the carrying value of this debt towards its ultimate redemption value of the silent partnership contributions by the guaranteed annual rate of return of between 11 percent and 13 percent. We record this periodic accretion to redemption value as interest expense.

The limited partnership contributions that AMD Fab 36 KG received 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. In 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 its 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 No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*"

As of December 31, 2006, AMD Fab 36 KG had received $185 million of silent partnership contributions and $238 million of limited partnership contributions, which includes a New Silent Partnership Amount of $66 million, from the unaffiliated 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 totaling up to approximately $716 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 consolidated balance sheet and amortize them to operations ratably starting from December 2004 through December 2012. Initially, we amortized the grant amounts as a reduction to research and development expenses. Beginning in the first quarter of 2006 when Fab 36 began producing revenue generating products, we started amortizing these amounts as a reduction to cost of sales. For allowances, starting from the first quarter of 2006, we amortize the amounts as a reduction of depreciation expense ratably

over the life of the equipment because these allowances are intended to subsidize the capital investments in equipment. 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 December 31, 2006, AMD Fab 36 KG received cash allowances of $157 million for capital investments made in 2003 through 2005 as well as cash grants of $207 million for capital investments made in 2003 through 2006 and a prepayment for capital investments planned in 2007 and the first half of 2008.

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:

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

In general, any 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 Term Loan. In addition, the occurrence of a default under this agreement could result in a cross-default under the indenture governing our 7.75% Notes and the October 2006 Term Loan. We cannot provide assurance 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.

7.75% Senior Notes Due 2012

On October 29, 2004, we issued $600 million of 7.75% Notes due 2012 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. On April 22, 2005, we exchanged these notes for publicly registered notes which have substantially identical terms as the old notes except that the

publicly registered notes are registered under the Securities Act of 1933, and, therefore, do not contain legends restricting their transfer. The 7.75% Notes mature on November 1, 2012. Interest on the 7.75% Notes is payable semiannually in arrears on May 1 and November 1, beginning May 1, 2005. Prior to November 1, 2008, we may redeem some or all of the 7.75% Notes at a price equal to 100 percent 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:

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

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

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

- incurring additional indebtedness;
- paying dividends and making other restricted payments;
- making certain investments, including investments in our unrestricted subsidiaries;
- creating or permitting certain liens;
- creating or permitting restrictions on the ability of the restricted subsidiaries to pay dividends or make other distributions to us;
- using the proceeds from sales of assets;
- entering into certain types of transactions with affiliates; and
- consolidating, merging or selling our assets as an entirety or substantially as an entirety.

In February 2006, we redeemed 35 percent (or $210 million) of the aggregate principal amount outstanding of the 7.75 % Notes. The holders of the 7.75 % Notes received 107.75 percent of the principal amount of the 7.75 % Notes plus accrued interest. In connection with the redemption, we recorded an expense of approximately $16 million, which represents the 7.75 % redemption premium that we paid, and a charge of $ 4 million, which represents 35 percent of the unamortized issuance costs incurred in connection with the original issuance of the 7.75 % Notes. We included these charges in other income (expense), net in the consolidated statement of operations for the year ended December 31, 2006.

Issuance costs incurred in connection with this transaction in the amount of approximately $13 million will be amortized ratably over the term of the 7.75% Notes as interest expense, approximating the effective interest method. Of this amount, approximately $4 million was charged to other income (expense), net as a result of redemption described above.

In October 2006, the holders of the 7.75% Notes received a security interest that is equal and ratable to that held by the lenders under the October 2006 Term Loan, See the section entitled "October 2006 Term Loan," above for more information.

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

Other Long-Term Liabilities

Other Long-Term Liabilities included $66 million related to certain technology licenses that will be paid through 2008. Other Long-Term Liabilities excluded amounts recorded on our consolidated balance sheet that do not require us to make cash payments, which, as of December 31, 2006, primarily consisted of $364 million of deferred grants and subsidies related to the Fab 30 and Fab 36 projects and a $18 million deferred gain as a result of the sale and leaseback of our corporate marketing, general and administrative facility in Sunnyvale, California in 1998.

Capital Lease Obligations

As of December 31, 2006, we had aggregate outstanding capital lease obligations of $160 million. Included in this amount is $141 million in obligations under certain energy supply contracts which AMD Fab 36 KG entered into with local energy suppliers to provide Fab 36 with utilities (gas, electricity, heating and cooling) to meet the energy demand for our manufacturing requirements. 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*. The capital lease obligations under the energy supply arrangements are payable in monthly installments through 2020.

Operating Leases

We lease certain of our facilities, including our executive offices in Sunnyvale, California, and in some jurisdictions we lease the land on which these facilities are built, under non-cancelable lease agreements that expire at various dates through 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 December 31, 2006, were $381 million, of which $67 million is accrued as a liability for certain facilities that were included in our 2002 Restructuring Plan. We will make these payments through 2011.

Unconditional Purchase Commitments

Total non-cancelable purchase commitments as of December 31, 2006, were $3.0 billion for periods through 2020. These purchase commitments include $1 billion related to contractual obligations of Fab 30 and Fab 36 to purchase silicon-on-insulator wafers and energy and gas and up to $169 million representing payments to IBM for 2007 and 2008 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 August 2005, we amended this agreement, and 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. Accordingly, the table above only reflects our obligations through December 31, 2008. If such approval is received from IBM, the additional obligations from January 2009 through December 2011 would be between $304 million and $334 million. In addition, unconditional purchase commitments also include $206 million for technology license agreements that require periodic payments through 2009 as well as 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.

In connection with the acquisition of ATI, we made several commitments to the Minister of Industry under the Investment Canada Act including that we will: increase spending on research and development in Canada to a specified amount over the course of a three-year period when compared to ATI's expenditures in this area in prior years; maintain Canadian employee headcount at specified levels by the end of the three-year anniversary of the acquisition; increase by a specified amount the number of our Canadian employees focusing on research and development; attain specified Canadian capital expenditures over a three-year period; maintain a presence in Canada via a variety of commercial activities for a period of five years; and nominate a Canadian for election to

our Board of Directors over the next five years. Our Canadian capital expenditures and research and development commitments are included in our aggregate unconditional purchase commitments.

Off-Balance Sheet Arrangements

Guarantees of Indebtedness Recorded on Our Consolidated Balance Sheet

The following table summarizes the principal guarantees issued as of December 31, 2006 related to underlying liabilities that are already recorded on our consolidated balance sheet as of December 31, 2006 and their expected expiration dates by year. No incremental liabilities are recorded on our consolidated balance sheet for these guarantees. For more information on these guarantees, see "Contractual Obligations" above.

	Amounts Guaranteed	2007	2008	2009
		(In millions)		
Repurchase obligations to Fab 36 partners[1]	$ 126	$ 42	$ 42	$ 42
Payment guarantees on behalf of consolidated subsidiaries[2]	142	142	—	—
Total guarantees	$ 268	$184	$ 42	$ 42

(1) This amount represents the amount of silent partnership contributions that we are required to repurchase from the unaffiliated partners of AMD Fab 36 KG and is exclusive of the guaranteed rate of return of an aggregate of approximately $58 million.

(2) This amount represents the payment obligation due to a supplier arising out of the purchase of equipment by AMD Fab 36 KG. We guaranteed these payment obligations on behalf of AMD Fab 36 KG. At December 31, 2006, approximately $142 million was outstanding under this guarantee and recorded as a payable on our consolidated balance sheet. The obligation under the guarantee diminishes as the supplier is paid.

Guarantees of Indebtedness not Recorded on Our Consolidated Balance Sheet

The following table summarizes the principal guarantees issued as of December 31, 2006 for which the related underlying liabilities are not recorded on our consolidated balance sheet as of December 31, 2006 and their expected expiration dates:

	Amounts Guaranteed[1]	2007	2008	2009	2010	2011
			(In millions)			
AMTC revolving loan guarantee	$ 42	$ 42	$ —	$ —	$ —	$ —
AMTC rental guarantee[2]	101	—	—	—	—	101
Spansion operating and capital lease guarantees[3]	6	5	1	—	—	—
Total guarantees	$ 149	$ 47	$ 1	$ —	$ —	$ 101

(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.

(3) We agreed to maintain its guarantees of these Spansion obligations.

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. We procure advanced photomasks from AMTC and use them in manufacturing our microprocessors. To finance the project, BAC and AMTC entered into a $158 million revolving credit facility and a $99 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 December 31, 2006, we guaranteed up to $42 million plus interest and expenses under the revolving loan, and up to $20 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 our obligations under the rental agreement guarantee is $101 million. As of December 31, 2006, $91 million was drawn under the revolving credit facility, and $54 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 FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45).

Spansion Capital and Operating Lease Guarantee

We guaranteed capital and operating leases entered into by Spansion and its subsidiaries totaling $6 million as of December 31, 2006. 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 related to Spansion under the provisions of FIN 45 because we concluded the fair value of the guarantees is not significant after considering various factors including Spansion's credit rating, the ability of Spansion to make the payments on these obligations and the short maturity of the indebtedness.

Other Financial Matters

AMD/Spansion Service Agreements. We are party to various service agreements with Spansion. Under our IT Services Agreement and General Services Agreement, we provide, among other things, facilities, logistics, tax, finance and human resources services to Spansion. For services rendered, we are paid fees in an amount equal to cost plus five percent except for services procured by us from third parties, which are provided to Spansion at cost. Unless otherwise earlier terminated, each of these service agreements expires on June 30, 2007, but each of us may extend the term by mutual agreement. Spansion has the ability to terminate individual services under the general services agreements at any time and for any reason upon at least six months' advance notice. With respect to the IT service agreements and general service agreements, if we failed to comply with applicable service levels for a particular service and have not rectified such performance failure, Spansion may terminate such service after 60 days have elapsed since Spansion first notified us of the failure to perform the service. Moreover, Spansion may terminate an entire IT service agreement or general services agreement if we breach our material obligations under the respective agreement and do not cure the default within 90 days after receipt of a notice of default from Spansion. Similarly, we can terminate the respective agreement for Spansion's failure to make payments when due if Spansion fails to cure such default within 90 days after receipt of notice of default.

As of December 31, 2006, we have substantially provided to Spansion the agreed upon services referred to above under the IT Services and General Services Agreements and as a result we expect the services provided in 2007 and beyond to be minimal.

Outlook

Our outlook disclosure is based on current expectations and contains forward-looking statements. Reference should be made to "Cautionary Statement Regarding Forward-Looking Statements" at the beginning of Part I, Item I—Business. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements in the following disclosure, see the "Financial Condition" and "Risk Factors" sections in this report and such other risks and uncertainties as set forth in this report or detailed in our other Securities and Exchange Commission reports and filings.

In a seasonally down first quarter, we expect revenue to be in the range of $1.6 billion to $1.7 billion. Also, during the first quarter of 2007, we expect operating expenses, which include research and development expenses

and marketing, sales and administrative expenses, to be in the range of $830 million to $880 million, which includes ATI restructuring charges and stock option expense. ATI acquisition related charges will be approximately $120 million in the first quarter, of which $90 million is included in the operating expense amount previously mentioned and $30 million will be recorded to cost of sales. We expect employee stock-based compensation expense in the first quarter to be approximately $32 million. We also expect 2007 capital expenditures to be approximately $2.5 billion.

Recently Issued Accounting Pronouncements

In June 2006, the EITF reached a final consensus on EITF Issue No. 06-2 *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences*. Under this consensus, sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as that term is used in SFAS 43, provided that (a) the employee is required to complete a minimum service period to be entitled to the benefit, (b) there is no increase to the benefit if the employee provides additional years of service, (c) the employee continues to be a compensated employee during his or her absence, and (d) the employer does not require the employee to perform any duties during his or her absence. If these conditions are met, companies are required to accrue for sabbatical leave or other similar benefits as they are earned. The accounting required under this consensus will be effective for fiscal years beginning after December 15, 2006. Upon adoption, companies can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented, or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. We adopted the new accounting requirement on January 1, 2007, and recorded a cumulative effect adjustment of approximately $24 million to our beginning retained earnings balance.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 apply to all tax positions upon initial adoption of FIN 48. Only tax positions that meet the recognition threshold criteria at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year unless the adjustment relates to tax positions taken by an acquired entity that existed at the time of the acquisition, in which case the adjustment would be recorded to goodwill. We are currently evaluating the impact of adoption of FIN 48 and expect to adopt it as required at the beginning of our fiscal year of 2007.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 does not require any new fair value measurements but clarifies the fair value definition, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 clarifies that the fair value is the exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement and a fair value measurement should therefore be based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition, including the inputs used to measure fair value and the effect of such measurements on earnings for the period. It will be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years with earlier application encouraged. We are currently evaluating the accounting and disclosure requirements of SFAS 157 and plan to adopt it as required at the beginning of our fiscal year of 2008.

ITEM 7A. QUANTITATIVEAND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt. We usually invest our cash in investments with short maturities or with frequent interest reset terms. Accordingly, our interest income fluctuates with short-term market conditions. As of December 31, 2006, substantially all of our investments in our portfolio were highly liquid investments and consisted primarily of bank notes, short-term corporate notes, money market auction rate preferred stocks and short-term federal agency notes.

In October and December 2006, we borrowed $645 million and $248 million in U.S. dollars under the Fab 36 Term Loan. Interest is payable on this loan at a variable rate which is calculated as the aggregate of the applicable margin, (as defined in the Fab 36 Term Loan) plus LIBOR plus minimum reserve cost if any. We may select an interest period of one, two or three months or any other period agreed between AMD Fab 36 KG and the lenders. The rate of interest is reset at the beginning of each new interest period. As of December 31, 2006, the rate of interest was 7.1259 percent for the first drawdown and 7.11563 percent for the second drawdown. In addition, in October 2006, we borrowed an aggregate amount of $2.5 billion under the October 2006 Term Loan in order to finance a portion of the ATI acquisition. Interest is payable on this loan at a variable rate which is calculated as the Eurodollar Rate (as defined in the October 2006 Term Loan) plus a 2.25 percent margin. The margin will reduce by 0.25 percent when the outstanding aggregate principal amount is less than $1.75 billion. We may select an interest period of one, two, three, six or if available to all the lenders, nine or twelve months for each loan. The rate of interest is reset at the beginning of each new interest period. As of December 31, 2006, $2.2 billion was outstanding and the interest rate was 7.62 percent. Because the Fab 36 Term Loan and the October 2006 Term Loan both bear a variable interest rate, our exposure to interest rate risk has increased significantly. We will continue to monitor our exposure to interest rate risk.

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

Except for the October 2006 Term Loan, which was used to fund a portion of the ATI acquisition, we generally use proceeds from borrowings primarily to support general corporate purposes, including capital expenditures and working capital needs.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 31, 2006 and comparable fair values as of December 25, 2005:

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Thereafter	Total	Fiscal 2006 Fair Value	Fiscal 2005 Fair Value
	(In millions except for percentages)								
Investment Portfolio									
Cash equivalents:									
Fixed rate amounts	$1,164	$ —	$ —	$ —	$ —	$ —	$1,164	$ 1,164	$ 488
Weighted-average rate	5.16%	—	—	—	—	—	5.16%	5.16%	3.68%
Variable rate amounts	$ 84	$ —	$ —	$ —	$ —	$ —	$ 84	$ 84	$ 50
Weighted-average rate	5.26%	—	—	—	—	—	5.26%	5.26%	4.21%
Marketable securities									
Fixed rate amounts	$ 15	$ —	$ —	$ —	$ —	$ —	$ 15	$ 15	$ 938
Weighted-average rate	5.38%	—	—	—	—	—	5.38%	5.38%	6.15%
Variable rate amounts	$ 146	$ —	$ —	$ —	$ —	$ —	$ 146	$ 146	$ 224
Weighted-average rate	5.35%	—	—	—	—	—	5.35%	5.35%	4.31%
Long-term investments:									
Equity investments	$ —	$ —	$ —	$ —	$ —	$ 1	$ 1	$ 4	$ 7
Fixed rate amounts	$ 13	$ —	$ —	$ —	$ —	$ —	$ 13	$ 13	$ 13
Weighted-average rate	5.29%	—	—	—	—	—	5.29%	5.29%	3.86%
Total Investment Portfolio	$1,422	$ —	$ —	$ —	$ —	$ 1	$1,423	$ 1,426	$ 1,720
Debt Obligations									
Fixed rate amounts	$ 43	$ 44	$ 44	$ 1	$ 1	$ 395	$ 528	$ 542	$ 1,410
Weighted-average rate	12.76%	12.76%	12.73%	6.86%	6.86%	7.74%	8.98%	8.75%	6.94%
Variable rate amounts	$ 76	$ 201	$ 290	$ 326	$ 111	$ 2,105	$3,109	$ 3,109	$ —
Weighted-average rate	7.26%	7.17%	7.15%	7.14%	7.21%	7.62%	7.47%	7.47%	—
Total Debt Obligations	$ 119	$ 245	$ 334	$ 327	$ 112	$ 2,500	$3,637	$ 3,651	$ 1,410

Foreign Exchange Risk. As of December 31, 2006, as a result of our foreign operations, we have costs, assets and liabilities that are denominated in foreign currencies, primarily the euro and Canadian dollars. For example, some fixed asset purchases and certain expenses of our German subsidiaries, AMD Saxony and AMD Fab 36 KG, are denominated in euros while sales of products are denominated in U.S. dollars. Additionally, as a result of our acquisition of ATI in October 2006, some of our expenses and debt are denominated in Canadian dollars.

As a consequence, movements in exchange rates could cause our foreign currency denominated expenses to increase as a percentage of net revenue, affecting our profitability and cash flows. We use foreign currency forward and option contracts to reduce our exposure to currency fluctuations on our foreign currency exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisitions. Our accounting policy for these instruments is based on our designation of such instruments as hedges of underlying exposure to variability in cash flows. We do not use these contracts for speculative or trading purposes.

Commencing from December 26, 2005, we changed the functional currency for our German subsidiaries, AMD Saxony Limited Liability Company & Co. KG and AMD Fab 36 Limited Liability Company & Co KG, from the euro to the U.S. dollar following an evaluation of the scope of their operations and business practices. We concluded that the U.S. dollar is the currency of the primary economic environment in which these subsidiaries operate. However, 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 because certain locally incurred expenses of these subsidiaries continue to be denominated in euro, thereby still subjecting us to foreign currency risk. We will continue to monitor and to hedge this foreign risk exposure as appropriate.

Unrealized gains and losses related to the foreign currency forward and option contracts for the year ended December 31, 2006 were not material. We do not anticipate any material adverse effect on our consolidated

financial position, results of operations or cash flows resulting from the use of these instruments in the future. However, we cannot give any assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately. In particular, generally we hedge only a portion of our foreign currency exchange exposure. Moreover, 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 our hedging 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.

The following table provides information about our foreign currency forward and option contracts as of December 31, 2006 and December 25, 2005. All of our foreign currency forward contracts and option contracts mature within 12 months.

	Fiscal 2006			Fiscal 2005		
	Notional amount	Average contract rate	Estimated fair value gain (loss)	Notional amount	Average contract rate	Estimated fair value gain (loss)
	(In millions except contract rates)					
Foreign currency forward contracts:						
Japanese yen	$ 26	117.62	$ —	$ —	—	$ —
Canadian dollar	117	1.1181	(4)	—	—	—
Euro	1,099	1.3036	13	239	1.2020	3
Foreign currency option contracts:						
Euro	—	—	—	327	1.3002	(13)
Total:	$ 1,242		$ 9	$ 566		$ (10)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Advanced Micro Devices, Inc. and Subsidiaries

Consolidated Statements of Operations

	Three Years Ended December 31, 2006		
	2006	2005	2004
	(In millions, except per share amounts)		
Net revenue	$ 5,649	$ 4,972	$ 3,924
Net revenue to related party (see Note 5)	—	876	1,077
Total net revenue	5,649	5,848	5,001
Cost of sales	2,856	3,456	3,033
Gross margin	2,793	2,392	1,968
Research and development	1,205	1,144	934
Marketing, general and administrative	1,140	1,016	812
In-process research and development	416	—	—
Amortization of acquired intangible assets and integration charges	79	—	—
Operating income (loss)	(47)	232	222
Interest income	116	37	18
Interest expense	(126)	(105)	(112)
Other income (expense), net	(13)	(24)	(49)
Income (loss) before minority interest, equity in net loss of Spansion Inc. and other and income taxes	(70)	140	79
Minority interest in consolidated subsidiaries	(28)	125	18
Equity in net loss of Spansion Inc. and other (see Note 4)	(45)	(107)	—
Income (loss) before income taxes	(143)	158	97
Provision (benefit) for income taxes	23	(7)	6
Net income (loss)	$ (166)	$ 165	$ 91
Net income (loss) per common share:			
Basic	$ (0.34)	$ 0.41	$ 0.25
Diluted	$ (0.34)	$ 0.40	$ 0.25
Shares used in per share calculation:			
Basic	492	400	359
Diluted	492	441	371

See accompanying notes to consolidated financial statements.

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Advanced Micro Devices, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2006	December 25, 2005
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,380	$ 633
Marketable securities	161	1,003
Spansion senior subordinated notes (see Note 4)	—	159
Total cash and cash equivalents and marketable securities	1,541	1,795
Accounts receivable	1,153	818
Allowance for doubtful accounts	(13)	(13)
Total accounts receivable, net	1,140	805
Inventories:		
Raw materials	83	18
Work-in-process	545	225
Finished goods	186	146
Total inventories	814	389
Deferred income taxes	25	93
Prepaid expenses and other current assets	433	334
Receivable from Spansion (see Note 5)	10	143
Total current assets	3,963	3,559
Property, plant and equipment:		
Land and land improvements	53	29
Buildings and leasehold improvements	1,410	1,028
Equipment	5,202	3,310
Construction in progress	672	1,121
Total property, plant and equipment	7,337	5,488
Accumulated depreciation and amortization	(3,350)	(2,787)
Property, plant and equipment, net	3,987	2,701
Acquisition related intangible assets, net (see Note 3)	1,207	—
Goodwill (see Note 3)	3,217	—
Receivable from Spansion (see Note 5)	5	3
Investment in Spansion (see Note 4)	371	721
Other assets	397	304
Total assets	$ 13,147	$ 7,288

Advanced Micro Devices, Inc. and Subsidiaries

Consolidated Balance Sheets—(Continued)

	December 31, 2006	December 25, 2005
	(In millions, except par value amounts)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,336	$ 623
Accounts payable to Spansion (see Note 5)	2	233
Accrued compensation and benefits	177	227
Accrued liabilities	716	389
Income taxes payable	78	3
Deferred income on shipments to distributors	169	142
Current portion of long-term debt and capital lease obligations	125	43
Other current liabilities	249	162
Total current liabilities	2,852	1,822
Deferred income taxes	31	93
Long-term debt and capital lease obligations, less current portion	3,672	1,327
Other long-term liabilities	517	459
Minority interest in consolidated subsidiaries	290	235
Commitments and contingencies (see Notes 14 and 17)		
Stockholders' equity:		
Capital stock:		
Common stock, par value $0.01; 750 shares authorized; shares issued: 553 on December 31, 2006 and 442 on December 25, 2005; shares outstanding: 547 on December 31, 2006 and 436 on December 25, 2005	5	4
Capital in excess of par value	5,409	2,800
Treasury stock, at cost (7 shares on December 31, 2006 and December 25, 2005)	(93)	(90)
Retained earnings	308	474
Accumulated other comprehensive income	156	164
Total stockholders' equity	5,785	3,352
Total liabilities and stockholders' equity	$ 13,147	$ 7,288

See accompanying notes to consolidated financial statements.

Advanced Micro Devices Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
Three Years Ended December 31, 2006

	Number of shares	Amount	Capital in excess of par value	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
				(In millions)			
December 28, 2003	351	$ 4	$ 2,051	$ (92)	$ 218	$ 258	$ 2,439
Comprehensive income:							
Net income	—	—	—	—	91	—	91
Other comprehensive income:							
Reclassification adjustment for gains on investment included in earnings, net of taxes of ($2)	—	—	—	—	—	(4)	(4)
Net change in cumulative translation adjustments	—	—	—	—	—	115	115
Net unrealized gains on cash flow hedges, net of taxes of $21	—	—	—	—	—	63	63
Reclassification adjustment for gains included in earnings, net of taxes of ($29)	—	—	—	—	—	(51)	(51)
Total other comprehensive income							123
Total comprehensive income							214
Issuance of shares:							
Employee stock plans	12	—	123	1	—	—	124
Induced conversion of convertible debt	29	—	233	—	—	—	233
Compensation recognized under employee stock plans	—	—	1	—	—	—	1
December 26, 2004	392	$ 4	$ 2,408	$ (91)	$ 309	$ 381	$ 3,011
Comprehensive loss:							
Net income	—	—	—	—	165	—	165
Other comprehensive loss:							
Net change in unrealized gains on investments, net of taxes of $0	—	—	—	—	—	4	4
Net change in cumulative translation adjustments	—	—	—	—	—	(192)	(192)
Net unrealized losses on cash flow hedges, net of taxes of $0	—	—	—	—	—	(48)	(48)
Reclassification adjustment for loss included in earnings, net of taxes of $0	—	—	—	—	—	16	16
Net change in minimum pension liability	—	—	—	—	—	3	3
Total other comprehensive loss							(217)
Total comprehensive loss							(52)
Issuance of shares:							
Employee stock plans	17	—	188	1	—	—	189
Conversion of the remaining 4.50% Notes (see Note 9)	27	—	199	—	—	—	199
Compensation recognized under employee stock plans	—	—	5	—	—	—	5
December 25, 2005	436	$ 4	$ 2,800	$ (90)	$ 474	$ 164	$ 3,352
Comprehensive loss:							
Net loss	—	—	—	—	(166)	—	(166)
Other comprehensive loss:							
Net change in unrealized gains on investments, net of taxes of $0	—	—	—	—	—	(3)	(3)
Net change in cumulative translation adjustments	—	—	—	—	—	(2)	(2)
Net change in unrealized gains on cash flow hedges, net of taxes of $0	—	—	—	—	—	7	7
Reclassification adjustment for gain included in earnings, net of taxes of $0	—	—	—	—	—	(10)	(10)
Total other comprehensive loss							(8)
Total comprehensive loss							(174)
Issuance of shares:							
Employee stock plans	18	—	234	(3)	—	—	231
Common stock issued in public offering, net of issuance cost	14	—	495	—	—	—	495
Common stock issued for ATI Acquisition (see Note 3)	58	1	1,171	—	—	—	1,172
Fair value of vested options and restricted stock units issued to ATI employees (see Note 3)		—	144	—	—	—	144
Conversion of 4.75% Debentures (see Note 9)	21	—	488	—	—	—	488
Compensation recognized under employee stock plans		—	77	—	—	—	77
December 31, 2006	547	$ 5	$ 5,409	$ (93)	$ 308	$ 156	$ 5,785

See accompanying notes to consolidated financial statements.

Advanced Micro Devices Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Three Years Ended December 31, 2006		
	2006	2005	2004
		(In millions)	
Cash flows from operating activities:			
Net income (loss)	$ (166)	$ 165	$ 91
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Minority interest in consolidated subsidiaries	28	(125)	(19)
Depreciation and amortization	837	1,219	1,225
Write-off of in-process research and development	416	—	—
Provision for doubtful accounts	—	(5)	(3)
Equity in (income) loss of Spansion Inc.	51	(3)	—
(Gain) loss on dilution of equity interest in Spansion Inc.	(6)	110	—
(Benefit) provision for deferred income taxes	(2)	(22)	(39)
Write-off of goodwill	—	16	—
Gain on Spansion's repurchase of its 12.75% Senior Subordinated Notes	(10)	—	—
Charge relating to induced conversion of 4.5% Notes (See Note 9)	—	—	32
Foreign grant and subsidy income	(151)	(110)	(87)
Net loss (gain) on disposal of property, plant and equipment	14	6	(4)
Compensation recognized under employee stock plans	77	5	1
Other	27	7	12
Changes in operating assets and liabilities:			
Accounts receivable	(55)	(276)	(165)
Receivable from related parties	115	54	15
Inventories	6	(28)	(180)
Prepaid expenses and other current assets	(19)	8	35
Other assets	(175)	(10)	(21)
Tax refund receivable	—	7	(13)
Taxes payable	(1)	(36)	6
Refund of customer deposits under long-term purchase agreements	—	(18)	(21)
Accounts payables and accrued liabilities	530	313	235
Accounts payable to related party	(229)	206	(13)
Net cash provided by operating activities	1,287	1,483	1,087
Cash flows from investing activities:			
Purchases of property, plant and equipment	(1,857)	(1,513)	(1,440)
Proceeds from sale of property, plant and equipment	23	10	34
Proceeds from Spansion repayment of intercompany loans	22	261	—
Proceeds from sale of Spansion Inc. stock	278	—	—
Acquisition of ATI, net of cash and cash equivalents acquired	(3,893)	—	—
Purchases of available-for-sale securities	(2,119)	(1,562)	(377)
Proceeds from sale and maturity of available-for-sale securities	3,066	836	227
Purchase of Spansion's 12.75% Senior Subordinated Notes	—	(159)	—
Proceeds from Spansion's repurchase of its 12.75% Senior Subordinated Notes	175	—	—
Net cash impact of change in status of Spansion from consolidated subsidiary to unconsolidated investee	—	(133)	—
Other	2	(10)	—
Net cash (used in) investing activities	(4,303)	(2,270)	(1,556)

Advanced Micro Devices Inc. and Subsidiaries

Consolidated Statements of Cash Flows—(Continued)

	Three Years Ended December 31, 2006		
	2006	2005 (In millions)	2004
Cash flows from financing activities:			
Proceeds from notes payable to banks	—	77	—
Proceeds from borrowings, net of issuance cost	3,366	169	745
Repayments of debt and capital lease obligations	(539)	(316)	(898)
Proceeds from foreign grants and subsidies	210	163	30
Proceeds from sale leaseback transactions	—	129	60
Proceeds from limited partners' contribution	—	90	128
Change in compensating balance	—	—	224
Proceeds from issuance of common stock, net of issuance costs	495	—	—
Proceeds from issuance of common stock under stock-based compensation plans	231	189	124
Other	—	(7)	—
Net cash provided by financing activities	3,763	494	413
Effect of exchange rate changes on cash and cash equivalents	—	7	7
Net increase (decrease) in cash and cash equivalents	747	(286)	(49)
Cash and cash equivalents at beginning of year	633	919	968
Cash and cash equivalents at end of year	$ 1,380	$ 633	$ 919
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 79	$ 139	$ 70
Income taxes	$ 17	$ 40	$ 34
Non-cash investing activities:			
Issuance of stock, stock options and restricted stock units for ATI	$ 1,316	$ —	$ —
Non-cash financing activities:			
Equipment sale leaseback transaction	$ —	$ 78	$ 34
Capital leases	$ 18	$ 119	$ —
Conversion of senior convertible debt	$ 500	$ 202	$ 201

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, December 25, 2005 and December 26, 2004

NOTE 1: Nature of Operations

Advanced Micro Devices, Inc. (the Company or AMD) is a global semiconductor company with facilities throughout the world. References herein to the "Company" mean AMD and its consolidated subsidiaries, including prior to December 21, 2005, Spansion Inc. (formerly, Spansion LLC) and its subsidiaries. The Company provides processing solutions for the computing, graphics and consumer electronics markets. Prior to the initial public offering (IPO) of Spansion Inc. on December 21, 2005, the Company also manufactured and sold Flash memory devices through its formerly consolidated majority owned subsidiary, Spansion LLC. On October 25, 2006 the Company completed the acquisition of ATI Technologies Inc. (ATI) (see Note 3). As a result of the acquisition, AMD began to supply 3D graphic, video and multimedia products and chipsets for personal computers, or PCs, including desktop and notebook PCs, professional workstations, and servers and products for consumer electronic devices such as mobile phones, digital TVs and game consoles.

NOTE 2: Summary of Significant Accounting Policies

Fiscal Year. The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December. Fiscal 2006 consisted of 53 weeks and fiscal 2005 and 2004 each consisted of 52 weeks. Fiscal 2006, 2005 and 2004 ended on December 31, December 25, and December 26. Commencing in 2007, the Company will use a 52- to 53- week fiscal year ending on the last Saturday in December.

Principles of Consolidation. The consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiaries, including the results of operations of Spansion Inc. through December 20, 2005 and the operations of ATI from October 25, 2006 through December 31, 2006 (see Note 3). Upon consolidation, all significant intercompany accounts and transactions are eliminated, and amounts pertaining to the noncontrolling ownership interests held by third parties in the operating results and financial position of the Company's majority owned subsidiaries, are reported as minority interest.

Due to Spansion's IPO on December 21, 2005 and the subsequent dilution of the Company's ownership interest in Spansion (see Note 4), the Company has used the equity method of accounting to reflect its share of Spansion's net income (loss) from December 21, 2005 through December 31, 2006. Also, included in the financial statements, under the equity method of accounting, is the Company's percentage equity share of certain other investees' operating results, where the Company has the ability to exercise significant influence over the operations of the investee.

Use of Estimates. The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results are likely to differ from those estimates, and such differences may be material to the financial statements. Areas where management uses subjective judgment include, but are not limited to, revenue reserves, inventory valuation, goodwill and the valuation of acquisition related intangible assets, impairment of long-lived assets and deferred income taxes.

Reclassifications. Certain reclassifications have been made to prior year balances in order to conform to the current year's presentation of segment information. (See Note 11).

Revenue Recognition. The Company recognizes revenue from products sold directly to customers, including original equipment manufacturers (OEMs), when persuasive evidence of an arrangement exists, the price is fixed or determinable, delivery has occurred and collectibility is reasonably assured. Estimates of product returns, allowances and future price reductions, based on actual historical experience and other known or

anticipated trends and factors, are recorded at the time revenue is recognized. The Company sells to distributors under terms allowing the distributors certain rights of return and price protection on unsold merchandise held by them. The distributor agreements, which may be cancelled by either party upon specified notice, generally contain a provision for the return of those of the Company's products that the Company has removed from its price book or that are not more than twelve months older than the manufacturing code date. In addition, some agreements with distributors may contain standard stock rotation provisions permitting limited levels of product returns. Accordingly, the Company defers the gross margin resulting from the deferral of both revenue and related product costs from sales to distributors with agreements that have the aforementioned terms until the merchandise is resold by the distributors.

The Company also sells its products to distributors with substantial independent operations under sales arrangements whose terms do not allow for rights of return or price protection on unsold products held by them. In these instances, the Company recognizes revenue when it ships the product directly to the distributors.

The Company records estimated reductions to revenue under distributor and customer incentive programs, including certain cooperative advertising and marketing promotions and volume based incentives and special pricing arrangements, at the time the related revenues are recognized. For transactions where the Company reimburses a customer for a portion of the customer's cost to perform specific product advertising or marketing and promotional activities, such amounts are recorded as a reduction of revenue unless they qualify for cost recognition under Emerging Issues Task Force (EITF) Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* (EITF 01-9). Shipping and handling costs associated with product sales are included in cost of sales.

Inventories. Inventories are stated at standard cost adjusted to approximate the lower of actual cost (first-in, first-out method) or market (net realizable value). Generally, inventories on hand in excess of forecasted demand for the next six months are not valued. Obsolete inventories are written off.

Goodwill and Acquisition Related Intangible Assets. Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired. All of the Company's goodwill and acquisition related intangible assets outstanding at December 31, 2006 were related to the Company's acquisition of ATI (see Note 3). In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill amounts are not amortized, but rather are tested for impairment at least annually or more frequently if there are indicators of impairment present. The Company will perform its annual goodwill impairment analysis during the fourth quarter of each fiscal year, with the first impairment analysis related to ATI goodwill to be performed in the fourth quarter of 2007. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which range from 14 months to seven years. The carrying amount of these assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

In 2005, the Company recorded an impairment charge related to goodwill initially recognized as result of the formation of Spansion LLC. (See Note 4).

Impairment of Long-Lived Assets. For long-lived assets other than goodwill and acquisition related intangible assets, the Company records impairment losses when events and circumstances indicate that these assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If less, the impairment losses are based on the excess of the carrying amounts of these assets over their respective fair values. Their fair values would then become the new cost basis. Fair value is determined by discounted future cash flows, appraisals or other methods. For assets held for sale, impairment losses are measured at the lower of the carrying amount of the assets or the fair value of the assets less costs to sell. For assets to be disposed of other than by sale, impairment losses are measured as their carrying amount less salvage value, if any, at the time the assets cease to be used.

Included in other assets on the consolidated balance sheets are balances related to certain technology licenses. The balances related to these licenses, net of amortization, were $204 million and $154 million at December 31, 2006 and December 25, 2005. Estimated future amortization expense related to these licenses is as follows:

	In millions
Fiscal Year	
2007	$ 81
2008	81
2009	26
2010	8
2011	5
Thereafter	3
Total	$ 204

Commitments and Contingencies. From time to time the Company is a defendant or plaintiff in various legal actions that arise in the normal course of business. The Company is also a party to environmental matters, including local, regional, state and federal government clean-up activities at or near locations where the Company currently or has in the past conducted business. The Company is also a guarantor of various third-party obligations and commitments. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these commitments and contingencies, if any, that would be charged to earnings, includes assessing the probability of adverse outcomes and estimating the amount of potential losses. The required reserves, if any, may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. Changes in required reserves could increase or decrease the Company's earnings in the period the changes are made. (See Note 17).

Cash Equivalents. Cash equivalents consist of financial instruments that are readily convertible into cash and have original maturities of three months or less at the time of purchase.

Marketable Securities. The Company classifies its marketable debt and equity securities at the date of acquisition as either held to maturity or available-for-sale. Substantially all of the Company's investments in marketable debt and equity securities are classified as available-for-sale. These securities are reported at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax, a component of stockholders equity. Realized gains and losses and declines in the value of securities determined to be other-than-temporary are included in other income (expense), net. The cost of securities sold is based on the specific identification method.

The Company classifies investments with remaining time to maturity of more than three months as marketable securities. Marketable securities generally consist of money market auction rate preferred stocks and debt securities such as commercial paper, corporate notes, certificates of deposit and marketable direct obligations of United States governmental agencies. Available-for-sale securities with remaining time to maturity greater than twelve months are classified as current when they represent investments of cash that are intended to be used in current operations.

Derivative Financial Instruments. The Company is primarily subject to foreign currency risks for transactions denominated in euros and Canadian dollars. Therefore, in the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency rate fluctuations. The Company's general practice is to ensure that material business exposure to foreign exchange risks are identified, measured and minimized using the most effective and efficient methods to eliminate or reduce such exposures. To protect against the fluctuation in value of forecasted euro and Canadian dollar denominated cash flows resulting from these transactions, the Company has instituted a foreign currency cash flow hedging program. Under this program, the Company purchases foreign currency forward contracts and sells

or purchases foreign currency option contracts, generally expiring within twelve months, to hedge portions of its forecasted foreign currency denominated cash flows. These foreign currency contracts are carried on the Company's balance sheet at fair value, and are reflected in prepaid expenses and other current assets or accrued liabilities, with the effective portion of the contracts' gain or loss initially recorded in accumulated other comprehensive income (loss) and subsequently recognized in the consolidated statements of operations line item corresponding to the hedged forecasted transaction in the same period the transaction affects operations. Generally, the gain or loss on derivative contracts, when recognized, offsets the gain or loss on the hedged transactions. As of December 31, 2006, the Company expects to reclassify the amount accumulated in other comprehensive income to operations within the next twelve months upon the recognition in operations of the hedged forecasted transactions. The Company does not use derivatives for speculative or trading purposes.

The effectiveness test for these foreign currency contracts utilized by the Company is the fair value to fair value comparison method. Under this method, the Company includes the time value portion of the change in value of the currency forward contract in its effectiveness assessment. Any ineffective portion of the hedges is recognized currently in other income (expense), net, which has not been significant to date.

If a cash flow hedge should be discontinued because it is probable that the original forecasted transaction will not occur, the net unrealized gain or loss will be recorded as a component of other income (expense), net.

Premiums paid for foreign currency forward and option contracts are immediately charged to operations.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets for financial reporting purposes. Estimated useful lives for financial reporting purposes are as follows: equipment, two to six years; buildings and building improvements, up to 26 years; and leasehold improvements, the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

Treasury Stock. The Company accounts for treasury stock acquisitions using the cost method. For reissuance of treasury stock, to the extent that the reissuance price is more than the cost, the excess is recorded as an increase to capital in excess of par value. If the reissuance price is less than the cost, the difference is recorded in capital in excess of par value to the extent there is a cumulative treasury stock paid in capital balance. Once the cumulative balance is reduced to zero, any remaining difference resulting from the sale of treasury stock below cost is recorded in retained earnings.

Product Warranties. The Company generally warrants that microprocessor products sold to its customers will, at the time of shipment, be free from defects in workmanship and materials and conform to its approved specifications. Subject to certain exceptions, the Company generally offers a three-year limited warranty to end users for microprocessor products that are commonly referred to as "processors in a box," a one-year limited warranty to direct purchasers of all other microprocessor products that are commonly referred to as "tray" microprocessor products, and a one-year limited warranty to direct purchasers of embedded processor products. The Company has offered extended limited warranties to certain customers of "tray" microprocessor products who have written agreements with the Company and target their computer systems at the commercial and/or embedded markets.

The Company generally warrants that its graphics and chipset products and certain products for consumer electronics devices will be free from defects in material and workmanship under normal use and service for a period of one year, beginning on the date first sold to an end user but not later than 90 days after shipment of such products to its customers. The Company generally warrants that ATI-branded PC workstation products will be free from defects in material and workmanship under normal use and service for a period of three years, beginning on the date first sold to an end user but not later than 90 days after shipment of such products to its customers.

Foreign Currency Translation/Transactions. For the year ended December 31, 2006, the functional currency of all the Company's foreign subsidiaries was the U.S. dollar. For 2005 and 2004, the functional

currency of the Company's foreign subsidiaries was the U.S. dollar, except for AMD Saxony Limited Liability Company & Co. KG (AMD Saxony) and AMD Fab 36 & Co. KG (AMD Fab 36 KG) whose functional currencies were the euro. Beginning in 2006, following an evaluation of the scope of their operations and business practices, the Company concluded that the U.S. dollar is the currency of the primary economic environment in which these subsidiaries operate, and changed the functional currency of AMD Saxony and AMD Fab 36 KG to the U.S. dollar. Additionally, Spansion Japan, a consolidated subsidiary of AMD until December 20, 2005, used the Japanese yen as its functional currency.

For subsidiaries whose functional currency is the U.S. dollar, assets and liabilities denominated in non-U.S. dollars have been remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities and historical exchange rates for non monetary assets and liabilities. Net revenue, cost of sales and expenses have been remeasured at average exchange rates in effect during each period, except for those net revenue, cost of sales and expenses related to the previously noted non monetary balance sheet amounts, which have been remeasured at historical exchange rates. The gains or losses from foreign currency remeasurement have been included in net income (loss).

In 2005 and 2004, adjustments resulting from translating the foreign currency financial statements of AMD Saxony, AMD Fab 36, KG, and Spansion Japan into the U.S. dollar have been included as a separate component of accumulated other comprehensive income (loss). Upon the change of the functional currency for AMD Saxony and AMD Fab 36 KG, these subsidiaries no longer generate translation adjustments. Translation adjustments from prior periods will continue to remain a component of accumulated other comprehensive income (loss). The Company will continue to include its proportionate share of the translation adjustments relating to Spansion Japan in accumulated other comprehensive income (loss). In November 2006, upon the sale of a portion of its investment in Spansion, the Company's proportionate share of the translation adjustment relating to Spansion Japan was reduced accordingly. (See Note 4).

The gains or losses resulting from transactions denominated in currency other than the functional currencies have been recorded in net income (loss). The aggregate exchange gain (loss) included in determining net income (loss) was ($22) million in 2006, ($8) million in 2005, and $40 million in 2004.

Guarantees. The Company accounts for guarantees in accordance with Financial Accounting Standards Board Interpretation No. 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). Under FIN 45, a liability for the fair value of the obligation undertaken in issuing the guarantee is recognized. However, this is limited to those guarantees issued or modified after December 31, 2002. The recognition of fair value is not required for certain guarantees such as the parent's guarantee of a subsidiary's debt to a third party or guarantees on product warranties. For those guarantees excluded from FIN 45's fair value recognition provision, financial statement disclosures of their terms are made. (See Note 14).

Foreign Grants and Subsidies. The Company receives or has received investment grants and allowances from the Federal Republic of Germany and the State of Saxony in connection with Fab 30 and Fab 36 in Dresden, Germany. Generally, such grants and subsidies are subject to forfeiture in declining amounts over the life of the agreement, if the Company does not maintain certain levels of employment or meet other conditions specified in the relevant subsidy grant documents. Accordingly, amounts received are initially recorded as a long-term liability on the Company's financial statements, and then are amortized as a reduction to cost of sales. Fab 30 related subsidies are being amortized to operations ratably through December 2007. Fab 36 related investment allowances are being amortized to operations ratably over the lives of the underlying asset associated with the investment allowance. Fab 36 related grants are being amortized to operations ratably through December 2012.

From time to time, the Company also applies for subsidies relating to certain research and development projects. These research and development subsidies are recorded as a reduction of research and development expenses when all conditions and requirements set forth in the subsidy grant are met.

Advertising Expenses. Advertising expenses for fiscal 2006, 2005 and 2004 were approximately $515 million, $333 million and $225 million. Cooperative advertising funding obligations under customer incentive programs are accrued and the costs recorded at the same time the related revenue is recognized. Cooperative advertising expenses are recorded as marketing, general and administrative expense to the extent the cash paid does not exceed the fair value of the advertising benefit received. Any excess of cash paid over the fair value of the advertising benefit received is recorded as a reduction of revenue in accordance with EITF 01-9.

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 for the years ended:

	2006	2005	2004
	(In millions except per share data)		
Numerator:			
Numerator for basic income (loss) per common share	$ (166)	$ 165	$ 91
Effect of assumed conversion of 4.50% Convertible Senior Notes Due 2007:			
Interest expense, net of tax	—	9	—
Profit sharing expense adjustment, net of tax [1]	—	—	—
Numerator for diluted income (loss) per common share	$ (166)	$ 174	$ 91
Denominator:			
Denominator for basic income (loss) per share—weighted-average shares	492	400	359
Effect of dilutive securities:			
Employee stock options	—	15	12
4.50% Convertible Senior Notes Due 2007	—	26	—
Dilutive potential common shares	—	41	12
Denominator for diluted income (loss) per common share-adjusted weighted-average shares	492	441	371
Net income (loss) per common share:			
Basic	$ (0.34)	$ 0.41	$ 0.25
Diluted	$ (0.34)	$ 0.40	$ 0.25

(1) Less than $1 million

The Company incurred a net loss for 2006. Potential dilutive common shares of approximately 55 million for 2006, which included both shares issuable upon the assumed exercise of outstanding employee stock options and the assumed conversion of outstanding convertible securities, were not included in the net loss per common share calculation, as their inclusion would have been antidilutive. Potential dilutive common shares of approximately 21 million and 49 million for the years ended December 25, 2005 and December 26, 2004, which were associated with the assumed conversion of outstanding convertible securities, were not included in the net income per common share calculation, as their inclusion would have been antidilutive.

Accumulated Other Comprehensive Income (Loss). Unrealized gains or losses on the Company's available-for-sale securities, deferred gains and losses on derivative financial instruments qualifying as cash flow hedges, changes in minimum pension liabilities, and foreign currency translation adjustments are included in accumulated other comprehensive income (loss).

The following are the components of accumulated other comprehensive income:

	2006	2005
	(In millions)	
Net unrealized gains on available-for-sale securities, net of taxes of $1 in 2006 and $1 in 2005	$ 2	$ 5
Net unrealized gains (losses) on cash flow hedges, net of taxes of $0 in 2006 and $0 in 2005	5	(2)
Minimum pension liability	(1)	(1)
Cumulative translation adjustments	150	162
	$156	$164

Stock-Based Compensation. On December 26, 2005, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases pursuant to the Employee Stock Purchase Plan, based on estimated fair values. The Company adopted SFAS 123R using the modified prospective transition method. In accordance with the modified prospective transition method, the Company has not restated its consolidated financial statements for prior periods. Under this transition method, stock-based compensation expense for 2006 includes stock-based compensation expense for all of the Company's stock-based compensation awards granted prior to, but not yet vested as of, December 26, 2005, based on the grant-date fair value estimated in accordance with the provision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as well as stock-based compensation expense for all stock-based compensation awards granted on or after December 26, 2005 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25).

Upon adoption of SFAS 123R, the Company changed its method of attributing the value of stock-based compensation expense from the multiple-option (i.e., accelerated) approach to the single option (i.e., straight-line) method. Compensation expense for share-based awards granted prior to December 26, 2005 will continue to be subject to the accelerated multiple option method specified in FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* (FIN 28), while compensation expense for stock-based awards granted on or after December 26, 2005 will be recognized using a straight-line, single option method.

Also, upon adoption of SFAS 123R, the Company changed its method of valuation for stock option awards from the Black-Scholes-Merton ("Black-Scholes") option-pricing model, which was previously used for the Company's pro forma information disclosures of stock-based compensation expense as required under SFAS 123, to a lattice-binomial option-pricing model.

SFAS 123R requires that the cash flows resulting from excess tax benefits related to stock compensation be classified as cash flows from financing activities.

In March 2005, the Securities and Exchange Commission (SEC) issued *Staff Accounting Bulletin No. 107* (SAB 107) regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. (See Note 12 for a further discussion on stock-based compensation).

The Company's determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise

behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123R and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company's best estimate of awards ultimately expected to vest. The Company estimated forfeitures based on its historical experience. In the Company's pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

As a result of adopting SFAS 123R, the Company's loss from operations, loss before taxes and net loss for the year ended December 31, 2006 was $40 million higher than it would have been if it had continued to account for share-based compensation under Opinion 25. Basic and diluted loss per common share for the year ended December 31, 2006 was $0.08 higher than it would have been if it had continued to account for share-based compensation under Opinion 25.

Restructuring Charges. The Company accounted for its 2002 restructuring charge in accordance with EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3) for exit and disposal activities as they were initiated prior to December 30, 2002. Under EITF 94-3 restructuring charges are recorded upon approval of a formal management plan and are included in the operating results of the period in which such plans have been approved. The Company reviews remaining restructuring accruals on a quarterly basis and adjusts these accruals when changes in facts and circumstances suggest actual amounts will differ from the initial estimates. Changes in estimates occur when it is apparent that exit and other costs accrued will be more or less than originally estimated.

Recently Issued Accounting Pronouncements. In June 2006, the EITF reached a final consensus on EITF Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences*. Under this consensus, sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as that term is used in SFAS 43, provided that (a) the employee is required to complete a minimum service period to be entitled to the benefit, (b) there is no increase to the benefit if the employee provides additional years of service, (c) the employee continues to be a compensated employee during his or her absence, and (d) the employer does not require the employee to perform any duties during his or her absence. If these conditions are met, companies are required to accrue for sabbatical leave or other similar benefits as they are earned. The accounting required under this consensus will be effective for fiscal years beginning after December 15, 2006. Upon adoption, companies can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented, or (b) a change in accounting principle through a cumulative effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The Company adopted the new accounting requirement on January 1, 2007, and recorded a cumulative effect adjustment of approximately $24 million to its beginning retained earnings balance.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and

disclosures. FIN 48 will be effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 apply to all tax positions upon initial adoption of FIN 48. Only tax positions that meet the recognition threshold criteria at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year unless the adjustment relates to the tax positions taken by an acquired entity that existed at the time of the acquisition, in which case the adjustment would be recorded to goodwill. The Company is currently evaluating the impact of the adoption of FIN 48 and will adopt it as required at the beginning of its fiscal year 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 does not require any new fair value measurements but clarifies the fair value definition, establishes a fair value hierarchy that prioritizes the information used to develop assumptions used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 clarifies that the fair value is the exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data for example, the reporting entity's own data. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement and a fair value measurement should therefore be based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition, including the inputs used to measure fair value and the effect of such measurements on earnings for the period. It will be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years with earlier application encouraged. The Company is currently evaluating the accounting and disclosure requirements of SFAS 157 and plans to adopt it as required at the beginning of its fiscal year 2008.

NOTE 3: ATI Acquisition

On October 25, 2006, the Company completed the acquisition of all of the outstanding shares of ATI Technologies Inc. (ATI), a publicly held company headquartered in Markham, Ontario, Canada (the Acquisition) for a combination of cash and shares of the Company's common stock. ATI is engaged in the design, manufacture and sale of innovative 3D graphics and digital media silicon solutions. The Company believes that the acquisition of ATI will allow it to deliver products that better fulfill the increasing demand for more integrated computing solutions.

The aggregate consideration paid by the Company for all outstanding ATI common shares consisted of approximately $4.3 billion of cash and 58 million shares of the Company's common stock. In addition, the Company also assumed substantially all issued and outstanding ATI stock options, restricted stock units and other stock-based awards as of October 24, 2006 by issuing options to purchase approximately 17.1 million shares of the Company's common stock and approximately 2.2 million comparable AMD restricted stock units in exchange. To finance a portion of the cash consideration paid, the Company borrowed $2.5 billion under a term loan with a third party financial institution. (See Note 9 for further details of the term loan). The total purchase price for ATI was $5.6 billion and is comprised of:

	(In millions, except share amounts)
Acquisition of all of the outstanding shares, stock options, restricted stock units and other stock-based awards of ATI in exchange for:	
Cash	$ 4,263
58 million shares of the Company's common stock	1,172
Fair value of vested options and restricted stock units issued	144
Acquisition related transaction costs	25
Total purchase price	$ 5,604

The fair value of the Company's common stock issued was determined in accordance with EITF Issue No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*, which reflected the average of the closing prices of the Company's common stock on the NYSE for the three trading days prior to October 25, 2006. The fair value of the Company's options and restricted stock units was determined under SFAS 123R. The vested portion of these options and restricted stock units was valued at approximately $144 million. The unvested portion valued at approximately $69 million will be amortized over the future remaining vesting periods. The stock compensation expense for 2006 related to these stock options and restricted stock units was approximately $10 million.

Preliminary Purchase Price Allocation

The Company accounted for the acquisition using the purchase method of accounting in accordance with the provisions of SFAS No. 141, *Business Combinations* (SFAS141). The Company included the operations of ATI in its consolidated financial statements from October 25, 2006 through December 31, 2006. The total purchase price was preliminarily allocated to ATI's tangible and identifiable intangible assets and liabilities based on their estimated fair values as of October 24, 2006 as set forth below:

	(In millions)
Cash and marketable securities	$ 500
Accounts receivable	290
Inventories	431
Goodwill	3,217
Developed product technology	752
Game console royalty agreement	147
Customer relationships	257
Trademarks and trade names	62
Customer backlog	36
In-process research and development	416
Property, plant and equipment	143
Other assets	25
Accounts payable and other liabilities	(631)
Reserves for exit costs	(8)
Debt and capital lease obligations	(31)
Deferred revenues	(2)
Total purchase price	$ 5,604

The primary areas of purchase price allocation that are not yet finalized consist of ATI-related exit costs, certain liabilities assumed, certain legal matters as discussed in Note 17 and tax-related contingencies. Resolution of ATI tax-related contingencies for amounts different than amounts recorded as of the close of the acquisition will result in adjustments to goodwill. Adjustments to amounts recorded as of the close of the acquisition related to the finalization of ATI-related exit costs and resolution of certain ATI legal contingencies will result in adjustments to goodwill or will be recorded in post-acquisition operating results, depending on the nature and timing of such adjustments.

Management performed an analysis to determine the fair value of each tangible and identifiable intangible asset, including the portion of the purchase price attributable to acquired in-process research and development projects.

In-Process Research and Development

Of the total purchase price, approximately $416 million was allocated to in-process research and development (IPR&D) and was expensed in the fourth quarter of fiscal year of 2006. Projects that qualify as

IPR&D represent those that have not reached technological feasibility and have no alternative future use at the time of the acquisition. These projects included development of next generation products for the Graphics and Chipsets segment and the Consumer Electronics segment. The estimated fair value of the projects for the Graphics and Chipsets segment was approximately $193 million. The estimated fair value of the projects for the Consumer Electronics segment was approximately $223 million.

The value assigned to IPR&D was determined using a discounted cash flow methodology, specifically an excess earnings approach, which estimates value based upon the discounted value of future cash flows expected to be generated by the in-process projects, net of all contributory asset returns. The approach includes consideration of the importance of each project to the overall development plan, estimating costs to develop the purchased IPR&D into commercially viable products. The revenue estimates used to value the purchased IPR&D were based on estimates of the relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by ATI and its competitors.

The discount rates applied to individual projects were selected after consideration of the overall estimated weighted average cost of capital and the discount rates applied to the valuation of the other assets acquired. Such weighted average cost of capital was adjusted to reflect the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, the percentage of completion of each project, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets. In developing the estimated fair values, the Company used discount rates ranging from 14 percent to 15 percent.

Other Acquisition Related Intangible Assets

Developed product technology comprises products that have reached technological feasibility, and includes technology in ATI’s discrete GPU products, integrated chipset products, handheld products, and digital TV products divisions. This intangible asset was estimated to have a useful life of five years.

Game console royalty agreements represent agreements existing as of October 24, 2006 with video game console manufacturers for the payment of royalties to ATI for intellectual property design work performed, and were estimated to have an average useful life of five years.

Customer relationship intangibles represent ATI’s customer relationships existing as of October 24, 2006 and were estimated to have an average useful life of four years.

Trademarks and trade names are estimated to have an average useful life of seven years.

Customer backlog represents customer orders existing as of October 24, 2006 that had not been delivered and were estimated to have a useful life of 14 months.

The Company determined the fair value of intangible assets using income approaches and based the rates on the most current financial forecast available as of October 24, 2006. The discount rates used to discount net cash flows to their present values ranged from 12 percent to 15 percent. The Company determined these discount rates after consideration of the Company’s estimated weighted average cost of capital and the estimated internal rate of return specific to the acquisition. The Company recorded the excess of the purchase price over the net tangible and identifiable intangible assets as goodwill.

The Company based estimated useful lives for the intangible assets on historical experience with technology life cycles, product roadmaps and the Company’s intended future use of the intangible assets. The Company amortizes acquisition related intangible assets using the straight-line method over their estimated useful lives.

Concurrent with the acquisition, the Company implemented an integration plan which included the termination of some ATI employees, the relocation or transfer to other sites of other ATI employees and the

closure of duplicate facilities. The Company estimated costs associated with employee severance and relocation totaled $7 million. The Company estimated costs associated with the closure of duplicate facilities to be $1 million. These costs were included as a component of net assets acquired. Additionally, the integration plan also included termination of some AMD employees, cancellation of some existing contractual obligations, and other costs to integrate the operations of the two companies. The Company estimated these costs to be $32 million for the year ended December 31, 2006, and they are included in the caption, "Amortization of acquired intangible assets and integration charges," on the Company's consolidated statements of operations.

Unaudited Pro Forma Financial Information

The following unaudited pro forma statement of operations information gives effect to the ATI acquisition as if it had occurred at the beginning of each of the fiscal years presented. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and the $2.5 billion October 2006 Term Loan had taken place at the beginning of each of the periods presented nor is it indicative of future financial performance. The pro forma financial information for each of the periods presented includes the nonrecurring business combination accounting effect on ATI inventories acquired, write off of in-process research and development and integration charges as well as the recurring effect from amortization of acquired intangible assets, stock-based compensation charges for unvested stock awards assumed and increase in interest expense associated with the October 2006 Term Loan.

The unaudited pro forma statement of operations for the year ended December 31, 2006 combined the historical results of AMD for the year ended December 31, 2006, which includes post-acquisition ATI results for the period from October 25, 2006 to December 31, 2006, and the historical results of pre-acquisition ATI for the period from January 1, 2006 to October 24, 2006. The unaudited pro forma statement of operations for the year ended December 25, 2005 combines the historical results of AMD for the year ended December 25, 2005 and, due to differences in our reporting periods, the historical results of ATI, for the twelve months ended November 30, 2005.

	Year Ended	
	December 31, 2006	December 25, 2005
	(In millions, except per share data)	
Total net revenue	$ 7,579	$ 8,047
Net loss	$ (716)	$ (938)
Basic net loss per common share	$ (1.33)	$ (2.05)
Diluted net loss per common share	$ (1.33)	$ (2.05)

Goodwill and Acquisition Related Intangible Assets

The following is the ATI goodwill by segment as of October 25, 2006 and December 31, 2006:

	Graphics and Chipsets Segment	Consumer Electronics Segment	Total
		(In millions)	
ATI acquisition goodwill	$ 1,237	$ 1,980	$3,217

Approximately $2,601 million of the goodwill is expected to be deductible for tax purposes.

The balances of acquisition related intangible assets as of December 31, 2006 were as follows:

	December 31, 2006			
	Weighted Average Amortization Period (in months)	Cost of ATI Acquisition Related Intangible Assets	Accumulated Amortization	Net
		(In millions)		
Developed product technology	60	$ 752	(25)	$ 727
Game console royalty agreements	60	147	(5)	142
Customer relationships	48	257	(11)	246
Trademarks and trade names	84	62	(1)	61
Customer backlog	14	36	(5)	31
Total		$ 1,254	(47)	$1,207

The total amortization expense for acquisition related intangible assets was $47 million for the year ended December 31, 2006, and is included in the caption, "Amortization of acquired intangible assets and integration charges," on the Company's consolidated statements of operations. Estimated future amortization expense related to acquisition related intangible assets is as follows:

	In millions
Fiscal Year	
2007	$ 284
2008	253
2009	253
2010	242
2011	159
Thereafter	16
Total	$ 1,207

NOTE 4: Spansion Inc.

On December 21, 2005, the Company's majority owned subsidiary, Spansion Inc. (Spansion), completed its initial public offering (IPO) of 47,264,000 shares of its Class A common stock as well as offerings of senior notes to the Company and institutional investors with an aggregate principal amount of approximately $425 million. In addition, the Company cancelled $60 million of the aggregate principal amount outstanding under Spansion LLC's promissory note issued to the Company on June 30, 2003 in exchange for 5,000,000 shares of Spansion's Class A common stock. As a result, immediately after the IPO, the Company owned a total of 48,529,403 shares, or approximately 38 percent, of Spansion's outstanding common stock. The Company did not receive any proceeds from Spansion's IPO.

Dilution in Ownership Interest

Prior to the IPO, the Company held a 60 percent controlling ownership interest in Spansion. Consequently, Spansion's financial position, results of operations and cash flows through December 20, 2005 were included in the Company's consolidated statements of operations and cash flows. Following the IPO, the Company's ownership interest was diluted from 60 percent to approximately 38 percent, and the Company no longer exercised control over Spansion's operations. Therefore, the Company used the equity method of accounting to reflect its share of Spansion's net income from December 21, 2005 through December 31, 2006. In connection with the Company's reduction in its ownership interest in Spansion, the Company recorded a loss of $110 million in 2005 which represents the difference between Spansion's book value per share before and after the IPO multiplied by the number of shares owned by the Company.

In November 2006, the Company sold 21,000,000 shares of its Spansion Inc. Class A common stock in an underwritten public offering (the "Offering"). The Company received $278 million in net proceeds from the Offering. The Company realized a gain of $6 million from the sale, which was included in the caption, "Equity in net loss of Spansion, Inc. and other," on the Company's consolidated statements of operations. As a result of the Offering, the Company owned a total of 27,529,403 shares, or approximately 21 percent, of Spansion's outstanding common stock. The Company continues to use the equity method of accounting to reflect its share of Spansion's results of operations.

To the extent that the Company's ownership in Spansion decreases in the future whether it is caused by disposal of its ownership interest or by Spansion's issuance of additional common stock, the Company would record either a gain or a loss on such further dilution depending on Spansion's book value and fair value at that time, which could have a material effect on the Company's results of operations in the period in which this ownership dilution occurs.

In addition, prior to Spansion's IPO, as required by SFAS 142 the Company performed its annual goodwill impairment analysis associated with Spansion related goodwill during the fourth quarter of 2005. Goodwill in the amount of approximately $16 million was originally recorded in June 30, 2003 as a result of the formation of Spansion LLC which was accounted for as a partial step acquisition and purchase business combination under SFAS 141 and EITF Issue No. 01-2, *Interpretations of APB Opinion No. 29* (EITF 01-2). After considering the fact that the estimated fair value of Spansion was less than its net book value and after comparing the estimated fair value of Spansion's assets (other than goodwill) to their carrying value, the Company concluded that the implied fair value of goodwill was zero and therefore the entire $16 million was written off. This impairment charge was included in the Memory Products segment and is included in the caption, "Marketing, general and administrative," on the Company's consolidated statements of operations.

As of December 31, 2006, the carrying net book value of the Company's net equity investment in Spansion, which includes the Company's proportionate share of Spansion's accumulated other comprehensive income (loss), amounted to approximately $361 million. The fair value of this investment was approximately $409 million based on closing market price of Spansion's common stock on December 29, 2006, the last trading day of the fiscal year.

Purchase of Spansion LLC 12.75% Senior Subordinated Notes Due 2016

On December 21, 2005, Spansion LLC, a wholly-owned, indirect subsidiary of Spansion Inc., issued to the Company $175 million aggregate principal amount of its 12.75% Senior Subordinated Notes Due 2016 (Spansion Senior Notes). In June 2006, Spansion LLC repurchased the Spansion Senior Notes for aggregate cash proceeds of $175 million. Upon repurchase, the Company recognized a gain of $16 million, of which $10 million was recorded as other income and $6 million (representing the elimination of approximately 38 percent of the gain), was included in the caption, "Equity in net loss of Spansion Inc., and other," on the Company's consolidated statements of operations.

Acceleration of AMD Stock Options and Restricted Stock Units held by Spansion Employees

On December 15, 2005, the Company accelerated the vesting of all outstanding AMD stock options and restricted stock units held by Spansion employees that would otherwise have vested from December 16, 2005 to December 31, 2006. In connection with the modification of the terms of these options to accelerate their vesting, $1.2 million was recorded as non-cash compensation expense on a pro forma basis in accordance with SFAS 123, and this amount was included in the pro forma stock compensation expense for the year ended December 25, 2005.

The primary purpose for accelerating the vesting of these awards was to minimize future compensation expense that the Company and Spansion would otherwise have been required to recognize in its and Spansion's respective consolidated statements of operations with respect to these awards. If the Company had not accelerated the vesting of these awards, they would have been subject to variable fair value accounting in accordance with the guidance provided in EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*, and EITF Issue No. 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee*. This accounting treatment would have applied because subsequent to Spansion's IPO, the Company no longer consolidates Spansion's results of operations. Accordingly, Spansion employees are no longer considered employees of the Company. Under variable fair value accounting, the Company would have been required to remeasure the fair value of unvested stock-based awards of the Company's common stock held by Spansion employees after Spansion's IPO at the end of each accounting period until such awards were fully vested.

The acceleration of these awards resulted in a compensation charge in the Company's fourth quarter of 2005 of $1.5 million, which was based on the estimated forfeiture rate of 7.94 percent. The actual forfeitures for 2006 were not materially different from the estimate used.

In addition to the acceleration of vesting of certain stock awards as indicated above, there were approximately 684,000 unvested AMD stock options and restricted stock units still held by Spansion employees which were subject to variable accounting. In November 2006, subsequent to the sale of shares in the Offering, the Company's ownership interest in Spansion was reduced to 21 percent. As a result, Spansion was no longer an "affiliate" under the terms of the equity incentive plans under which these options were issued, and the unvested AMD stock options and restricted stock units were cancelled and no longer subject to variable accounting. In addition, the expense associated with variable accounting for these unvested options and restricted stock units was reversed in 2006.

Summarized Financial Information

The following table presents summarized consolidated financial information for Spansion Inc., which was the basis of applying the equity method in the Company's consolidated financial statements:

Spansion Inc.

	2006	2005[(1)]
	(In millions)	
Consolidated statement of operations information		
Revenue	$2,579	
Gross profit	513	
Operating loss	(91)	
Net loss	$ (148)	
Consolidated balance sheet information		
Current assets	$1,775	$1,673
Long-term assets	1,775	1,629
Total assets	$3,550	$3,302
Current liabilities	$ 690	$ 791
Long-term liabilities	1,014	589
Total stockholders' equity	1,846	1,922
Total liabilities and stockholders' equity	$3,550	$3,302

(1) Since the Company accounted for Spansion Inc. using the equity method of accounting for only the last five days of 2005, the Company has not provided summary statement of operations information for 2005.

NOTE 5: Related-Party Transactions

The Company and Fujitsu Limited formed FASL LLC, later renamed Spansion LLC, effective June 30, 2003 by expanding an existing manufacturing joint venture called Fujitsu AMD Semiconductor Limited, or FASL, that was formed in 1993 in which the Company's ownership interest was slightly less than 50 percent. Upon formation of Spansion LLC, the Company increased its ownership interest to 60 percent. From the date of formation through December 20, 2005, the Company held a 60 percent controlling equity interest in Spansion LLC and, therefore, consolidated the results of Spansion LLC's operations. The Company accounted for the Spansion LLC transaction as a partial step acquisition and purchase business combination under the provisions of SFAS 141, and EITF Issue 01-2. As of December 21 2005, following the completion of Spansion's IPO, the Company's ownership interest was diluted to approximately 38 percent and the Company no longer controlled Spansion's operations. In November 2006, subsequent to the sale of shares in the Offering, the Company's ownership interest in Spansion was reduced to 21 percent. As a result, effective December 21, 2005, the Company started accounting for its investment in Spansion under the equity method of accounting and continues to use the equity method as of December 31, 2006.

June 30, 2003 to December 20, 2005

As part of the formation of Spansion LLC, both the Company and Fujitsu contributed their respective investments in FASL. The Company and Fujitsu entered into various service contracts separately with Spansion LLC. The Company provided, among other things, certain information technology, facilities, logistics, legal, tax, finance, human resources, and environmental health and safety services to Spansion LLC. Under these contracts, Fujitsu provided, among other things, certain information technology, research and development, quality assurance, insurance, facilities, environmental, and human resources services primarily to Spansion LLC's Japanese subsidiary, Spansion Japan. Fees earned by the Company and incurred by Spansion LLC or its subsidiaries for these services were eliminated in consolidation.

In addition, prior to the formation of Spansion LLC, FASL provided a defined benefit pension plan and a lump-sum retirement benefit plan to certain employees. These plans were administered by Fujitsu and covered employees formerly assigned from Fujitsu and employees hired directly by FASL, and after the formation of Spansion LLC, Spansion Japan, the owner of FASL's assets. In September 2005, Spansion Japan adopted a new pension plan and changed the formula to a cash balance formula. Assets and obligations were transferred from the Fujitsu Group Employee Pension Fund to this new Spansion Japan pension plan. The Company's share of the pension cost and the unfunded pension liability related to these Spansion employees was not material to the Company's consolidated financial statements.

As a result of the Spansion LLC transaction, Fujitsu became a related party of the Company beginning as of June 30, 2003 and until December 20, 2005, the date immediately preceding Spansion's IPO (see Note 4). The following tables present the significant transactions and account balances between the Company and Fujitsu for the years ended December 25, 2005 and December 26, 2004:

	December 25, 2005[1]	December 26, 2004
	(In millions)	
Net revenue to Fujitsu[2]	$ 876	$ 1,077
Commercial die purchases from Fujitsu	93	141
Subcontract manufacturing purchases from Fujitsu	35	75
Other purchases of goods and services from Fujitsu and rental expense to Fujitsu	68	67
Distributor commissions due to Fujitsu	43	68
Service fees due to Fujitsu	20	33
Royalty fees due to Fujitsu	14	18

(1) Reflects transactions through December 20, 2005.
(2) Includes net revenue of both Flash memory products and microprocessors to Fujitsu.

The royalty fees due to Fujitsu represent the payments from Spansion LLC for its use of Fujitsu's intellectual property. The distributor commission expense due to Fujitsu represents the compensation that Spansion LLC paid to Fujitsu in connection with Fujitsu's distribution of Spansion Flash memory products.

The Company's transactions with Fujitsu were based on terms that are consistent with those of similar arms-length transactions executed with third parties.

Subsequent to December 20, 2005

On December 21, 2005, Spansion became an unconsolidated equity investee of the Company. There were no significant transactions between the Company and Spansion relating to service agreements during the five day period, December 21 to December 25, 2005. The following table represents the significant account balances receivable from or payable to Spansion at December 31, 2006 and December 25, 2005:

	As of December 31, 2006	As of December 25, 2005
	(In millions)	
Investment in Spansion Senior Notes	$ —	$ 159
Receivable from Spansion (short-term)	10	143
Receivable from Spansion (long-term)	5	3
Accounts payable to Spansion	2	233

In connection with Spansion's IPO, the Company entered into various amended and restated service agreements, a non-compete agreement and a patent cross-license agreement with Spansion. Under the amended services agreements, the Company agreed to provide, among other things, information technology, facilities, logistics, tax, finance and human resources services to Spansion for a specified period. Under the amended patent cross-license agreement, Spansion pays royalties to the Company based on a percentage of Spansion's net revenue.

In addition, the Company entered into an agency agreement with Spansion pursuant to which the Company agreed to ship products to and invoice Spansion's customers in the Company's name on behalf of Spansion until Spansion had the capability to do so on its own. Prior to shipping the product to Spansion's customers, the Company purchased the applicable product from Spansion and paid Spansion the same amount that it invoiced Spansion's customers. In performing these services, the Company acted as Spansion's agent for the sale of Spansion's Flash memory products, and the Company did not receive a commission or fees for these services. Under the agreement, Spansion assumed full responsibility for its products and these transactions, including establishing the pricing and determining product specifications. Spansion also assumed credit and inventory risk related to these product sales. In the second quarter of 2006, Spansion began to ship its products and invoice its customers directly, and the Company no longer ships and invoices products on behalf of Spansion.

Pursuant to the agency agreement and in accordance with EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, the Company recorded sales of Spansion's Flash memory products sold by the Company on behalf of Spansion and the related cost of sales on a net basis on its condensed consolidated statements of operations. As a result, the net impact to the Company's net revenue and cost of sales was zero.

Accounts receivable from sales to Spansion's customers were reflected in the caption, "Accounts Receivable," on the Company's consolidated balance sheets, whereas the payables to Spansion that relate to the products the Company purchased from Spansion were reflected in the caption, "Accounts Payable to Spansion," in the Company's consolidated balance sheets. These amounts were recorded separately on the balance sheet because there is no legal right of offset as described in FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*.

On December 21, 2005, Spansion LLC, a wholly owned subsidiary of Spansion Inc., issued to the Company $175 million aggregate principal of its 12.75% Senior Subordinated Notes Due 2016 (Spansion Senior Notes) for $158.9 million or 90.828 percent of face value. In June 2006, Spansion LLC repurchased its Senior Notes for aggregate cash proceeds of $175 million. Upon repurchase, the Company recognized a gain of $16 million, of which $10 million was recorded as other income and $6 million (representing the elimination of approximately 38 percent of the gain) was recorded as a reduction to the equity in net income (loss) of Spansion Inc.

NOTE 6: Financial Instruments

Available-for-sale securities held by the Company as of December 31, 2006 and December 25, 2005 were as follows:

	Amortized Cost	Gross Unrealized gains	Gross Unrealized losses	Fair Market Value
		(In millions)		
2006				
Cash equivalents:				
Commercial paper	$ 635	$ —	$ —	$ 635
Money market funds	84	—	—	84
Time deposits	529	—	—	529
Total cash equivalents	$ 1,248	$ —	$ —	$ 1,248
Marketable securities:				
Auction rate preferred stock	$ 146	$ —	$ —	$ 146
Time deposits	15	—	—	15
Total marketable securities	$ 161	$ —	$ —	$ 161
Long-term investments:				
Equity investments (included in other assets)	$ 1	$ 3	$ —	$ 4
Grand total	$ 1,410	$ 3	$ —	$ 1,413
2005				
Cash equivalents:				
Commercial paper	$ 363	$ —	$ —	$ 363
Time deposits	125	—	—	125
Money market funds	50	—	—	50
Total cash equivalents	$ 538	$ —	$ —	$ 538
Marketable securities:				
Commercial paper	$ 689	$ —	$ —	$ 689
Auction rate preferred stock	224	—	—	224
Spansion senior subordinated notes (see Note 4)	159	—	—	159
Federal agency notes	90	—	—	90
Total marketable securities	$ 1,162	$ —	$ —	$ 1,162
Long-term investments:				
Equity investments (included in other assets)	$ 4	$ 3	$ —	$ 7
Grand total	$ 1,704	$ 3	$ —	$ 1,707

Long-term equity investments consist of marketable equity securities that, while available for sale, are not intended to be used to fund current operations.

All contractual maturities of the Company's available-for-sale marketable securities at December 31, 2006 are within one year except those for auction rate preferred stock. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties. The Company classified auction rate preferred stock as current marketable securities because they represent investments of cash intended to be used for current operations.

The Company realized net gains from the sale of available-for-sale securities of $2 million and $8 million in 2006 and 2004, and the Company did not realize any gain or loss from sale of available-for-sale securities in 2005.

At December 31, 2006 and December 25, 2005, the Company had approximately $13 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 included in other assets on the Company's consolidated balance sheets. The fair market value of these investments approximated their cost at December 31, 2006 and December 25, 2005.

Fair Value of Other Financial Instruments. The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The carrying amounts and estimated fair values of the Company's debt instruments are as follows:

	2006		2005	
	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value
	(In millions)			
Long-term debt (excluding capital leases)	$ 3,637	$ 3,651	$ 1,257	$ 1,410

The fair value of the Company's accounts receivable and accounts payable approximate carrying value based on existing payment terms.

NOTE 7: Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, marketable securities, trade receivables and derivative financial instruments used in hedging activities.

The Company places its cash equivalents and marketable securities with high credit quality financial institutions and, by policy, limits the amount of credit exposure with any one financial institution. The Company invests in time deposits and certificates of deposit from banks having combined capital, surplus and undistributed profits of not less than $200 million. Investments in commercial paper and money market auction rate preferred stocks of industrial firms and financial institutions are rated A1, P1 or better. Investments in tax-exempt securities, including municipal notes and bonds, are rated AA, Aa or better, and investments in repurchase agreements must have securities of the type and quality listed above as collateral. Concurrently with Spansion's IPO, the Company also invested approximately $158.9 million in cash to purchase $175 million principal aggregate amount of Spansion Senior Notes. The Spansion Senior Notes were not investment grade. In June 2006, Spansion LLC repurchased the Spansion Senior Notes for aggregate cash proceeds of $175 million. (See Note 4).

The Company believes that concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. Accounts receivable from the Company's top three customers accounted for approximately 18 percent, 11 percent and 10 percent total consolidated accounts receivable balance for 2006. However, the Company does not believe the receivable balance from these customers represents a significant credit risk based on past collection experience. The Company manages credit risk through credit approvals, credit limits and monitoring procedures. The Company performs in-depth credit evaluations of all new customers and requires letters of credit, bank or corporate guarantees or advance payments, if deemed necessary, but generally does not require collateral from its customers.

The counterparties to the agreements relating to the Company's derivative financial instruments consist of a number of large international financial institutions. The Company does not believe that there is significant risk of nonperformance by these counterparties because the Company monitors their credit ratings and limits the financial exposure and the amount of agreements entered into with any one financial institution. While the notional amounts of financial instruments are often used to express the volume of these transactions, the potential

accounting loss on these transactions if all counterparties failed to perform is limited to the lower of the amounts, if any, by which the counterparties' obligations under the contracts exceed the Company's obligations to the counterparties, or approximately $9 million, at December 31, 2006.

NOTE 8: Income Taxes

The provision (benefit) for income taxes consists of:

	2006	2005	2004
		(In millions)	
Current:			
U.S. federal	$ 1	$ (4)	$ 15
U.S. state and local	1	1	—
Foreign national and local	23	12	20
Total	25	9	35
Deferred:			
U.S. federal	15	(2)	—
U.S. state and local	—	—	—
Foreign national and local	(17)	(14)	(29)
Total	(2)	(16)	(29)
Provision (benefit) for income taxes	$ 23	$ (7)	$ 6

Pre-tax loss from foreign operations was $365 million in 2006. Pre-tax loss from foreign operations was $202 million in 2005 and $83 million in 2004 after elimination of minority interest.

Deferred income taxes reflect the net tax effects of tax carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the balances for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2006 and December 25, 2005 are as follows:

	2006	2005
	(In millions)	
Deferred tax assets:		
Net operating loss carryovers	$ 217	$ 189
Deferred distributor income	88	73
Inventory valuation	21	5
Accrued expenses not currently deductible	135	142
In-process research and development	143	—
Acquired intangibles	9	—
U.S. federal and state tax credit carryovers	157	336
Foreign capitalized research and development costs	138	—
Foreign research and development ITC credits	140	—
Other	183	88
Total deferred tax assets	1,231	833
Less: valuation allowance	(1,046)	(741)
	185	92
Deferred tax liabilities:		
Property, plant and equipment	(33)	(1)
Capitalized interest	(18)	(21)
Acquired intangibles	(71)	—
Tax deductible goodwill	(15)	—
Other	(51)	(63)
Total deferred tax liabilities	(188)	(85)
Net deferred tax assets (liabilities)	$ (3)	$ 7

As of December 31, 2006 and December 25, 2005, non-current deferred tax assets of approximately $2 million and $7 million, respectively, were included in the caption, “Other Assets” on the Company’s consolidated balance sheets. The change in net deferred taxes will not equal the deferred portion of the 2006 provision as a result of initial tax liabilities from the ATI acquisition in 2006.

As of December 31, 2006, all of the Company’s U.S. deferred tax assets, net of deferred tax liabilities other than the deferred tax liability related to tax deductible goodwill, are subject to a full valuation allowance, which was initially established in the fourth quarter of 2002. The realization of these assets is dependent on substantial future taxable income which, at December 31, 2006, in management’s estimate, is not more likely than not to be achieved. In 2006, the net valuation allowance increased by $305 million, primarily, to provide valuation allowance for tax assets in Canada and for losses in the U.S. In 2005, the net valuation allowance increased by $48 million primarily as a result of continuing to provide valuation allowance for start-up losses at the Company’s new manufacturing operation in Germany. In 2004, the net valuation allowance decreased by $37 million primarily due to the utilization of net operating loss carry-forwards.

In addition, net deferred tax assets of approximately $255 million pertained to certain deductible temporary differences and net operating loss carryforwards acquired in the ATI acquisition. When recognized, the reversal of the valuation allowance on these deferred tax assets will be accounted for as a credit to existing goodwill or other long-term intangibles of ATI rather than as a reduction of the period’s income tax provision. If no goodwill or long-term intangible assets remain, the credit would reduce the income tax provision in the period of the valuation allowance reversal.

Approximately $227 million of federal tax credits have been derecognized as of December 31, 2006. The derecognition of these credits results from excess stock option deduction benefits in connection with our adoption of SFAS 123R. The Company will use the with-and-without method to determine when these benefits are realized. Accordingly the Company will increase capital in excess of par value and reduce income taxes payable when realization occurs. There were approximately $118 million of stock option deductions in the valuation allowance for deferred taxes as of December 25, 2005.

As of December 31, 2006, the Company had U.S. federal and state net operating loss carry-forwards of approximately $38 million and $99 million. The Company also had U.S. federal and state tax credit carry-forwards of approximately $310 million and $112 million. The U.S. net operating loss and tax credit carry-forwards subject to expiration will expire at various dates beginning in 2007 through 2026, if not utilized. Approximately $28 million of the Company’s U.S. federal net operating loss carry-forwards are subject to annual limitations as a result of the ATI acquisition and prior purchase transactions. Less than $6 million of U.S. federal tax credit carry-forwards will expire unused by the end of 2009 should U.S. federal income tax liabilities not be large enough to utilize them in these future years.

The Company had German federal income and state trade tax operating loss carry-forwards of approximately $469 million and $414 million. German federal income and trade tax net operating losses are not subject to expiration. However, German losses are limited to 60 percent of taxable income in any one year.

The Company had Canadian federal and provincial tax operating loss carry-forwards of approximately $31 million. These losses expire in 2026. The Company also had Canadian investment tax credits of approximately $139 million. $72 million of these investment tax credits expire in 2012 and 2013 with the remainder expiring by 2026. The Company also had Canadian federal and provincial research and development pools of $523 million and $275 million, which are not subject to expiration.

The Company had net operating losses of $154 million in Barbados which expire beginning in 2012 through 2015.

The Company also had foreign loss carry-forwards totaling approximately $34 million in other countries with various expiration dates.

The table below displays reconciliation between statutory federal income taxes and the total provision (benefit) for income taxes.

	Tax	Rate
	(In millions except for percentages)	
2006		
Statutory federal income tax expense	$ (50)	(35.0)%
State taxes, net of federal benefit	1	0.7%
Foreign income at other than U.S. rates	(19)	(13.3)%
Benefit for foreign operating losses and deductions utilized	(58)	(40.6)%
Valuation allowance	149	104.2%
	$ 23	16.0%
2005		
Statutory federal income tax expense	$ 55	35.0%
State taxes, net of federal benefit	1	0.5%
Foreign income at other than U.S. rates	(15)	(9.4)%
Foreign losses not benefited	84	53.0%
Benefit for net operating losses utilized	(132)	(83.3)%
	$ (7)	(4.2)%
2004		
Statutory federal income tax expense	$ 34	35.0%
State taxes, net of federal benefit	—	— %
Foreign income at other than U.S. rates	(21)	(21.3)%
Foreign losses not benefited	22	22.9%
Valuation allowance	(38)	(39.5)
Tax on repatriated dividends	9	8.9%
	$ 6	6.0%

The Company has made no provision for U.S. income taxes on approximately $334 million of cumulative undistributed earnings of certain foreign subsidiaries through December 31, 2006 because it is the Company’s intention to permanently reinvest such earnings. If such earnings were distributed, the Company would incur additional income taxes of approximately $101 million (after an adjustment for foreign tax credits). These additional income taxes may not result in income tax expense or a cash payment to the Internal Revenue Service, but may result in the utilization of deferred tax assets that are currently subject to a valuation allowance.

The Company’s operations in Singapore and China currently operate under tax holidays, which will expire in whole or in part at various dates through 2014. Certain of the tax holidays may be extended if specific conditions are met. The net impact of these tax holidays was to decrease the Company’s net loss by approximately $3.7 million in fiscal year 2006 (less than $0.01 per share, diluted), to increase net income by approximately $1.2 million in fiscal year 2005 (less than $0.01 per share, diluted) and to increase net income by approximately $3.7 million in fiscal year 2004 (approximately $0.01 per share, diluted).

The Canadian Revenue Agency, or CRA, is auditing ATI for the years 1999 - 2004 with respect to transactions between ATI and its subsidiaries. The audit is still in process. The U.S. Internal Revenue Service is not currently auditing AMD. AMD and its subsidiaries have several foreign, foreign provincial, and U.S. state audits in process at any one point in time. Necessary tax reserves exist at year-end for the above examinations.

NOTE 9: Debt

Long-term Borrowings and Obligations

The Company's long-term debt and capital lease obligations as of December 31, 2006 and December 25, 2005 consist of:

	2006	2005
	(In millions)	
October 2006 Term loan	$2,216	$ —
Fab 36 Term Loan	893	—
Repurchase obligations to Fab 36 Partners	126	152
4.75% Convertible Debentures Due 2022	—	500
7.75% Senior Notes Due 2012	390	600
Obligations under capital leases	160	113
Other	12	5
	3,797	1,370
Less: current portion	125	43
Long-term debt and capital lease obligations, less current portion	$3,672	$ 1,327

October 2006 Term Loan

On October 24, 2006, the Company entered into a credit agreement with Morgan Stanley Senior Funding, Inc., as Syndication Agent and Administrative Agent, Wells Fargo Bank, N.A., as Collateral Agent, and other lenders that may become party thereto from time to time (October 2006 Term Loan), pursuant to which the Company borrowed an aggregate amount of $2.5 billion to finance a portion of the acquisition of ATI and related fees and expenses.

Amounts borrowed under the October 2006 Term Loan bear interest, in the case of base rate loans, at a rate equal to the "base rate," which is the higher of (i) the prime rate published by the Wall Street Journal and (ii) 0.5 percent per annum above the Federal Funds Effective Rate (as defined in the October 2006 Term Loan) plus a 1.25 percent margin, or in the case of Eurodollar loans, at a rate equal to the Eurodollar Rate (as defined in the October 2006 Term Loan) plus a 2.25 percent margin. Such margins will reduce by 0.25 percent when the outstanding aggregate principal amount under the October 2006 Term Loan is less than $1.75 billion. As of October 24, 2006, the base rate was 8.25 percent, without the margin, and the Eurodollar Rate was 5.32 percent, without the margin. Pursuant to the October 2006 Term Loan, the Company may select an interest period of one, two, three, six or if available to all the lenders, nine or twelve months for each loan. The rate of interest is reset at the beginning of each new interest period. The October 2006 Term Loan is repayable in quarterly installments commencing in December 2006 and terminating in December 2013. The initial twenty-five quarterly payments are in the principal amount of approximately $6 million. The final four quarterly repayments are in the principal amount of approximately $521 million. At December 31, 2006, the interest rate, which is based on the Eurodollar Rate, on the October 2006 Term Loan was 7.62 percent.

The Company may prepay the October 2006 Term Loan at any time without premium or penalty. In addition, the Company is required to prepay the October 2006 Term Loan with: (i) 100 percent of the net cash proceeds from any debt incurred by the Company or a restricted subsidiary; (ii) 50 percent of net cash proceeds from the issuance of any capital stock by the Company (subject to specified exceptions); (iii) 100 percent of extraordinary receipts (as defined in the October 2006 Term Loan) in excess of $30 million; (iv) 100 percent of net cash proceeds from asset sales outside of the ordinary course of business in excess of $30 million, subject to a reinvestment allowance; (v) commencing with the fiscal year ending December 30, 2007, 50 percent of excess cash flow; and (vi) 100 percent of net cash proceeds from sale of capital stock of Spansion Inc. Prepayment of the October 2006 Term Loan from 50 percent of "excess cash flow" as used in the preceding clause (v), is intended to reach the Company's cash income that is not actually applied to certain limited uses that merit

priority over prepayment of the amount outstanding under the October 2006 Term Loan. Excess cash flow is defined as consolidated net income adjusted for non-cash items and changes in working capital, but subtracting actual capital expenditures and mandatory and optional repayment of any funded debt (other than revolving loans, except to the extent the revolving loan commitment is permanently reduced).

The October 2006 Term Loan contains certain covenants that limit, among other things, the Company's ability and the ability of its restricted subsidiaries (which at this time are all of the Company's subsidiaries) from:

- incurring additional indebtedness, except specified permitted debt;
- creating or permitting certain liens;
- consolidating, merging or selling assets as an entirety or substantially as an entirety unless specified conditions are met;
- paying dividends and making other restricted payments if a default or an event of default exists, or if specified financial conditions are not satisfied;
- making or committing to make any capital expenditures in the ordinary course of business exceeding a specified amount;
- issuing or selling any shares of capital stock of the Company's restricted subsidiaries;
- entering into certain types of transactions with affiliates;
- creating restrictions on the making of certain distributions by the Company's restricted subsidiaries, such as dividends, loans or transfer of properties to the Company;
- permitting domestic wholly-owned restricted subsidiaries to guarantee the Company's indebtedness unless they also guarantee the October 2006 Term Loan; and
- permitting the Company's Consolidated Net Senior Secured Leverage Ratio (as defined in the October 2006 Term Loan) to exceed 2.25 to 1.00.

Amounts outstanding under the October 2006 Term Loan may become due and payable upon the occurrence of specified events, including, among other things: failure to pay any obligations under the October 2006 Term Loan that have become due; breach of any representation or warranty, or certain covenants; any default in making any payment of principal or interest of any debt the outstanding amount of which exceeds $50 million or any default in the observance or performance of any other obligations under such debt; any default in the related security documents executed in connection with the October 2006 Term Loan, or the security documents or any lien created by the security documents ceasing to be in full force or effect; filings or proceedings in bankruptcy; judgment or awards entered against us or any significant subsidiary involving aggregate liability of $50 million or more; or a change of control (as defined in the October 2006 Term Loan).

In connection with the October 2006 Term Loan, the Company and its subsidiaries, AMD International Sales & Service, Ltd., AMD (U.S.) Holdings, Inc., AMD US Finance, Inc., ATI Research Silicon Valley Inc., ATI Research, Inc., and ATI Technologies Systems Corp. (collectively referred to as the Grantors) entered into a collateral agreement in favor of Wells Fargo, as Collateral Agent. Under the Collateral Agreement, each Grantor granted Wells Fargo a security interest in, among other things, and subject to certain exceptions, now owned and hereafter acquired: (i) accounts receivable; (ii) proceeds and products from the sale of capital stock of Spansion Inc.; (iii) the Spansion Collateral Account (as defined in the October 2006 Term Loan), if and when it is created; (iv) certain of the Grantors' respective equity interests in certain affiliates; and (v) all indebtedness for borrowed money owed to any Grantor by an affiliate.

In connection with the October 2006 Term Loan and the Collateral Agreement, the Grantors and Wells Fargo, as Collateral Agent, entered into a collateral trust agreement (Collateral Trust Agreement) whereby Wells Fargo will hold in trust the pledged collateral under the Collateral Agreement. The Collateral Trust Agreement is the principal document by which our 7.75% Notes are secured equally and ratably with the lenders under the

October 2006 Term Loan, as is required by the Indenture, dated as of October 29, 2004, between the Company and Wells Fargo, as trustee.

In November 2006, the Company repaid $278 million of the amounts outstanding under the October 2006 Term Loan out of the net cash proceeds from the sale of Spansion common stock. (See Note 4). In addition, in December 2006, the Company repaid the first quarterly installment of $6 million. As of December 31 2006, $2.2 billion was outstanding under the October 2006 Term Loan.

Fab 36 Term Loan and Guarantee and Fab 36 Partnership Agreements

The Company's 300-millimeter wafer fabrication facility, Fab 36, is located in Dresden, Germany adjacent to the Company's other wafer manufacturing facility, Fab 30. Fab 36 is owned by AMD Fab 36 Limited Liability Company & Co. KG, a German limited partnership (AMD Fab 36 KG). The Company controls 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 the Company's indirect consolidated subsidiary.

To date, the Company has provided a significant portion of financing for the Fab 36 project. In addition to our financing, Leipziger Messe GmbH, a nominee of the State of Saxony, Fab 36 Beteiligungs GmbH, an investment consortium arranged by M+W Zander Facility Engineering GmbH, the general contractor for the project, and a consortium of banks have provided financing for the project. Leipziger Messe and Fab 36 Beteiligungs are limited partners in AMD Fab 36 KG. The Company also anticipates receiving grants and allowances from federal and state German authorities for the Fab 36 project.

The funding to construct and facilitize Fab 36 consists of:

- equity contributions from the Company of $772 million under the partnership agreements, revolving loans from the Company of up to approximately $990 million, and guarantees from the Company for amounts owed by AMD Fab 36 KG and its affiliates to the lenders and unaffiliated partners;
- investments of up to approximately $422 million from Leipziger Messe and Fab 36 Beteiligungs;
- loans of up to approximately $893 million from a consortium of banks, which were fully drawn as of December 31, 2006;
- up to approximately $716 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 $364 million of cash has been received as of December 31, 2006; 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 December 31, 2006, the Company had contributed to AMD Fab 36 KG the full amount of equity required under the partnership agreements and no loans were outstanding from the Company. These equity amounts have been eliminated in the Company's consolidated financial statements.

On April 21, 2004, AMD Fab 36 KG entered into a 700 million euros Term Loan Facility Agreement among AMD Fab 36 KG, as borrower, and a consortium of banks led by Dresdner Bank AG, as lenders, dated April 21, 2004 (Fab 36 Term Loan) and other related agreements (collectively, the Fab 36 Loan Agreements) to finance the purchase of equipment and tools required to operate Fab 36. The consortium of banks agreed to make available up to $893 million in loans to AMD Fab 36 KG upon its achievement of specified milestones, including attainment of "technical completion" at Fab 36, which 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 approximately $1.3 billion.

On October 13, 2006, the Company executed an Amendment Agreement dated as of October 10, 2006, which amended the terms of the Fab 36 Term Loan. Under the amended and restated Fab 36 Term Loan, AMD Fab 36 KG has the option to borrow in U.S. dollars as long as the Company's group consolidated cash (which is defined as the sum of our unsecured cash, cash equivalents and short-term investments less the aggregate amount outstanding under any revolving credit facility) is at least $500 million. Moreover, to protect the lenders from currency risks, if the Company's consolidated cash is below $1 billion or the Company's credit rating drops below B3 by Moody's and B- by Standard & Poor's, AMD Fab 36 KG will be required to maintain a cash reserve account with deposits equal to five percent of the amount of U.S. dollar loans outstanding under the Fab 36 Term Loan and to make balancing payments into this account equal to the difference between (i) the total amount of U.S. dollar loans outstanding under the Fab 36 Term Loan and (ii) the U.S dollar equivalent of 700 million euros (as reduced by repayments, prepayments, cancellations, and any outstanding loans denominated in euros.

In October 2006, AMD Fab 36 KG borrowed $645 million in U.S. dollars under the Fab 36 Term Loan (the First Installment). In December 2006, AMD Fab 36 KG borrowed $248 million in U.S. dollars under the Fab 36 Term Loan (the Second Installment). As of December 31, 2006, AMD Fab 36 KG had borrowed the full amount available under the Fab 36 Term Loan and the total amount outstanding under the Fab 36 Term Loan was $893 million. AMD Fab 36 KG may select an interest period of one, two, or three months or any other period agreed between AMD Fab 36 KG and the lenders. The rate of interest on each installment for the interest period selected is the percentage rate per annum which is the aggregate of the applicable margin, plus LIBOR plus minimum reserve cost, if any. As of December 31, 2006, the rate of interest for the initial interest period was 7.1259 percent for the First Installment and 7.11563 percent for the Second Installment. This loan is repayable in quarterly installments commencing in September 2007 and terminating in March 2011.

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

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

As of December 31, 2006, AMD Fab 36 KG was in compliance with this covenant.

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

AMD Fab 36 KG pledged substantially all of its current and future assets as security under the Fab 36 Loan Agreements, the Company pledged its 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. The Company guaranteed the obligations of AMD Fab 36 KG to the lenders under the Fab 36 Loan Agreements. The Company 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 Agreement among the Company, as guarantor, AMD Fab 36 KG, Dresdner Bank AG and Dresdner Bank AG, Niederlassung Luxemburg, the Company has to comply with specified adjusted tangible net worth and EBITDA financial covenants if the sum of the Company's group consolidated cash declines below the following amounts:

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

As of December 31, 2006, group consolidated cash was greater than $500 million and therefore, the preceding financial covenants were not applicable.

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

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

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

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

Also on April 21**,** 2004, AMD, AMD Fab 36 KG, AMD Fab 36 LLC, AMD Fab 36 Holding GmbH, a German company and wholly owned subsidiary of AMD that owns substantially all of the Company's limited partnership interest in AMD Fab 36 KG, and AMD Fab 36 Admin GmbH, a German company and wholly owned subsidiary of AMD Fab 36 Holding that owns the remainder of the Company's 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 limited partner and silent partner contributions in AMD Fab 36 KG. The partnership was 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 will not be effective before December 31, 2015.

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 $772 million, Leipziger Messe agreed to provide an aggregate of $264 million and Fab 36 Beteiligungs agreed to provide an aggregate of $158 million. The capital contributions of Leipziger Messe and Fab 36 Beteiligungs are comprised of limited partnership contributions and silent partnership contributions. These contributions were due at various dates upon the achievement of milestones relating to the construction and operation of Fab 36. As of December 31, 2006, all capital contributions were made in full.

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 investment depending upon the monthly wafer output of Fab 36. The Company 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 $66 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 limited partnership interests held by Leipziger Messe and Fab 36 Beteiligungs, first exercisable three and one-half years after the relevant partner has completed the applicable 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 limited 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 limited 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 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 $4.6 million to Leipziger Messe and a premium of $2.8 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. The Company guaranteed the payments under the put options.

In addition, AMD Fab 36 Holding and AMD Fab 36 Admin are obligated to repurchase the silent partnership interest of Leipziger Messe's and Fab 36 Beteiligungs' 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 were required to repurchase Leipziger Messe's silent partnership interest of $106 million in annual 25 percent installments commencing in December 2006, and Fab 36 Beteiligungs' silent partnership interest of $79 million in annual 20 percent installments commencing in October 2005. As of December 31, 2006, AMD Fab 36 Holding and AMD Fab 36 Admin repurchased $32 million of Fab 36 Beteiligungs' silent partnership contributions and $26 million of Leipziger Messe's silent partnership contribution.

Under U.S. generally accepted accounting principles, the Company initially classified the portion of the silent partnership contribution that is mandatorily redeemable as debt on the consolidated balance sheet at its fair value at the time of issuance because of the mandatory redemption features described in the preceding paragraph. Each accounting period, the Company increases the carrying value of this debt towards its ultimate redemption

value of the silent partnership contributions by the guaranteed annual rate of return of between 11 percent and 13 percent. The Company records this periodic accretion to redemption value as interest expense.

The limited partnership contributions that AMD Fab 36 KG received 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. In consolidation, the Company initially recorded these contributions as minority interest, based on their fair value. Each accounting period, the Company increases the carrying value of this minority interest toward its ultimate redemption value of these contributions by the guaranteed rate of return of between 11 percent and 13 percent. The Company is classifying 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 No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

As of December 31, 2006, AMD Fab 36 KG had received $185 million of silent partnership contributions and $238 million of limited partnership contributions, which includes a New Silent Partnership Amount of $66 million, from the unaffiliated partners. These contributions were recorded as debt and minority interest, respectively, in the consolidated balance sheets.

In addition to support from the Company 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 totaling up to approximately $716 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. The Company recorded these subsidies as long-term liabilities on its consolidated balance sheets and amortizes them to operations ratably starting from December 2004 through December 2012. Initially, the Company amortized the grant amounts as a reduction to research and development expenses. Beginning in the first quarter of 2006, when Fab 36 began producing revenue generating products, the Company started amortizing these amounts as a reduction to cost of sales. For allowances, starting from the first quarter of 2006, the Company amortizes the amounts as a reduction of depreciation expense ratably over the life of the equipment because these allowances are intended to subsidize the capital investments in equipment. 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 December 31, 2006, AMD Fab 36 KG received cash allowances of $157 million for capital investments made in 2003 through 2005 as well as cash grants of $207 million for capital investments made in 2003 through 2006 and a prepayment for capital investments planned in 2007 and the first half of 2008.

The Fab 36 Loan Agreements also require that the Company:

- provides 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
- guarantees 100 percent of AMD Fab 36 KG’s obligations under the Fab 36 Loan Agreements until the bank 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 the Company. In addition, AMD Fab 36 KG would be in default under the Fab 36 Loan Agreements if the Company 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:

- the Company's failure to provide loans to AMD Fab 36 KG as required under the Fab 36 Loan Agreements;
- failure to pay any amount due under the Fab 36 Loan Agreements within five days of the due date;
- occurrence of any event which the lenders reasonably believe has had or is likely to have a material adverse effect on the business, assets or condition of AMD Fab 36 KG 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
- AMD Fab 36 KG's noncompliance with certain financial covenants, including loan to fixed assets value ratio and, in certain circumstances, 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 Term Loan. In addition, the occurrence of a default under this agreement could result in a cross-default under the indenture governing the Company's 7.75% Notes and the October 2006 Term Loan. The Company cannot provide assurance that it would be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on the Company.

4.75% Convertible Senior Debentures Due 2022

On January 29, 2002, the Company issued $500 million of its 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.

In February 2006, holders of the Company's 4.75% Debentures elected to convert their debentures into 21,378,605 shares of the Company's common stock pursuant to the original terms of the 4.75% Debentures. Upon conversion, the principal amount of the debentures of $500 million plus $12 million of unamortized finance costs were reclassified and reflected in stockholders' equity. Accordingly, as of December 31, 2006 the 4.75% Debentures were no longer outstanding.

4.50% Convertible Senior Notes Due 2007

On November 25, 2002, the Company issued $402.5 million of 4.50% Convertible Senior Notes due 2007 (the 4.50% Notes) in a registered offering. Interest on the 4.50% Notes was payable semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2003. Beginning on December 4, 2005, the 4.50% Notes were redeemable by the Company at the Company's option for cash at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest provided that the Company could not

redeem the 4.50% Notes unless the last reported sale price of its 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.

On October 22, 2004, the Company exchanged $70 million of its 4.50% Notes plus accrued and unpaid interest, for 10,550,000 shares of the Company's common stock. On November 8, 2004, the Company exchanged $60 million of its 4.50% Notes for 8,748,612 shares of the Company's common stock. On November 18, 2004, the Company exchanged $71 million of its 4.50% Notes for 10,092,649 shares of the Company's common stock. As a result of these transactions, the Company recognized a charge of approximately $32 million, which represented the difference between the fair value of the shares issued in the transactions and the fair value of shares issuable pursuant to the original conversion terms of the 4.50% Notes.

During the fourth quarter of 2005, holders of these notes elected to convert their notes into 27,340,557 shares of the Company's common stock. Accordingly, as of December 25, 2005 the 4.50% Notes were no longer outstanding.

7.75% Senior Notes Due 2012

On October 29, 2004, the Company issued $600 million of 7.75% Senior Notes due 2012 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. On April 22, 2005, we exchanged these notes for publicly registered notes which have substantially identical terms as the old notes except that the publicly registered notes are registered under the Securities Act of 1933, and, therefore, do not contain legends restricting their transfer. The 7.75% Notes mature on November 1, 2012. Interest on the 7.75% Notes is payable semiannually in arrears on May 1 and November 1, beginning May 1, 2005. Prior to November 1, 2008, the Company may redeem some or all of the 7.75% Notes at a price equal to 100 percent of the principal amount plus accrued and unpaid interest plus a "make-whole" premium, as defined in the agreement. Thereafter, the Company may redeem the 7.75% Notes for cash at the following specified prices plus accrued and unpaid interest:

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

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

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

- incurring additional indebtedness;
- paying dividends and making other restricted payments;
- making certain investments, including investments in the Company's unrestricted subsidiaries;
- creating or permitting certain liens;
- creating or permitting restrictions on the ability of the restricted subsidiaries to pay dividends or make other distributions to the Company;
- using the proceeds from sales of assets;

- entering into certain types of transactions with affiliates; and
- consolidating, merging or selling the Company's assets as an entirety or substantially as an entirety.

In February 2006, the Company redeemed 35 percent (or $210 million) of the aggregate principal amount outstanding of its 7.75% Notes. The holders of the 7.75% Notes received 107.75 percent of the principal amount of the 7.75% Notes plus accrued interest. In connection with this redemption, the Company recorded an expense of approximately $16 million, which represents the 7.75% redemption premium paid by the Company, and a charge of $4 million, which represents 35 percent of the unamortized issuance costs incurred in connection with the original issuance of the 7.75% Notes. The Company included these charges in other income (expense), net in the consolidated statement of operations for the year ended December 31, 2006.

Issuance costs incurred in connection with this transaction in the amount of approximately $13 million will be amortized ratably over the term of the 7.75% Notes as interest expense, approximating the effective interest method. Of this amount approximately $4 million was charged to other income (expense), net as a result of the redemption described above.

In October 2006, the holders of the 7.75 % Notes received a security interest that is equal and ratable to that held by the lenders under the October 2006 Term Loan. (See the section entitled "October 2006 Term Loan," above for more information.)

Capital Lease Obligations

As of December 31, 2006, the Company had aggregate outstanding capital lease obligations of $160 million. Included in this amount is $141 million in obligations under certain energy supply contracts which AMD Fab 36 KG entered into with local energy suppliers to provide Fab 36 with utilities (gas, electricity, heating and cooling) to meet the energy demand for its manufacturing requirements. The Company accounted for certain fixed payments due under these energy supply arrangements as capital leases pursuant to EITF Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease* and SFAS No. 13, *Accounting for Leases*. The capital lease obligations under the energy supply arrangements are payable in monthly installments through 2020.

The gross amount of assets recorded under capital leases totaled approximately $157 million and $116 million as of December 31, 2006 and December 25, 2005, and are included in the related property, plant and equipment category. Amortization of assets recorded under capital leases is included in depreciation expense. Accumulated amortization of these leased assets was approximately $16 million and $6 million as of December 31, 2006 and December 25, 2005.

Future Payments on Debt and Capital Lease Obligations

For each of the next five years and beyond, the Company's debt and capital lease payment obligations are:

Fiscal Year	Long-term debt (Principal only)	Capital leases
	(In millions)	
2007	$ 119	$ 25
2008	244	26
2009	334	25
2010	327	25
2011	113	26
Beyond 2011	2,500	188
Total	3,637	315
Less: amount representing interest	—	155
Total	$ 3,637	$ 160

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NOTE 10: Interest Expense and Other Income (Expense), Net

Interest Expense

	2006	2005	2004
		(In millions)	
Total interest charges	$136	$140	$121
Less: interest capitalized	(10)	(35)	(9)
Interest expense	$126	$105	$112

The company has capitalized interest in each of the past three years primarily in connection with its Fab 36 construction activities in Dresden, Germany.

Other Income (Expense), Net

	2006	2005	2004
		(In millions)	
Loss on redemption of 7.75% Notes	$ (20)	$ —	$ —
Fab 36 Term Loan commitment and guarantee fees	(12)	(14)	—
Gain on Spansion LLC's repurchase of its 12.75% Notes	10	—	—
Loss on ineffective hedge	—	(10)	(6)
Loss on exchange of 4.50% Notes for common stock	—	—	(32)
Loss on prepayment of term loan	—	—	(14)
Gain on sale of marketable securities	—	—	8
Other	9	—	(5)
Other income (expense), net	$ (13)	$ (24)	$ (49)

NOTE 11: 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 (loss) before interest, other income (expenses), equity in net loss of Spansion Inc. and other, income taxes and minority interest. These performance measures include the allocation of expenses to the operating segments based on management's judgment.

Prior to December 21, 2005, the Company had the following three reportable segments:

- the Computation Products segment, which included microprocessor products for desktop and mobile PCs, servers and workstations and AMD chipset products;
- the Memory Products segment, which included Spansion Flash memory products; and
- the Personal Connectivity Solutions segment, which consisted of embedded processors for global commercial and consumer markets.

As a result of the completion of Spansion's IPO on December 21, 2005, the Company's financial results of operations included Spansion's results of operations as a consolidated subsidiary only through December 20, 2005. From December 21, 2005, Spansion's operating results and financial position are not consolidated as part of the Company's financial results. Instead, the Company applied the equity method of accounting to reflect its proportionate share of Spansion's net income (loss) from December 21, 2005 through December 31, 2006. Accordingly, as of December 21, 2005 the Company no longer had the Memory Products segment, and the operating results for the year 2006 are not fully comparable with the results for 2005 or 2004.

Following Spansion’s IPO, from December 21, 2005 through October 24, 2006, the Company had two reportable segments: the Computation Products segment and the Embedded Products segment, which prior to the first quarter of 2006, the Company referred to as the Personal Connectivity Solutions segment.

As a result of the ATI acquisition, the Company now has the following four reportable segments:

- the Computation Products segment, which includes microprocessors, chipset products that the Company manufactured prior to the ATI acquisition and related revenue;
- the Embedded Products segment, which includes embedded processors and related revenue;
- the Graphics and Chipsets segment, which includes 3D graphics, video and multimedia products and chipsets sold by ATI prior to the acquisition for use in desktop and notebook PCs, including home media PCs, professional workstations and servers and related revenue; and
- the Consumer Electronics segment, which includes products used in handheld devices such as mobile phones and PDAs, digital televisions, and other consumer electronics products as well as related revenue and revenue for royalties received in connection with sales of game console systems that incorporate the Company’s products.

In addition to the reportable segments, the Company has an All Other category, which is not a reportable segment. This category includes the sale of Personal Internet Communicator (PIC) products, which the CODM began to review separately starting in the third quarter of 2005. Effective the third quarter of 2006, PIC products have not been manufactured. The All Other category also includes certain operating expenses and credits that are not allocated to any of the operating segments because the CODM does not consider these operating expenses and credits in evaluating the operating performance of the operating segments. Also, following the ATI acquisition, the Company began including employee stock-based compensation expense, profit sharing expense, and ATI acquisition related and integration charges in the All Other category. Prior period segment information has been reclassified to conform to the current period’s presentation.

The following table is a summary of net revenue and operating income (loss) by segment for 2006, 2005 and 2004:

	2006	2005	2004
		(In millions)	
Computation Products			
Net revenue	$5,104	$3,793	$2,528
Operating income (loss)	706	641	280
Embedded Products			
Net revenue	149	136	130
Operating income (loss)	(18)	(55)	(54)
Graphics and Chipsets			
Net revenue	278	—	—
Operating income (loss)	(33)	—	—
Consumer Electronics			
Net revenue	120	—	—
Operating income (loss)	20	—	—
All Other			
Net revenue	(2)	6	—
Operating income (loss)	(722)	(43)	(39)
Memory Products			
Net revenue	—	1,913	2,343
Operating income (loss)	—	(311)	35
Total			
Net revenue	5,649	5,848	5,001
Operating income (loss)	(47)	232	222
Interest income	116	37	18
Interest expense	(126)	(105)	(112)
Other income (expense), net	(13)	(24)	(49)
Minority interest in consolidated subsidiaries	(28)	125	18
Equity in net loss of Spansion Inc. and other	(45)	(107)	—
Income (loss) before income taxes	(143)	158	97
Provision (benefit) for income taxes	23	(7)	6
Net income (loss)	$ (166)	$ 165	$ 91

The Company does not discretely allocate assets to its operating segments, nor does management evaluate operating segments using discrete asset information.

The Company’s operations outside the United States include both manufacturing and sales activities. The Company’s manufacturing subsidiaries are located in Germany, Malaysia, Singapore and China. Its sales subsidiaries are located in the U.S., Europe, Asia and Latin America.

The following table summarizes sales for the three years ended December 31, 2006 and long-lived assets by geographic areas as of the two years ended December 31, 2006:

	2006	2005	2004
		(In millions)	
Sales:			
United States	$ 1,399	$ 1,205	$1,038(1)
Japan	116	598	1,084
China	1,478	846	464
Europe	1,345	1,480	1,313
Other countries	1,311	1,719	1,102
	$ 5,649	$ 5,848	$5,001
Long-lived assets:			
United States	$ 416	$ 281	
Germany	2,886	2,182	
Singapore	388	174	
Other countries	297	64	
	$3,987	$2,701	

(1) Includes an insignificant amount of sales in Canada.

Sales to external customers are based on the customer's billing location. Long-lived assets are those assets used in each geographic area.

The Company markets and sells its products primarily to a broad base of customers including third-party distributors, OEMs, ODMs, add-in-board manufacturers, system integrators, retail stores and e-commerce retailers. In 2006, net sales to the Company's top two customers was approximately $1.3 billion and $568 million, which accounted for approximately 23 percent and 10 percent of the Company's consolidated net revenue. The sales to these customers were primarily attributable to the Computation Products segment.

In 2005, net sales to one of the Company's customers were approximately $680 million, which accounted for approximately 12 percent of the Company's consolidated net revenues. The sales to this customer were primarily attributable to the Computation Products segment. In 2005, net sales to Fujitsu were approximately $875 million, which accounted for approximately 15 percent of the Company's consolidated net revenue. The sales to Fujitsu were primarily attributable to the Memory Products segment although Fujitsu is also an OEM customer with respect to the Company's Computation Products segment.

In 2004, gross sales to one of the Company's distributors were approximately $631 million, which accounted for approximately 13 percent of the Company's consolidated gross sales. The sales to this customer were primarily attributable to the Computation Products segment. In 2004, gross sales to Fujitsu were approximately $1.1 billion, which accounted for approximately 22 percent of the Company's consolidated gross sales. The sales to Fujitsu were primarily attributable to the Memory Products segment, although Fujitsu was also an OEM customer with respect to the Company's Computation Products segment.

NOTE 12: Stock-Based Incentive Compensation Plans

The Company's stock-based incentive programs are intended to attract, retain and motivate highly qualified employees. On April 29, 2004, the Company's stockholders approved the 2004 Equity Incentive Plan (the 2004 Plan). Equity awards are made from the 2004 Plan. Under the 2004 Plan, stock options cannot be exercised until they become vested. Generally, stock options vest and become exercisable over a three- to four-year period from

the date of grant. Stock options expire at the times established by the Company's Compensation Committee of the Board of Directors, but not later than ten years after the grant date. In addition, unvested shares that are released from or reacquired by the Company from outstanding awards under the 2004 Plan become available for grant under the 2004 Plan and may be reissued as new awards. The Company also has stock options outstanding under previous equity compensation plans that were in effect before April 29, 2004. Stock options that were available for grant under these prior equity compensation plans were consolidated into the 2004 Plan.

Under the 2004 Plan, the Company can grant fair market value awards or full value awards. Fair market value awards are awards granted at or above the fair market value of our common stock on the date of grant. Full value awards are awards granted at less than the fair market value of our common stock on the date of grant. Awards can consist of (i) stock options and stock appreciation rights granted at the fair market value of our common stock on the date of grant and (ii) restricted stock or restricted stock units, as full value awards. Following is a description of the material terms of the awards that may be granted under the 2004 Plan:

Stock Options. A stock option is the right to purchase shares of AMD's common stock at a fixed exercise price for a fixed period of time. Under the 2004 Plan, nonstatutory and incentive stock options may be granted. The exercise price of the shares subject to each nonstatutory stock option and incentive stock option cannot be less than 100 percent of the fair market value of our common stock on the date of the grant. The exercise price of each option granted under the 2004 Plan must be paid in full at the time of the exercise.

Stock Appreciation Rights. Awards of stock appreciation rights may be granted pursuant to the 2004 Plan. Stock appreciation rights may be granted to employees and consultants. No stock appreciation right may be granted at less than fair market value of the Company's common stock on the date of grant or have a term of over ten years from the date of grant. Upon exercising a stock appreciation right, the holder of such right is entitled to receive payment from AMD in an amount determined by multiplying (i) the difference between the closing price of a share of our common stock on the date of exercise and the exercise price by (ii) the number of shares with respect to which the stock appreciation right is exercised. AMD's obligation arising upon the exercise of a stock appreciation right may be paid in shares or in cash, or any combination thereof.

Restricted Stock. Restricted stock awards can be granted to any employee, director or consultant. The purchase price for an award of restricted stock is $0.00 per share. Restricted stock based on continued service may not fully vest for three years from the date of grant. Restricted stock that is performance based may not fully vest for one year from the date of grant.

Restricted Stock Units. Restricted stock units are awards that can be granted to any employee, director or consultant and that obligate the Company to issue a specific number of shares of the Company's common stock in the future if the vesting terms and conditions are satisfied. The purchase price for the shares is $0.00 per share. Restricted stock units based on continued service may not fully vest for at least three years from the date of grant. Restricted stock units that are performance based may not fully vest for at least one year from the date of grant.

In conjunction with the adoption of SFAS 123R, the Company reviewed its stock-based incentive programs and decided to issue primarily restricted stock units in lieu of stock options. In October 2006, the Company completed the acquisition of ATI. In connection with the acquisition, the Company assumed substantially all issued and outstanding ATI stock options, restricted stock units and other stock-based awards that were outstanding under existing ATI equity plans as of October 24, 2006 by issuing options to purchase approximately 17.1 million shares of the Company's common stock and approximately 2.2 million comparable AMD restricted stock units in exchange. In addition, the Company also assumed certain outstanding ATI restricted stock units which will be settled in cash upon vesting by issuing approximately 655,000 comparable AMD restricted stock units in exchange. These restricted stock units are accounted for as liability awards under SFAS 123R.

Valuation and Expense Information under SFAS 123R

The following table summarizes stock-based compensation expense related to employee stock options, restricted stock and restricted stock units and employee stock purchases under the Company's Employee Stock Purchase Plan for the year ended December 31, 2006, which was allocated in the consolidated statements of operations as follows:

	Amount (In millions)
Stock-based compensation included as a component of:	
Cost of sales	$ 8
Research and development	30
Marketing, general, and administrative	39
Total stock-based compensation expense related to employee stock options, restricted stock, restricted stock units, and employee stock purchases	77
Tax benefit	—
Stock-based compensation expense related to employee stock options, restricted stock, restricted stock units, and employee stock purchases, net of tax	$ 77

The Company did not capitalize stock-based compensation cost as part of the cost of an asset because the cost was insignificant. Following adoption of SFAS 123R, the Company began estimating the value of employee stock options on the date of grant using a lattice-binomial option-pricing model (lattice-binomial model). Prior to the adoption of SFAS 123R, for purposes of the pro forma disclosure information that the Company provided in accordance with SFAS 123, the value of each employee stock option was estimated on the date of grant using the Black-Scholes option-pricing model.

The Company's employee stock options have various restrictions including vesting provisions and restrictions on transfer, and must be exercised prior to their expiration date. The Company believes that the lattice-binomial model is more capable of incorporating the features of the Company's employee stock options than closed-form models such as the Black-Scholes model.

The use of the lattice-binomial model requires the use of extensive actual employee exercise behavior data and the use of a number of complex assumptions including expected volatility of the Company's common stock, risk-free interest rate, and expected dividends. The weighted-average estimated value of employee stock options granted for the year ended December 31, 2006 was $9.40 per share, using the lattice-binomial model with the following weighted-average assumptions:

Expected life (years)	2.38
Expected stock price volatility	53.1%
Risk-free interest rate	5.01%

The Company used a combination of the historical volatility of its common stock and the implied volatility for two-year traded options on the Company's common stock as the expected volatility assumption required by the lattice-binomial model. The implied volatility was based upon the availability of actively traded options on the Company's common stock. The Company believes that the use of implied volatility is more representative of future stock price trends for the two-year periods covered by the actively traded options' maturities than simply using historical volatility alone. The Company believes that this blended approach provides a better estimate of the expected future volatility of the Company's common stock over the expected life of its stock options. Prior to 2006, the Company had used its historical stock price volatility for purposes of its pro forma information disclosures of stock-based compensation expense.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the Company's employee stock options. The expected dividend yield is zero as the Company does not expect to pay dividends in the future.

The expected term of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the lattice-binomial model. The expected term of

employee stock options is impacted by all of the underlying assumptions and calibration of the lattice-binomial model. The lattice-binomial model assumes that employees' exercise behavior is a function of the option's remaining vested term and the extent to which the option is in-the-money. The lattice-binomial model estimates the probability of exercise as a function of these two variables based on the past ten year history of exercises, post-vesting cancellations, and outstanding options on all option grants other than pre-vesting forfeitures made by the Company.

The Company is responsible for determining the assumptions used in estimating the fair value of its stock-based payment awards.

The following table summarizes stock option activity and related information for the fiscal years presented:

	Year Ended December 31, 2006		Year Ended December 25, 2005		Year Ended December 26, 2004	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
	(In thousands except share price)					
Options:						
Outstanding at beginning of year	45,928	$ 15.14	53,684	$ 13.58	40,969	$ 12.92
Granted	18,985	$ 17.30	8,145	$ 18.42	26,121	$ 14.54
Canceled	(1,779)	$ 22.28	(1,063)	$ 15.22	(3,425)	$ 23.20
Exercised	(15,471)	$ 12.77	(14,838)	$ 11.31	(9,981)	$ 10.08
Outstanding at end of year	47,663	$ 16.50	45,928	$ 15.14	53,684	$ 13.58
Exercisable at end of year	35,200	$ 15.66	36,832	$ 14.94	32,250	$ 13.72

As of December 31, 2006, the weighted average remaining contractual life of stock options outstanding was 4.67 years and their aggregate intrinsic value was $222 million. As of December 31, 2006, the weighted average remaining contractual life of stock options exercisable was 4.38 years and their aggregate intrinsic value was $190 million. The total intrinsic value of stock options exercised for 2006, 2005 and 2004 was $341 million, $161 million, and $80 million.

Restricted Stock Units and Awards. Restricted stock and restricted stock units vest in accordance with the terms and conditions established by the Compensation Committee of the Board of Directors, and are based either on continued service or continued service and performance. The cost of these awards is determined using the fair value of the Company's common stock on the date of the grant, and the compensation expense is recognized over the service period.

Certain Company employees have been granted performance-based restricted stock and performance-based restricted stock units. The number of shares ultimately received under these awards depends on actual performance against specified performance goals. The performance period is generally one to three years from the date of grant.

The summary of the changes in restricted stock awards outstanding during the year ended December 31, 2006 is presented below:

	Year Ended December 31, 2006	
	Number of Shares	Weighted-Average Grant Date Fair Value
	(In thousands except share price)	
Nonvested balance at beginning of period	1,067	$ 21.46
Granted	6,444	$ 25.61
Forfeited	(124)	$ 26.20
Vested	(325)	$ 33.64
Nonvested balance at end of period	7,062	$ 24.65

The table above does not include 655,000 restricted stock units being accounted for as liability awards related to the ATI acquisition.

The total fair value of restricted stock and restricted stock units vested during 2006 was $11 million. The total fair value of restricted stock and restricted stock units vested during 2005 and 2004 was insignificant. As of December 31, 2006, the Company had granted 5.3 million units of restricted stock and restricted stock awards under its 2004 Plan and 2.2 million units of restricted stock was outstanding under existing plans assumed from ATI in connection with the acquisition. Compensation expense recognized for the restricted stock units for 2006 and 2005 was approximately $29 million and $3 million. The compensation expense recognized for 2004 was not significant. Compensation expense recognized for the restricted stock awards is not significant.

As of December 31, 2006, the Company had $56 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock options that will be recognized over the weighted average period of 1.05 years. Also, as of December 31, 2006, the Company had $110 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock awards and restricted stock units that will be recognized over the weighted average period of 1.64 years.

Stock Purchase Plan. The Company has an employee stock purchase plan (ESPP) that allows eligible and participating employees to purchase, through payroll deductions, shares of the Company's common stock at 85 percent of the lower of the fair market value on the first or the last business day of the three-month offering period. As of December 31, 2006, approximately 4 million common shares remained available for issuance under the plan. A summary of stock purchased under the plan for the specified fiscal years is shown below:

	2006	2005	2004
Aggregate purchase price (in millions)	$ 30	$ 23	$ 24
Shares purchased (in thousands)	1,550	2,262	2,151

Based on the Black-Scholes option pricing model, the weighted-average fair value of rights granted under the Company's ESPP during 2006, 2005, and 2004 were $6.14, $4.29, and $2.66 per share. The underlying assumptions used in the model for 2006 ESPP purchases are outlined in the following table:

	ESPP
	2006
Expected life (years)	0.25
Expected stock price volatility	51.1%
Risk-free interest rate	4.89%

Non-Employee Stock Options and Restricted Stock Units. Unvested stock options and restricted stock units of the Company that were held by Spansion employees were subject to variable accounting under EITF No. 96-18. The fair value of unvested stock options and restricted stock units was measured pursuant to the Black-Scholes option pricing model at each period end using prevalent market price assumptions because such awards were issued prior to the adoption of SFAS 123R. In November 2006, the Company reduced its ownership interest in Spansion from approximately 38 percent to approximately 21 percent. As a result, Spansion was no longer deemed an "affiliate" under the terms of the equity incentive plans under which these options were issued, and the Company cancelled all outstanding unvested stock options and restricted stock units that were held by Spansion employees as of November 21, 2006 (covering approximately 673,000 shares) and eliminated the compensation expense previously recognized for these unvested stock options and restricted stock units. The compensation expense recognized for vested stock options and restricted stock units held by Spansion employees in 2006 was not significant.

Shares Reserved for Issuance. The Company had a total of approximately 95 million shares of common stock as of December 31, 2006 available for future grants under the 2004 Plan and the ESPP and reserved for issuance upon exercise of outstanding awards (including restricted stock awards) under the 2004 Plan, our prior equity compensation plans and the assumed ATI plans.

Pro Forma Disclosures under SFAS 123 for Periods Prior to Fiscal 2006. Prior to fiscal 2006, the Company followed the disclosure-only provisions of SFAS 123. Pursuant to SFAS 123, for pro forma disclosure purposes only, the Company estimates the fair value of its stock-based awards to employees using a Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions including expected stock price volatility. Because our stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of our stock-based awards to employees. The fair value of our stock-based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

	Options		ESPP	
	2005	2004	2005	2004
Expected life (years)	3.00	3.68	0.25	0.25
Expected stock price volatility	63.9%	78.3%	40.5%	45.2%
Risk-free interest rate	3.84%	2.74%	3.61%	1.69%

The following table presents the effect on net income (loss) and earnings per share as if the Company had applied the fair-value recognition provisions of SFAS 123 to all of its share-based compensation awards for the years ended December 25, 2005 and December 26, 2004:

	2005	2004
	(In millions except per share amounts)	
Net income (loss)—as reported	$ 165	$ 91
Add: employee stock-based compensation expense included in reported net income (loss), net of related tax effects under APB 25	5	1
Less: employee stock-based compensation expense determined under the fair-value based method, net of related tax effects.	(122)	(156)
Net income (loss)—pro forma	$ 48	$ (64)
Basic net income (loss) per common share—as reported	$ 0.41	$ 0.25
Diluted net income (loss) per common share—as reported	$ 0.40	$ 0.25
Basic net income (loss) per common share—pro forma	$ 0.12	$ (0.18)
Diluted net income (loss) per common share—pro forma	$ 0.12	$ (0.18)

The Company granted a total of 8,144,713 stock-based awards during 2005 with exercise prices equal to the closing price of its common stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were $18.42 and $8.07. The Company did not grant any stock options with exercise prices greater than or less than the closing price of its common stock on the grant date during 2005. In addition, the Company also granted 1,052,401 shares of restricted stock in 2005 at less than the closing price of its common stock on the grant date. The grant price and weighted-average fair value of these awards were $0 and $21.88.

The Company granted a total of 25,999,480 stock-based awards during 2004 with exercise prices equal to the closing price of its common stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were $14.56 and $8.20. The Company granted a total of 80,265 stock-based awards during 2004 with exercise prices greater than the closing price of its common stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were $14.54 and $6.34. The Company granted 41,000 stock-based awards in 2004 at less than the closing price of its common stock on the grant date, excluding 43,000 shares of restricted stock granted in 2004 at less than closing price of its common stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were $1.39 and $13.61.

NOTE 13: Other Employee Benefit Plans

Profit Sharing Program. The Company has a profit sharing program to which the Company may authorize quarterly contributions. All employees, other than officers, who have worked with the Company for three months or more are eligible to participate in this program. Profit sharing expense was approximately $50 million in 2006, $22 million in 2005 and $14 million in 2004.

Retirement Savings Plan. The Company has a retirement savings plan, commonly known as a 401(k) plan that allows participating employees in the United States to contribute up to 100 percent of their pre-tax salary subject to Internal Revenue Service limits. The Company matches employee contributions at a rate of 50 cents on each dollar of the first six percent of participants' contributions, to a maximum of three percent of eligible compensation. The Company's contributions to the 401(k) plan were approximately $10 million in 2006, $13 million in 2005 and $12 million in 2004.

NOTE 14: Commitments and Guarantees

The Company leases certain of its facilities, as well as the underlying land in certain jurisdictions, under agreements accounted for as operating leases that expire at various dates through 2021. The Company also leases certain of its manufacturing and office equipment under agreements accounted for as operating leases for terms ranging from one to five years. Rent expense was approximately $42 million, $69 million and $63 million in 2006, 2005 and 2004.

For each of the next five years and beyond, noncancelable long-term operating lease obligations, including those for facilities vacated in connection with restructuring activities, and unconditional purchase commitments are as follows:

	Operating leases	Purchase commitments
	(In millions)	
2007	$ 69	$ 1,240
2008	64	624
2009	54	364
2010	49	105
2011	26	102
Beyond 2011	119	600
	$ 381	$ 3,035

The previous operating lease for the Company's corporate marketing, general and administrative facility in Sunnyvale, California expired in December 1998, at which time the Company arranged for the sale of the facility to a third party and leased it back under a new operating lease. The Company deferred the gain ($37 million) on the sale and is amortizing it over a period of 20 years, the life of the lease. The lease expires in December 2018. At the beginning of the fourth lease year and every three years thereafter, the rent will be adjusted by 200 percent of the cumulative increase in the consumer price index over the prior three-year period, up to a maximum of 6.9 percent. Certain other operating leases contain provisions for escalating lease payments subject to changes in the consumer price index. Total future lease obligations as of December 31, 2006, were approximately $381 million, of which $67 million was recorded as a liability for certain facilities that were included in our 2002 Restructuring Plan. (See Note 16).

The Company, in the normal course of business, enters into purchase commitments to purchase raw materials, energy and gas, other manufacturing and office supplies and services. Total non-cancelable purchase commitments as of December 31, 2006, were $3.0 billion for periods through 2020. These purchase commitments include $1 billion related to contractual obligations of Fab 30 and Fab 36 to purchase silicon-on-insulator wafers and purchases of energy and gas and up to $169 million representing payments to

IBM for 2007 and 2008 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. Accordingly, the table above only reflects the Company's obligations through December 31, 2008. If such approval is received from IBM, the additional obligations from January 2009 through December 2011 would be between $304 million and $334 million. In addition, unconditional purchase commitments also include $206 million for technology license agreements that require periodic payments through 2009. The remaining purchase commitments also include 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 total amount.

In connection with the acquisition of ATI, the Company made several commitments to the Minister of Industry under the Investment Canada Act including that it will: increase spending on research and development in Canada to a specified amount over the course of a three-year period when compared to ATI's expenditures in this area in prior years; maintain Canadian employee headcount at specified levels by the end of the three-year anniversary of the acquisition; increase by a specified amount the number of our Canadian employees focusing on research and development; attain specified Canadian capital expenditures over a three-year period; maintain a presence in Canada via a variety of commercial activities for a period of five years; and nominate a Canadian for election to the Company's Board of Directors over the next five years. The Company's Canadian capital expenditures and research and development commitments are included in its aggregate unconditional purchase commitments.

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

The following table summarizes the principal guarantees issued as of December 31, 2006 related to underlying liabilities that are already recorded on the Company's consolidated balance sheet as of December 31, 2006 and their expected expiration dates by year. No incremental liabilities are recorded on the Company's consolidated balance sheet for these guarantees:

	Amounts Guaranteed	2007	2008	2009
		(In millions)		
Repurchase obligations to Fab 36 partners[1]	$ 126	$ 42	$ 42	$ 42
Payment guarantees on behalf of consolidated subsidiaries[2]	142	142	—	—
Total guarantees	$ 268	$184	$ 42	$ 42

(1) This amount represents the amount of silent partnership contributions that the Company is required to repurchase from the unaffiliated limited partners of AMD Fab 36 KG and is exclusive of the guaranteed rate of return of an aggregate of approximately $58 million.

(2) This amount represents the payment obligation due to a supplier arising out of the purchase of equipment by the Company's consolidated subsidiary, AMD Fab 36 KG. The Company has guaranteed these payment obligations on behalf of its subsidiary. At December 31, 2006, approximately $142 million was outstanding under this guarantee and recorded as a payable on the Company's consolidated balance sheet. The obligation under the guarantee diminishes as the amounts are paid to the supplier.

Guarantees of Indebtedness not Recorded on the Company's Consolidated Balance Sheet

The following table summarizes the principal guarantees issued as of December 31, 2006 for which the related underlying liabilities are not recorded on the Company's consolidated balance sheets as of December 31, 2006, and their expected expiration dates.

	Amounts Guaranteed(1)	2007	2008	2009	2010	2011
			(In millions)			
AMTC revolving loan guarantee	$ 42	$ 42	$ —	$ —	$ —	$ —
AMTC rental guarantee(2)	101	—	—	—	—	101
Spansion operating and capital lease guarantees(3)	6	5	1	—	—	—
Total guarantees	$ 149	$ 47	$ 1	$ —	$ —	$ 101

(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.
(3) Notwithstanding the Spansion IPO, the Company agreed to maintain its guarantees of these Spansion obligations.

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 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. The Company procures advanced photomasks from AMTC and uses them in manufacturing its microprocessors. To finance the project, BAC and AMTC entered into a $158 million revolving credit facility and a $99 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 December 31, 2006, the Company guaranteed up to $42 million plus interest and expenses under the revolving loan, and up to $20 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 $101 million. As of December 31, 2006, $91 million was drawn under the revolving credit facility, and $54 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.

Spansion Capital and Operating Lease Guarantee

The Company guaranteed certain capital and operating leases entered into by Spansion and its subsidiaries totaling $6 million as of December 31, 2006. 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 related to Spansion under the provisions of FIN 45 because the Company concluded the fair value of the guarantees is not significant after considering various factors including Spansion's credit rating, the ability of Spansion to make the payments on these obligations and the short maturity of the indebtedness.

Warranties and Indemnities

The Company generally warrants that microprocessor products sold to its customers will, at the time of shipment, be free from defects in workmanship and materials and conform to its approved specifications. Subject to certain exceptions, the Company generally offers a three-year limited warranty to end users for microprocessor products that are commonly referred to as "processors in a box," a one-year limited warranty to direct purchasers of all other microprocessor products that are commonly referred to as "tray" microprocessor products, and a one-year limited warranty to direct purchasers of embedded processor products. The Company has offered extended limited warranties to certain customers of "tray" microprocessor products who have written agreements with the Company and target their computer systems at the commercial and/or embedded markets.

The Company generally warrants that its graphics and chipset products and products for consumer electronics devices will be free from defects in material and workmanship under normal use and service for a period of one year, beginning on the date first sold to an end user but not later than 90 days after shipment of such products to its customers. The Company generally warrants that ATI-branded PC workstation products will be free from defects in material and workmanship under normal use and service for a period of three years, beginning on the date first sold to an end user but not later than 90 days after shipment of such products to its customers.

Changes in the Company's potential liability for product warranty during the years ended December 31, 2006 and December 25, 2005 are as follows:

	Year Ended	
	December 31, 2006	December 25, 2005
	(In millions)	
Balance, beginning of year	$ 19	$ 22
Fair value of warranty liability acquired from ATI	1	—
New warranties issued during the year	47	39
Settlements during the year	(34)	(28)
Changes in liability for pre-existing warranties during the year, including expirations	(7)	(13)
Decrease due to deconsolidation of Spansion on December 21, 2005	—	(1)
Balance, end of year	$ 26	$ 19

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.

NOTE 15: Other Long-term Liabilities

The Company's other long-term liabilities at December 31, 2006 and December 25, 2005 consisted of:

	December 31, 2006		December 25, 2005
		(In millions)	
Fab 30/Fab 36 deferred grants and subsidies (see Note 9)	$ 364		$ 342
Restructuring accrual (see Note 16)	48		66
Deferred gain on sale leaseback of building (see Note 14)	18		20
Other	87		31
	$ 517		$ 459

Fab 30/Fab 36 deferred grants and subsidies were approximately $558 million and $481 million at December 31, 2006 and December 25, 2005. Of this amount, approximately $194 million and $139 million were included in the caption, "Other Current Liabilities," on the consolidated balance sheets at December 31, 2006 and December 25, 2005. Approximately $17 million of Fab 30/Fab 36 deferred grants and subsidies as of December 31, 2006 is associated with Fab 30, which will continue to be amortized ratably through December 2007 because the Company is required to maintain certain employee headcount levels through December 2007. The remaining deferred grants and subsidies balance are associated with Fab 36. (See Note 9).

NOTE 16: 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 industry conditions resulting from weak customer demand and industry-wide excess inventory.

With the exception of the exit costs consisting primarily of remaining lease payments on abandoned facilities, net of estimated sublease income that 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 for the three years ended December 31, 2006:

	Severance and Employee Benefits	Facility Exit and Equipment Decommission Costs	Total
		(In millions)	
Accruals at December 28, 2003	$ 7	$ 121	$128
Cash payments	(7)	(20)	(27)
Non-cash adjustments	—	5	5
Accruals at December 26, 2004	$ —	$ 106	$106
Cash payments	—	(21)	(21)
Accruals at December 25, 2005	$ —	$ 85	$ 85
Cash payments	—	(18)	(18)
Accruals at December 31, 2006	$ —	$ 67	$ 67

As of December 31, 2006 and December 25, 2005, $48 million and $66 million of the total restructuring accruals of $67 million and $85 million were included in other long-term liabilities on the consolidated balance sheets. (See Note 15).

NOTE 17: Contingencies

Environmental Matters

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

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

To address anticipated future remediation costs under the orders, the Company has computed and recorded an estimated environmental liability of approximately $4.2 million in accordance with applicable accounting rules and has not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The progress of future remediation efforts cannot be predicted with certainty, and these costs may change. The Company believes that the potential future liability, if any, in excess of amounts already accrued will not have a material adverse effect on the Company’s financial condition or results of operations.

Other Matters

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

In re ATI Technologies, Inc. Securities Litigation.

In August and September 2005, five class action lawsuits were filed in the United States District Court for the Eastern District of Pennsylvania against ATI and certain of its directors and officers on behalf of shareholders who purchased ATI common shares between October 7, 2004 and on or about June 23, 2005. The claims allege that ATI and certain of its directors and officers violated United States securities laws by failing to disclose material facts and making statements that contained misrepresentations about its business and future outlook. It is alleged that as a result of the failure to disclose material facts and the alleged misrepresentations, ATI’s common stock traded at artificially inflated prices until the stock price dropped on the news of ATI’s third quarter results in June 2005. The claims further allege that while in possession of material undisclosed information, certain of ATI’s directors and officers sold a portion of their common shares at inflated prices. On May 23, 2006, the Court dismissed one of the five actions because the plaintiff failed to serve the summons and complaint. The four remaining lawsuits were consolidated into a single action, and on September 8, 2006, the plaintiffs filed a consolidated amended complaint. ATI filed its Motion to Dismiss the Consolidated Amended Complaint on December 4, 2006. On January 25, 2007, class plaintiffs filed their opposition to ATI’s motion to dismiss.

U.S. Consumer Class Action Lawsuits

In February and March 2006, two consumer class actions were filed in the United States District Court for the Northern District of California against ATI and three of its subsidiaries. The complaints allege that ATI had misrepresented its graphics cards as being “HDCP ready” when they were not, and on that basis alleged violations of state consumer protection statutes, breach of express and implied warranty, negligent

misrepresentation, and unjust enrichment. On April 18, 2006, the Court entered an order consolidating the two actions. On June 19, 2006, plaintiffs filed a consolidated complaint, alleging violations of California's consumer protection laws, breach of express warranty, and unjust enrichment. On June 21, 2006, a third consumer class action that was filed in the United States District Court for the Western District of Tennessee in May 2006 alleging claims that are substantially the same was transferred to the Northern District of California, and on July 31, 2006, that case was also consolidated into the consolidated action pending in the Northern District of California. ATI filed an answer to the consolidated complaint on August 7, 2006.

Department of Justice Subpoena

On November 29, 2006, AMD received a subpoena for documents and information in connection with the U.S. Department of Justice (DOJ) criminal investigation into potential antitrust violations related to graphics processing units and cards. AMD entered the graphics processor business following our acquisition of ATI on October 25, 2006. The DOJ has not made any specific allegations against AMD or ATI. AMD is cooperating with the investigation.

GPU Class Actions

Currently approximately thirty-six related antitrust actions have been filed against AMD, ATI and Nvidia Corporation, including in the Northern District of California, the Central District of California, the District of Massachusetts, the Western District of Wisconsin, the District of South Carolina, the District of Kansas and the District of Vermont. According to the complaints, plaintiffs filed each of the actions after reading press reports that AMD and Nvidia had received subpoenas from the U.S. Department of Justice Antitrust Division in connection with the DOJ's investigation into potential antitrust violations related to graphics processing units and cards. All of the actions appear to allege that the defendants conspired to fix, raise, maintain, or stabilize the prices of graphics processing units and cards in violation of federal antitrust law and/or state antitrust law. Further, each of the complaints is styled as a putative class action and alleges a class of plaintiffs (either indirect or direct purchasers) who purportedly suffered injury as a result of the defendants' alleged conduct. The majority of the complaints propose a class period from November or December 2002 to the present.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Advanced Micro Devices, Inc.

We have audited the accompanying consolidated balance sheets of Advanced Micro Devices, Inc. and Subsidiaries as of December 31, 2006 and December 25, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(1). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advanced Micro Devices, Inc. and Subsidiaries as of December 31, 2006 and December 25, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in fiscal year 2006, Advanced Micro Devices, Inc. and Subsidiaries changed its method of accounting for stock-based compensation in accordance with guidance provided in Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Advanced Micro Devices, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 23, 2007

Management's Report on Internal Control over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Management has used the framework set forth in the report entitled "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of the end of the most recent fiscal year. Our assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the operations acquired from ATI Technologies Inc. on October 25, 2006, which are included in our fiscal 2006 consolidated financial statements and which, in the aggregate, consisted of $901 million and $270 million of total assets and net assets, respectively, as of December 31, 2006 and which in the aggregate, represented $398 million and $13 million of revenues and losses from operations, respectively, for the year then ended. Ernst & Young has issued an attestation report on management's assessment of the Company's internal control over financial reporting, which is included immediately following this report.

/s/ Hector de J. Ruiz

Chairman of the Board and Chief Executive Officer

February 23, 2007

/s/ Robert J. Rivet

Executive Vice President, Chief Financial Officer

February 23, 2007

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders of
Advanced Micro Devices, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Advanced Micro Devices, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Advanced Micro Devices, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of ATI Technologies Inc., which is included in the 2006 consolidated financial statements of Advanced Micro Devices, Inc. and Subsidiaries and constituted $901 million and $270 million of total and net assets, respectively, as of December 31, 2006 and $398 million and $13 million of revenues and losses from operations, respectively, for the year then ended. Our audit of internal control over financial reporting of Advanced Micro Devices, Inc. and Subsidiaries also did not include an evaluation of the internal control over financial reporting of ATI Technologies Inc.

In our opinion, management's assessment that Advanced Micro Devices, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Advanced Micro Devices, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Advanced Micro Devices, Inc. and Subsidiaries as of December 31, 2006 and December 25, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006 of Advanced Micro Devices, Inc. and Subsidiaries and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 23, 2007

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Supplementary Financial Information

In 2005 and 2006, the Company used a 52- to -53 week fiscal year ending on the last Sunday in December. All of the quarters in 2005 and 2006 except for the quarter ended July 2, 2006 consisted of 13 weeks. The quarter ended July 2, 2006 consisted of 14 weeks.

2006 and 2005 by Quarter
(Unaudited)

	2006				2005			
	Dec. 31(1)	Oct. 1(2)	Jul. 2	Mar. 26	Dec. 25(3)	Sep. 25	Jun. 26	Mar. 27
	(In millions, except per share amounts)							
Net revenue	$ 1,773	$ 1,328	$1,216	$ 1,332	$ 1,838	$ 1,523	$ 1,260	$ 1,227
Cost of sales	1,132	645	526	553	986	896	766	808
Gross margin	641	683	690	779	852	627	494	419
Research and development	385	277	279	264	329	289	273	253
Marketing, general and administrative	296	279	309	256	317	259	228	212
In-process research and development	416(4)	—	—	—	—	—	—	—
Amortization of intangible assets and integration charges	73(5)	6	—	—	—	—	—	—
Operating income (loss)	(529)	121	102	259	206	79	(7)	(46)
Interest Income	22	31	35	28	13	10	7	7
Interest expense	(67)	(18)	(18)	(23)	(24)	(31)	(26)	(24)
Other income (expense), net	2	(2)	7	(20)	(13)(6)	(4)	(4)	(3)
Income (loss) before minority interest, equity in net loss of Spansion Inc. and other and income taxes	(572)	132	126	244	182	54	(30)	(66)
Minority interest in consolidated subsidiaries	(8)	(7)	(7)	(6)	19	21	38	47
Equity in net loss of Spansion Inc. and other	(5)	(10)	(12)	(18)	(107)(7)	—	—	—
Income (loss) before income taxes	(585)	115	107	220	94	75	8	(19)
Provision (benefit) for income taxes	(9)	(21)	18	35	(1)	(1)	(3)	(2)
Net income (loss)	$ (576)	$ 136	$ 89	$ 185	$ 95	$ 76	$ 11	$ (17)
Net income (loss) per common share								
Basic	$ (1.08)	$ 0.28	$ 0.18	$ 0.40	$ 0.23	$ 0.19	$ 0.03	$ (0.04)
Diluted	$ (1.08)	$ 0.27	$ 0.18	$ 0.38	$ 0.21	$ 0.18	$ 0.03	$ (0.04)
Shares used in per share calculation								
Basic	531	486	485	464	412	399	395	393
Diluted	531	497	500	495	452	444	406	393
Common stock market price range								
High	$ 25.69	$ 27.90	$36.08	$ 42.70	$ 30.65	$ 24.03	$ 18.34	$ 22.37
Low	$ 19.90	$ 16.90	$23.46	$ 30.16	$ 20.22	$ 16.63	$ 14.08	$ 14.63

(1) Includes the operations of ATI for the period from October 25 through December 31, 2006. As a result, the quarter ended December 31, 2006 is not fully comparable to prior quarters.

(2) In connection with the ATI acquisition, the Company reclassified integration related expenses of $6 million from marketing, general and administrative to amortization of intangible assets and integration charges.

(3) Consolidated Statement of Operations data for the fourth quarter of 2005 includes the results of Memory Products segment through December 20, 2005. From December 21, 2005, the date with Spansion Inc. closed its initial public offering, through December 31, 2006, the Company used the equity method of accounting to reflect its share of Spansion's net loss and included this information as "Equity in net income (loss) of Spansion, Inc. and other".

(4) Represents a write off of in-process research and development in connection with the ATI acquisition.

(5) Represents amortization of acquisition related intangible assets acquired as part of the ATI acquisition and charges incurred to integrate the operations of ATI with the Company's operations.

(6) Includes a charge of approximately $32 million associated with the Company's exchange of $201 million of its 4.50% Notes for common stock and a charge of approximately $14 million in connection with the prepayment of the Dresden Term Loan.

(7) Due to the dilution in the Company's ownership interest in Spansion from 60 percent to approximately 38 percent in connection with Spansion's IPO, the Company recorded a loss of $110 million which represents the difference between Spansion's book value per share before and after the IPO multiplied by the number of shares owned by the Company.

Financial Statements of Subsidiaries Not Consolidated and 50% or Less Owned Persons

The consolidated financial statements of Spansion Inc. as of December 31, 2006 and December 25, 2005, and for each of the three years in the period ended December 31, 2006 included in Exhibit 99 to this Annual Report (Form 10-K) are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed with the objective of providing reasonable assurance that information required to be disclosed in our reports filed under the Securities and Exchange Act of 1934, or the Exchange Act, such as this Annual Report on Form 10-K 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 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 December 31, 2006, 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 pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). This type of evaluation is performed on a quarterly basis so that conclusions of management, including our Chief Executive Officer and Chief Financial Officer, concerning the effectiveness of the disclosure controls can be reported in our periodic reports on Form 10-Q and Form 10-K. The overall goals of these evaluation activities are to monitor our disclosure controls and to modify them as necessary. We intend to maintain the disclosure controls as dynamic systems that we adjust as circumstances merit. 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 as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting

See "Management's Report on Internal Control over Financial Reporting" set forth in Item 8, Financial Statements and Supplementary Data, immediately following the financial statement audit report of Ernst & Young LLP.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

On February 28, 2007, our Compensation Committee approved bonus awards for our named executive officers listed below, the Executives for fiscal year 2006. The bonus awards included payments under our 2005 Annual Incentive Plan (2005 AIP), 2005 Long-Term Incentive Plan (2005 LTIP) and our former long-term incentive plan called the Vice-President Long-Term Incentive Plan (VP LTIP). Bonus payments to the Executives under the 2005 AIP were determined by our 2006 first half and second half performance results, weighted equally. In the first half of 2006, AMD performed at 1.25x target, but the Compensation Committee used downward discretion to fund this half of the bonus at 0.90x target because we didn't fully meet specified

internal targets. In the second half of 2006, AMD performed under threshold. However, the Compensation Committee used its discretion to fund the second half portion of the bonus at 0.25x target, which was the same target used in calculating discretionary bonus payments to our non-executive officers and other employees who participate in the bonus program. Bonus payments to the Executives under the 2005 LTIP consisted of vesting of previously granted performance-vesting restricted stock units for the two-year transition period ended in 2006 and were based on actual two-year cumulative performance. Bonus payments to the Executives under the VP LTIP consisted of cash payments for the three-year performance period ended in 2006. Payments under the VP LTIP were based strictly on the financial results of the performance period, as set at the beginning of the period. We are not making any further payments under the VP LTIP.

The following table sets forth the bonus awards to the Executives.

Name and Position	2006 Bonus (Cash)	2005-2006 Bonus RSUs vested
Hector de J. Ruiz Chairman of the Board and Chief Executive Officer	$ 2,598,750	63,000
Thomas M. McCoy Executive Vice President, Legal Affairs and Chief Administrative Officer	$ 455,000	12,000
Derrick R. Meyer President and Chief Operating Officer	$ 662,188	18,000
Henri Richard Executive Vice President and Chief Sales and Marketing Officer	$ 503,125	18,000
Robert J. Rivet Executive Vice President and Chief Financial Officer	$ 503,125	18,000

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under the captions, “Item 1—Election of Directors,” “Item 1—Consideration of Stockholder Nominees for Director,” “Corporate Governance,” “Meetings and Committees of the Board of Directors,” “Executive Officers of the Registrant” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2007 Proxy Statement is incorporated herein by reference. There were no material changes to the procedures by which stockholders may recommend nominees to our board of directors.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions, “Directors’ Compensation and Benefits,” “Compensation Discussion & Analysis (CD&A),” “Supplementary Compensation Policies,” “Executive Compensation,” (including, Summary Compensation Table, Nonqualified Deferred Compensation, Outstanding Equity Awards at Fiscal Year-End, Grants of Plan-Based Awards and Option Exercises and Stock Vested), “Long-Term Incentive Plan Awards,” “Retirement Benefit Arrangements,” “Replacement Retirement Benefit Arrangement for Dr. Ruiz,” “Replacement Retirement Benefit Arrangement for Mr. Rivet,” “Employment Agreements” and “Change in Control Arrangements” in our 2007 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the captions, “Principal Stockholders,” “Security Ownership of Directors and Executive Officers” and “Equity Compensation Plan Information” in our 2007 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information under the caption, “Certain Relationships and Related Transactions” in our 2007 Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the captions, “Item 2—Ratification of Independent Registered Public Accounting Firm—Independent Registered Public Accounting Firm’s Fees” in our 2007 Proxy Statement is incorporated herein by reference.

With the exception of the information specifically incorporated by reference in Part II and Part III of this Annual Report on Form 10-K from our 2007 Proxy Statement, our 2007 Proxy Statement shall not be deemed to be filed as part of this report. Without limiting the foregoing, the information under the captions, “Compensation Committee Report on Executive Compensation” and “Audit Committee Report” in our 2007 Proxy Statement is not incorporated by reference in this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

The financial statements of AMD are set forth in Item 8 of this report on Form 10-K. The financial statements of Spansion are incorporated by reference in Item 8 from Exhibit 99, Consolidated Financial Statements of Spansion Inc. (excerpt from Spansion's 2006 Form 10-K), attached to this Form 10-K.

Other than Schedule II, Valuation and Qualifying Accounts and Exhibit 99, Consolidated Financial Statements of Spansion Inc. (excerpt from Spansion's 2006 Form 10-K), attached to this Form 10-K, all other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules or because the information required is included in the Consolidated Financial Statements or Notes thereto.

2. Exhibits

The exhibits listed in the accompanying Index to Exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K. The following is a list of such Exhibits:

Exhibit Number	Description of Exhibits
2.1(a)	Stock Purchase Agreement dated as of April 21, 1999, by and between Lattice Semiconductor Corporation and AMD, filed as Exhibit 2.3 to AMD's Current Report on Form 8-K dated April 21, 1999, is hereby incorporated by reference.
2.1(b)	First Amendment to Stock Purchase Agreement, dated as of June 7, 1999, between AMD and Lattice Semiconductor Corporation, filed as Exhibit 2.3(a) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
2.1(c)	Second Amendment to Stock Purchase Agreement, dated as of June 15, 1999, between AMD and Lattice Semiconductor Corporation, filed as Exhibit 2.3(b) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
2.2	Recapitalization Agreement, dated as of May 21, 2000, by and between BraveTwo Acquisition, L.L.C., AMD and BoldCo, Inc., filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated May 21, 2000, is hereby incorporated by reference.
2.3	Plan of Arrangement under Section 192 of the Canada Business Corporations Act filed as Exhibit 2.1 to AMD's Current Report of Form 8-K dated October 24, 2006, is hereby incorporated by reference.
2.4	Acquisition Agreement by and between Advanced Micro Devices, Inc. 1252986 Alberta ULC and ATI Technologies Inc. dated as of July 23, 2006 filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated July 23, 2006, is hereby incorporated by reference.
3.1	Certificate of Incorporation, as amended, filed as Exhibit 3.1 to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
3.2	Bylaws, as amended, filed as Exhibit 3.1 to AMD's Current Report on Form 8-K dated February 8, 2007, are hereby incorporated by reference.
3.3	Certificate of Amendment to Restated Certificate of Incorporation dated May 25, 2000, filed as Exhibit 3.3 to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 2000, is hereby incorporated by reference.
4.1	AMD hereby agrees to file on request of the Commission a copy of all instruments not otherwise filed with respect to AMD's long-term debt or any of its subsidiaries for which the total amount of securities authorized under such instruments does not exceed 10 percent of the total assets of AMD and its subsidiaries on a consolidated basis.

Exhibit Number	Description of Exhibits
4.2	Indenture governing 4.75% Convertible Senior Debentures due 2022 dated January 29, 2002, between AMD and The Bank of New York filed as Exhibit 4.14 to AMD's Annual Report on Form 10-K for the year ended December 30, 2001, is hereby incorporated by reference.
4.3	Form of 4.75% Convertible Senior Debenture due 2022 filed as Exhibit 4.15 to AMD's Annual Report on Form 10-K for the year ended December 30, 2001, is hereby incorporated by reference.
4.4	Indenture governing 7.75% Senior Notes due 2012, dated October 29, 2004, between Advanced Micro Devices, Inc. and Wells Fargo Bank, N.A., filed as Exhibit 4.1 to AMD's Form 8-K dated November 2, 2004, is hereby incorporated by reference.
4.5	Form of 7.75% Senior Note due 2012, filed as Exhibit 4.2 to AMD's Form 8-K dated November 2, 2004, is hereby incorporated by reference.
*10.1	2000 Employee Stock Purchase Plan, as amended and restated, filed as Exhibit 10.60 to AMD's Quarterly Report on Form 10-Q for the period ended October 1, 2006, is hereby incorporated by reference.
*10.2	AMD 1992 Stock Incentive Plan, as amended, filed as Exhibit 10.3 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.3	Forms of Stock Option Agreements, filed as Exhibit 10.8 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.4	Forms of Restricted Stock Agreements, filed as Exhibit 10.11 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.5	Amended and Restated Employment Agreement, dated as of November 3, 2000, between AMD and W. J. Sanders III, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.6	AMD 2000 Stock Incentive Plan, as amended, filed as Exhibit 10.12 to AMD's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2003, is hereby incorporated by reference.
*10.7	AMD's U.S. Stock Option Program for options granted after April 25, 2000, filed as Exhibit 10.14 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.8	AMD Executive Incentive Plan, filed as Exhibit 10.8 to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 2006, is hereby incorporated by reference.
*10.9	Advanced Micro Devices, Inc. 2005 Long Term Incentive Plan, filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated October 12, 2005, is hereby incorporated by reference.
*10.10	Advanced Micro Devices, Inc. 2005 Annual Incentive Plan, filed as Exhibit 10.2 to AMD's Current Report on Form 8-K dated October 12, 2005, is hereby incorporated by reference.
*10.11	Form of Bonus Deferral Agreement, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended March 30, 1986, is hereby incorporated by reference.
*10.12	Form of Executive Deferral Agreement, filed as Exhibit 10.17 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is hereby incorporated by reference.
*10.13	Form of Management Continuity Agreement, filed as Exhibit 10.18 to AMD's Quarterly Report on Form 10-Q for the period ended September 26, 2004, is hereby incorporated by reference.
*10.14	AMD's Stock Option Program for Employees Outside the U.S. for options granted after April 25, 2000, filed as Exhibit 10.24 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.15	AMD's U.S. Stock Option Program for options granted after April 24, 2001, filed as Exhibit 10.23(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
*10.16	2004 Equity Incentive Plan, as amended, filed as Exhibit 10.16 to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 2006, is hereby incorporated by reference.
*10.17	Advanced Micro Devices, Inc. Executive Investment Account Plan dated July 1, 2000, filed as Exhibit 10.64 to AMD's Quarterly Report on Form 10-Q for the period ended June 26, 2005, is hereby incorporated by reference.
*10.17(a)	First Amendment to the Advanced Micro Devices, Inc. Executive Investment Account Plan dated November 11, 2003, filed as Exhibit 10.64(A) to AMD's Quarterly Report on Form 10-Q for the period ended June 26, 2005, is hereby incorporated by reference.
*10.17(b)	Second Amendment to the Advanced Micro Devices, Inc. Executive Investment Account Plan dated November 11, 2003, filed as Exhibit 10.64(B) to AMD's Quarterly Report on Form 10-Q for the period ended June 26, 2005, is hereby incorporated by reference.
*10.17(c)	Third Amendment to the Advanced Micro Devices, Inc. Executive Investment Account Plan dated November 9, 2005, filed as Exhibit 10.17(c) to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 2005, is hereby incorporated by reference.
*10.18	Retention Payment Agreement by and between Advanced Micro Devices, Inc. and Henri Richard dated August 3, 2005 filed as Exhibit 10.65 to AMD's Quarterly Report on Form 10-Q for the period ended June 26, 2005, is hereby incorporated by reference.
10.19	Lease Agreement, dated as of December 22, 1998, between AMD and Delaware Chip LLC, filed as Exhibit 10.27 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998 is hereby incorporated by reference.
*10.20	AMD Executive Savings Plan (Amendment and Restatement, effective as of January 1, 2005), filed as Exhibit 10.66 to AMD's Quarterly Report on Form 10-Q for the period ended June 26, 2005, is hereby incorporated by reference.
*10.21	Form of Split Dollar Life Insurance Agreement, as amended, filed as Exhibit 10.31 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.22	Forms of Stock Option Agreements to the 1992 Stock Incentive Plan, filed as Exhibit 4.3 to AMD's Registration Statement on Form S-8 (No. 33-46577), are hereby incorporated by reference.
*10.23	AMD 1996 Stock Incentive Plan, as amended, filed as Exhibit 10.58 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
*10.24	AMD 1998 Stock Incentive Plan, as amended, filed as Exhibit 10.32 to AMD's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2003, is hereby incorporated by reference.
*10.25	Form of indemnification agreements with officers and directors of AMD, filed as Exhibit 10.38 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.26	Form of indemnification agreements with officers and directors of AMD, filed as Exhibit 10.56 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
*10.27	1995 Option Stock Plan of NexGen, Inc., as amended, filed as Exhibit 10.37 to AMD's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996, is hereby incorporated by reference.
**10.28	C-4 Technology Transfer and Licensing Agreement dated June 11, 1996, between AMD and IBM Corporation, filed as Exhibit 10.48 to AMD's Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the period ended September 29, 1996, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
**10.28(a)	Amendment No. 1 to the C-4 Technology Transfer and Licensing Agreement, dated as of February 23, 1997, between AMD and International Business Machine Corporation, filed as Exhibit 10.48(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.29	Letter Agreement, effective as of September 13, 2004, between Advanced Micro Devices, Inc. and International Business Machines Corp. filed as Exhibit 10.36(b) to AMD's Quarterly Report on Form 10-Q for the period ended September 26, 2004, is hereby incorporated by reference.
**10.30	Design and Build Agreement dated November 15, 1996, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH, filed as Exhibit 10.49(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
**10.30(a)	Amendment to Design and Build Agreement dated January 16, 1997, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH filed as Exhibit 10.49(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
10.31(a)	AMD Subsidy Agreement, between AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(c) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(b)	Subsidy Agreement, dated February 12, 1997, between Sachsische Aufbaubank and Dresdner Bank AG, with Appendices 1, 2a, 2b, 3 and 4, filed as Exhibit 10.50(d) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(c-1)	AMD Holding Wafer Purchase Agreement, dated as of March 11, 1997, among AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(c-2)	First Amendment to AMD Holding Wafer Purchase Agreement, dated as of February 20, 2001, between AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j-1) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
**10.31(d)	AMD Holding Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD, filed as Exhibit 10.50(k) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(e-1)	AMD Saxonia Wafer Purchase Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(l) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(e-2)	First Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 6, 1998, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50 (l-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
**10.31(e-3)	Second Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 20, 2001, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(1-3) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
10.31(e-4)	Third Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of June 3, 2002, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.43(l-4) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.31(e-5)	Fourth Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 24, 2004, between AMD Saxony Holding GmbH and AMD Saxony Limited Liability and Co. KG, filed as Exhibit 10.38(l-5) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 2003, is hereby incorporated by reference.
**10.31(f)	AMD Saxonia Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Manufacturing GmbH and AMD Saxony Holding GmbH, filed as Exhibit 10.50(m) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.31(g)	License Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(n) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(h-1)	ISDA Agreement, dated March 11, 1997, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.31(h-2)	Confirmation to ISDA Agreement, dated February 6, 1998, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
*10.32	Employment Agreement, dated as of January 31, 2002, between AMD and Hector de J. Ruiz, filed as Exhibit 10.47 to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.
*10.32(a)	Amendment to Employment Agreement between Advanced Micro Devices, Inc. and Hector Ruiz, dated as of October 27, 2004, filed as Exhibit 10.2 to AMD's Form 8-K dated November 2, 2004, is hereby incorporated by reference.
*10.32(b)	Amendment to Employment Agreement by and between Advanced Micro Devices, Inc. and Hector Ruiz dated October 27, 2005 and effective as of July 1, 2005, filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated October 27, 2005, is hereby incorporated by reference.
*10.32(c)	Amendment to Employment Agreement and Waiver by and between Advanced Micro Devices, Inc. and Hector Ruiz dated December 16, 2006 filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated December 16, 2006, is hereby incorporated by reference.
*10.33	Employment Agreement, dated as of September 27, 2000, between AMD and Robert J. Rivet, filed as Exhibit 10.57 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference.
**10.34	Patent Cross-License Agreement, dated as of May 4, 2001, between AMD and Intel Corporation, filed as Exhibit 10.58 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference.
**10.35	Joint Development Agreement, dated as of January 31, 2002, between AMD and United Microelectronics Corporation, filed as Exhibit 10.52 to AMD's Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the period ended March 31, 2002, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
***10.36	Third Amendment and Restatement of "S" Process Development Agreement between International Business Machines Corp. and Advanced Micro Devices, Inc. effective as of December 28, 2002.
**10.37	Agreement between SI Investment Limited Liability Company & Co KG and M+W Zander Facility Engineering GmbH, dated November 20, 2003 filed as Exhibit 10.47 to AMD's Annual Report on Form 10-K for the period ended December 26, 2004, is hereby incorporated by reference.
**10.38	Cooperation Agreement between Advanced Micro Devices, Inc., the Free State of Saxony and M+W Zander Fünfte Verwaltungsgesellschaft mbH, dated November 20, 2003 filed as Exhibit 10.48 to AMD's Annual Report on Form 10-K for the period ended December 26, 2004, is hereby incorporated by reference.
**10.39	EUR 700,000,000 Term Loan Facility Agreement dated April 21, 2004, between AMD Fab 36 Limited Liability Company & Co. KG, ABN AMRO Bank N.V., Commerzbank Aktiengesellschaft, Deutsche Bank Luxembourg S.A., Dresdner Kleinwort Wasserstein, the investment banking division of Dresdner Bank AG, Landesbank Hessen-Thüringen, Girozentrale, Landesbank Sachsen Girozentrale, Dresdner Bank Luxembourg S.A., Dresdner Bank AG and the financial institutions specified in Schedule 1, filed as Exhibit 10.61 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
***10.39(a)	Amendment Agreement to the Term Loan Facility Agreement by and between Advanced Micro Devices, Inc., AMD Fab 36 Limited Liability Company & Co. KG, AMD Fab 36 Holding GmbH and the financial institutions named therein dated October 10, 2006 filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated October 13, 2006, is hereby incorporated by reference.
10.40	Subordination Agreement dated April 20, 2004, between AMD, AMD Fab 36 Holding GmbH, AMD Fab 36 Admin GmbH, Leipziger Messe GmbH, Fab 36 Beteiligungs GmbH, AMD Fab 36 LLC and LM Beteiligungsgesellschaft mbH, AMD Fab 36 Limited Liability Company & Co. KG, ABN AMRO Bank N.V., Commerzbank Aktiengesellschaft, Deutsche Bank Luxembourg S.A., Dresdner Kleinwort Wasserstein, KFW, Landesbank Hessen-Thüringen, Girozentrale and Landesbank Sachsen Girozentrale, as Mandated Lead Arrangers, Dresdner Bank Luxembourg S.A., as Facility Agent, with Dresdner Bank AG as Security Agent, and the financial institutions specified therein, filed as Exhibit 10.62 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.41	Guarantee Agreement dated April 21, 2004, between AMD, AMD Fab 36 Limited Liability Company & Co. KG, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.63 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.42	License Agreement dated April 21, 2004, between AMD, AMD Fab 36 Holding GmbH and AMD Fab 36 Limited Liability Company & Co. KG, filed as Exhibit 10.64 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
**10.43	Limited Partnership Agreement of AMD Fab 36 Limited Liability Company & Co. KG dated April 21, 2004, by and between AMD Fab 36 LLC, LM Beteiligungsgesellschaft mbH, AMD Fab 36 Holding GmbH, AMD Fab 36 Admin GmbH, Leipziger Messe GmbH, and Fab 36 Beteiligungs GmbH, filed as Exhibit 10.65 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
10.44	Agreement on the Formation of a Silent Partnership dated April 21, 2004, by and between AMD Fab 36 Limited Liability Company & Co. KG, Leipziger Messe GmbH, and Fab 36 Beteiligungs GmbH, filed as Exhibit 10.66 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.45	Agreement of Purchase and Sale of Limited Partner's Interests dated April 21, 2004, by and between Leipziger Messe GmbH, Fab 36 Beteiligungs GmbH, AMD Fab 36 Holding GmbH, AMD Fab 36 Admin GmbH, and AMD, filed as Exhibit 10.67 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.46	Agreement of Purchase and Sale of Silent Partner's Interests dated April 21, 2004, by and between AMD, Leipziger Messe GmbH, Fab 36 Beteiligungs GmbH, AMD Fab 36 Holding GmbH, AMD Fab 36 Admin GmbH, and AMD Fab 36 Limited Liability Company & Co. KG, filed as Exhibit 10.68 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.47	AMD Fab 36 Holding Cost Plus Reimbursement Agreement dated April 21, 2004, between AMD Fab 36 Holding GmbH and AMD, filed as Exhibit 10.69 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.47(a)	Amendment Agreement No. 1 to the AMD Fab 36 Holding Cost Plus Reimbursement Agreement by and between Advanced Micro Devices, Inc. and AMD Fab 36 Holding GmbH dated September 28, 2006 filed as Exhibit 10.3 to AMD's Quarterly Report on Form 10-Q for the period ended October 1, 2006, is hereby incorporated by reference.
10.48	AMD Fab 36 Cost Plus Reimbursement Agreement dated April 21, 2004, between AMD Fab 36 Holding GmbH and AMD Fab 36 Limited Liability Company & Co. KG, filed as Exhibit 10.70 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.48(a)	Amendment Agreement No. 1 to the AMD Fab 36 Cost Plus Reimbursement Agreement by and between AMD Fab 36 Holding GmbH and AMD Fab 36 Limited Liability Company & CO. KG dated September 22, 2006 filed as Exhibit 10.2 to AMD's Quarterly Report on Form 10-Q for the period ended October 1, 2006, is hereby incorporated by reference.
10.49	Management Service Agreement dated October 31, 2003, between AMD Saxony Limited Liability Company & Co. KG, SI Investment Limited Liability Company & Co. KG, SI Investment Holding GmbH and AMD, filed as Exhibit 10.71 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 2004, is hereby incorporated by reference.
10.49(a)	Amendment Agreement No. 1 to the AMD Fab 36 Management Services Agreement by and between Advanced Micro Devices, Inc., AMD Saxony Limited Liability Company & Co. KG., AMD Fab 36 Limited Liability Company & Co. KG and AMD Fab 36 Holding GmbH dated September 25, 2006 filed as Exhibit 10.1 to AMD's Quarterly Report on Form 10-Q for the period ended October 1, 2006, is hereby incorporated by reference.
10.50	Stockholders Agreement of Spansion Inc. by and among AMD Investments, Inc., Spansion Inc., Advanced Micro Devices, Inc., and Fujitsu Limited, dated December 21, 2005, filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
10.51	Amended and Restated Fujitsu-AMD Patent Cross-License Agreement by and between Advanced Micro Devices, Inc., and Fujitsu Limited dated December 21, 2005, filed as Exhibit 10.3 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
10.52	Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement by and among Fujitsu Limited, Advanced Micro Devices, Inc., AMD Investments, Inc., Spansion Inc. and Spansion Technology Inc. dated December 21, 2005, filed as Exhibit 10.4 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
10.53	Amended and Restated Information Technology Services Agreement dated by and between Spansion Inc. and Advanced Micro Devices, Inc. December 21, 2005, filed as Exhibit 10.5 by and between Spansion Inc. and Advanced Micro Devices, Inc., to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
10.54	Amended and Restated General Administrative Services Agreement by and between Spansion Inc. and Advanced Micro Devices, Inc. dated December 21, 2005, filed as Exhibit 10.6 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
10.55	Amended and Restated Reverse General Administrative Services Agreement by and between Spansion Inc. and Advanced Micro Devices, Inc. dated December 21, 2005, filed as Exhibit 10.7 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
10.56	Amended and Restated AMD-Spansion Patent Cross-License Agreement by and between Advanced Micro Devices, Inc. and Spansion Inc. dated as of December 21, 2005 filed as Exhibit 10.2 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
**10.57	AMD Distribution Agreement by and between Advanced Micro Devices, Inc. and FASL LLC dated as of June 30, 2003 filed as Exhibit 10.42 to AMD's Annual Report on Form 10-K for the period ended December 26, 2004, is hereby incorporated by reference.
10.58	Amended and Restated Agency Agreement effective as of April 1, 2005 by and between Spansion LLC and Advanced Micro Devices, Inc., filed as Exhibit 10.58 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 2005, is hereby incorporated by reference.
***10.59	Amended and Restated Non-Competition Agreement by and among Advanced Micro Devices, Inc., AMD Investments, Inc., Fujitsu Limited, and Spansion Inc. dated as of December 21, 2005 filed as Exhibit 10.8 to AMD's Current Report on Form 8-K dated December 15, 2005, is hereby incorporated by reference.
10.60	Underwriting Agreement by and between Advanced Micro Devices, Inc., and Merrill Lynch & Co. dated as of January 24, 2006 filed as Exhibit 1.1 to AMD's Current Report on Form 8-K dated January 27, 2006, is hereby incorporated by reference.
10.61	Form of Voting Agreement by and between Advanced Micro Devices, Inc., and "Securityholder" dated as of July 23, 2006 filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated July 23, 2006, is hereby incorporated by reference.
10.62	Commitment Letter by and between Advanced Micro Devices, Inc., and Morgan Stanley Senior Funding, Inc. dated as of July 23, 2006 filed as Exhibit 10.2 to AMD's Current Report on Form 8-K dated July 23, 2006, is hereby incorporated by reference.
*10.63	Offer Letter Agreement by and between Advanced Micro Devices, Inc. and David Orton dated August 15, 2006 filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated September 28, 2006, is hereby incorporated by reference.
10.64	Credit Agreement by and between Advanced Micro Devices, Inc., Morgan Stanley Senior Funding, Inc., and Wells Fargo Bank, N.A. and dated as of October 24, 2006 filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated October 24, 2006, is hereby incorporated by reference.
10.65	Collateral Agreement by and between Advance Micro Devices, Inc., AMD International Sales and Service Ltd. and Wells Fargo Bank, N.A. dated October 24, 2006 filed as Exhibit 10.2 to AMD's Current Report on Form 8-K dated October 24, 2006, is hereby incorporated by reference.

Exhibit Number	Description of Exhibits
10.66	Collateral Trust Agreement by and between Advanced Micro Devices, Inc. and Wells Fargo Bank, N.A., dated as of October 24, 2006 filed as Exhibit 10.3 to AMD's Current Report on Form 8-K dated October 24, 2006, is hereby incorporated by reference.
10.67	Form of Terms and Conditions For Participants Located in the U.S. Restricted Stock Unit Award (2004 Equity Incentive Plan) filed as Exhibit 10.4 to AMD's Quarterly Report on Form 10-Q for the period ended October 1, 2006, is hereby incorporated by reference.
10.68	Underwriting Agreement by and between Spansion Inc., AMD Investments, Inc. and Fujitsu Limited dated November 15, 2006 filed as Exhibit 1.1 to AMD's Current Report on Form 8-K dated November 15, 2006, is hereby incorporated by reference.
10.69	Grant Disbursement Agreement by and between Advanced Micro Devices, Inc. and New York State Urban Development Corporation d/b/a Empire State Development Corporation dated December 22, 2006 filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated December 22, 2006, is hereby incorporated by reference.
*10.70	ATI Technologies Inc. Restricted Share Unit Plans for U.S. Directors and Employees, as amended and restated effective January 31, 2005 filed as Exhibit 99.1 to AMD's Registration Statement on Form S-8 (333-138291) filed on October 30, 2006 is hereby incorporated by reference.
*10.71	ATI Technologies Inc. Restricted Share Unit Plans for Canadian Directors and Employees, as amended and restated effective January 31, 2005 filed as Exhibit 99.2 to AMD's Registration Statement on Form S-8 (333-138291) filed on October 30, 2006 is hereby incorporated by reference.
*10.72	ATI Technologies Inc. Share Option Plan, as amended effective as of January 25, 2005 filed as Exhibit 99.3 to AMD's Registration Statement on Form S-8 (333-138291) filed on October 30, 2006 is hereby incorporated by reference.
*10.73	ARTX Inc. 1997 Equity Incentive Plan, as amended, filed as Exhibit 99.4 to AMD's Registration Statement on Form S-8 (333-138291) filed on October 30, 2006 is hereby incorporated by reference.
21	List of AMD subsidiaries.
23-a	Consent of Ernst & Young LLP, independent registered public accounting firm for Advanced Micro Devices, Inc.
23-b	Consent of Ernst & Young LLP, independent registered public accounting firm for Spansion Inc.
24	Power of Attorney.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	Consolidated Financial Statements of Spansion Inc. (excerpt from Spansion's Form 10-K for the year ended December 31, 2006.)

* Management contracts and compensatory plans or arrangements required to be filed as an Exhibit to comply with Item 14(a)(3) of Form 10-K.
** Portions of this Exhibit have been omitted pursuant to a request for confidential treatment, which has been granted. These portions have been filed separately with the Securities and Exchange Commission.
*** 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.

AMD will furnish a copy of any exhibit on request and payment of AMD's reasonable expenses of furnishing such exhibit.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

February 28, 2007

ADVANCED MICRO DEVICES, INC.

By: /s/ ROBERT J. RIVET
Robert J. Rivet
Executive Vice President,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
* **Hector de J. Ruiz**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 28, 2007
/s/ ROBERT J. RIVET **Robert J. Rivet**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2007
* **W. Michael Barnes**	Director	February 28, 2007
* **John E. Caldwell**	Director	February 28, 2007
* **Bruce Claflin**	Director	February 28, 2007
* **H. Paulett Eberhart**	Director	February 28, 2007
* **James Fleck**	Director	February 28, 2007
* **Robert B. Palmer**	Director	February 28, 2007
* **Leonard Silverman**	Director	February 28, 2007
* **Morton L. Topfer**	Director	February 28, 2007

*By: /s/ ROBERT J. RIVET
(Robert J. Rivet, Attorney-in-Fact)

SCHEDULE II

Advanced Micro Devices, Inc.

Valuation and Qualifying Accounts

Years Ended
December 26, 2004, December 25, 2005 and December 31 2006

(In millions)

	Balance Beginning of Period	Additions Charged (Reductions Credited) To Operations	Deductions[1]	Other (Reductions)[2]	Balance End of Period
Allowance for doubtful accounts:					
Years ended:					
December 26, 2004	$ 21	$ 9	$ (12)	$ —	$ 18
December 25, 2005	18	39	(42)	(2)	13
December 31, 2006	13	8	(8)	—	13

(1) Accounts (written off) recovered, net.
(2) Reduction due to change in status of Spansion from consolidated subsidiary to unconsolidated investee as a result of Spansion's IPO.

 Exhibit 10.36

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

Third 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 with the Securities and Exchange Commission.*

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 on August 22, 2005 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:

"Agreement" means the terms and conditions of this Third 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 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.

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“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, Stand Alone 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. For the avoidance of doubt, Bulk CMOS Information shall not include any eDRAM Technology derived from or used in CMOS 12SeD.

“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 if 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 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

***Confidential Treatment Requested.

SRAM macro cells and eDRAM macros) 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 (including eDRAM macros) 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.

"CMOS 12SeD" 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. CMOS 12SeD is a version of CMOS 12S including eDRAM Technology, as further defined in Exhibit A.15.

"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 13SeD" means a 32 nanometer CMOS logic fabrication process currently under development by IBM, the development of which is intended to be continued pursuant to this Agreement. CMOS 13SeD is a version of CMOS 13S including eDRAM Technology.

"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).

"eDRAM Licensed Product" means Integrated Circuits that include Bulk CMOS Information, Industry Standard Information, High Performance Device Information, SOI Device Information, or any combination thereof, and eDRAM Technology, or any portion thereof, other than Foundry Products.

"eDRAM Technology" means semiconductor fabrication processes, designs and design techniques specifically developed for or directed to Embedded DRAM, regardless of the application to which it is applied.

"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 ***.

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"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 ***.

"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. For the avoidance of doubt, Industry Standard Information shall not include any eDRAM Technology derived from or used in CMOS 13SeD.

***Confidential Treatment Requested.

"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 (excluding eDRAM Technology), SOI Device Information (excluding eDRAM Technology), 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.

"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 12SeD, CMOS 13S, CMOS13 SeD, 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.

“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.

***Confidential Treatment Requested.

“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 (SiO_2) 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) Stand Alone 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.

"Stand Alone Memory" means Chip Designs and fabrication processes specifically related to read only memory (ROM), dynamic random access memory (DRAM), programmable ROMs, magnetic RAM (MRAM), and ferroelectric RAM. For the avoidance of doubt, "Stand Alone Memory" shall not include static RAM (SRAM) macros utilized in the Process Development Projects as test vehicles or elements of eDRAM Technology which are included in Specific Results.

"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) Stand Alone 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, design, 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 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: ***

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(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 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 negotiation of fees) to terminate the development relationship set forth in this Agreement for any or all Process Development Project(s). 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

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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: ***
255 Fuller Road
Albany, NY 12203-3698
Tel: ***

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: ***

(ii) For IBM: ***

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.

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The Bump Technology Project Leaders shall be:

(i) For AMD: ***

(ii) For IBM: ***

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.

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.

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

Each Party will identify one of its employees to coordinate the efforts of that party with regard to the design related elements of eDRAM Technology ("eDRAM Design Coordinator"). A party may change its eDRAM Design Coordinator by providing prior written notice to the other Party.

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: ***

(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

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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 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):

	1Q03	2Q	3Q	4Q	1Q04	2Q	3Q	4Q	1Q05	2Q	3Q	4Q
AMD	***	***	***	***	***	***	***	***	***	***	***	***

* Notwithstanding the foregoing, if the Commencement Date is in the 3rd calendar quarter of 2005, AMD will pay to IBM $*** (*** dollars) 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 $*** (*** dollars), and the 4th quarter 2005 payment will be increased to $*** (*** dollars), 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 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.

	1Q06	2Q	3Q	4Q	1Q07	2Q	3Q	4Q	1Q08	2Q
AMD (4 total partners)	***	***	***	***	***	***	***	***	***	***
AMD (3 total partners)	***	***	***	***	***	***	***	***	***	***
AMD (2 total partners)	***	***	***	***	***	***	***	***	***	***

	3Q08	4Q08	1Q09	2Q	3Q	4Q	1Q10	2Q	3Q	4Q	1Q11	2Q	3Q	4Q
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

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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.

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, technical and sales books and records

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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 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.

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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.

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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5.12 In consideration for the licenses granted by IBM to AMD in and to eDRAM Technology and in addition to any other amounts payable hereunder, AMD shall pay to IBM amounts as follows (a) *** on or before December 15, 2006, (b) *** dollars (US***) on or before January 15, 2007, (c) *** dollars (US$***) on or before April 15, 2007, and (d) two million five hundred thousand dollars (US***) on or before July 15, 2007; each payment when made shall be non-refundable and irrevocable. This Agreement shall serve as an invoice for such payments. Section 5.2 and the payment procedures of Section 5.4 will apply to all such payments.

5.13 In the event of a termination pursuant to Section 12.8, AMD agrees to pay IBM a royalty of *** percent (***%) of the Net Selling Price for each eDRAM Licensed Product that embodies eDRAM Technology developed under this Agreement and is provided to, or purchased by, a Third Party if the total of such Net Selling Price is in excess of *** dollars ($***) of cumulative revenue for all such eDRAM Licensed Products. Once the total cumulative royalty received by IBM pursuant to this Section 5.13 equals *** dollars (US***), AMD shall owe no further royalties pursuant to this Section 5.13. Payments made under this Section 5.13 when made shall be non-refundable and irrevocable. Section 5.2, the payment procedures of Section 5.4, and the audit provisions of Section 5.5 will apply to all such royalty payments.

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.

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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. For clarity, any such Third Party development partners, who are jointly developing with IBM eDRAM Technology compatible with SOI Integrated Circuits or High Performance Integrated Circuits, shall also be jointly developing with IBM the manufacturing processes for SOI Integrated Circuits or High Performance Integrated Circuits which are applicable to such eDRAM Technology.

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 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

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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 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; or

7.6.4 spice models, design-related data (netlists, GDS), device models, verification decks other than to Third Party contractors who design eDRAM or Stand Alone Memory unless such contractor is providing such assistance in an AMD or IBM facility.

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.
- reliability data and specifications
- eDRAM soft error rate data and specifications
- eDRAM test methodology

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 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

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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 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.

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 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 proceeding 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.

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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 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

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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 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.

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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, 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 SensitivityPre-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

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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. After the Term, 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.

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, 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.

The licenses granted under, and other license related provisions of, Sections 8.1 through 8.3, 8.5, 8.7, 8.9 through 8.12, and 8.14 through 8.17 shall apply to eDRAM Licensed Products in the same manner as such licenses and other provisions apply to Licensed Products, as follows:

(a) for eDRAM Licensed Products manufactured in a 45nm CMOS logic fabrication process; and

(b) for eDRAM Licensed Products manufactured in any CMOS logic fabrication process, except as altered by Section 12.8.

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.

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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 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; 5.13; 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

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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, 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) Intentionally left blank.

(ii) Additionally, the Parties acknowledge that capital purchases necessary for the continued development of the Process Development Projects past December 31, 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; 5.12; 5.13; 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; 5.12; 5.13; 6; 7.1, 7.3, 7.4; 8.6; 9.2; 12; 13; 16; 17; and 18.

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; 5.12; 5.13; 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.

Additionally, AMD shall have the right to terminate (for convenience and without liability to either Party) the development of eDRAM Technology effective December 31, 2008 by giving written notice of termination to IBM any time prior to June 30, 2008. In the event of such termination the following will occur: (i) all Process Development Projects and other activities related to eDRAM Technology shall terminate effective December 31, 2008, (ii) the licenses granted by IBM to AMD under Section 8.21(b) shall lapse effective December 31, 2008, (iii) AMD's payments to IBM under Section 5.1 shall be decreased relative to the tables in Section 5.1 by *** ($***) for each of the third and fourth calendar quarters of 2008 and by *** dollars ($***) for each calendar quarter between the first calendar quarter of 2009 through the second calendar quarter of 2010, inclusive, and (iv) the royalty provisions of Section 5.13 shall become effective. In the event of such termination, the Parties may hold negotiations regarding the granting of some portion of the licenses under Section 8.21(b) subject to mutually agreeable terms and conditions (for clarity, including fees commensurate with the scope of such portion of licenses to be granted) to be negotiated by the Parties.

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

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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: (408)***
Fax: (408)***
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 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 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

***Confidential Treatment Requested.

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.

18.17 Other contractual documents signed between AMD and IBM that refer to the Second Amendment and Restatement of the "S" Process Development Agreement (Effective as of December 28, 2002) are agreed hereby to refer, after execution hereof, to this Agreement.

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.

By: /s/ Hector Ruiz

Name: Hector Ruiz

Title: CEO

Date: 12/15/06

International Business Machines Corporation

By: /s/ Adalio Sanchez

Name: Adalio Sanchez

Title: General Manager, Technology Collaboration Solutions

Date: 12/15/06

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

EXHIBIT A

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:

- ***

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EXHIBIT A

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:

***

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EXHIBIT A

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:

***

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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:

***

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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:

***

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EXHIBIT A

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:

***

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EXHIBIT A

A.7 CMOS-13S TECHNICAL OBJECTIVES

Strategic Technology Objectives

***

Technology Implementation Options

***

***Confidential Treatment Requested.

A.8 CMOS-13S2 TECHNICAL OBJECTIVES

Strategic Technology Objectives

***

Technology Implementation Options

***

***Confidential Treatment Requested.

EXHIBIT A

A.9 CMOS-14S TECHNICAL OBJECTIVES

Strategic Technology Objectives

***

Technology Implementation Options

***

***Confidential Treatment Requested.

A.10 Pre-T0 In-scope Technical Subjects
***

***

***

***Confidential Treatment Requested.

A.10 Pre-T0 In-scope Technical Subjects
***

***

***

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EXHIBIT A

A.10 Pre-T0 In-scope Technical Subjects

***

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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:

***

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EXHIBIT A

A.12 *** TECHNICAL OBJECTIVES

Strategic Technology Objectives

***

Technology Implementation Options

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

***

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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:

***

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A.14 *** TECHNICAL OBJECTIVES

Strategic Technology Objectives

***

Technology Implementation Options

***

***Confidential Treatment Requested.

EXHIBIT A

A.15 CMOS 12SeD Technical Objectives

Strategic Technology Objectives

***

Estimated targets (within 10%)

Parameter	***	***
Area	***	***
VDD	***	***
VPP	***	***
Standby Power (Vdd=1.0V, VPP=1.8V Typical Corner, 95C)	***	***
Cycle Time (VDD=0.9V, VPP=1.6V Typical Corner, 95C)	***	***
Access time (Same as above)	***	***
Refresh, 105C	***	***
Refresh, 95C	***	***
Pump Area	***	***

***

Technology Implementation Options

The CMOS 12SeD technology may include the following features, if needed and technically feasible:

***

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EXHIBIT A

A.16 CMOS 13SeD Technical Objectives

Strategic Technology Objectives

***

Specifications to be determined

Technology Implementation Options

Technology Implementation Options to be determined

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EXHIBIT B

PROJECTED SCHEDULE

PROJECT	10S	10SE	11S	11S2	12S	12SeD	12S2	13S	13SeD	13S2	14S
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)

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Preliminary Schedule for work supporting 12SeD:

- ***
  - *** ***

*** ***

- ***:
  - *** ***
  - *** ***
    - ***
  - *** ***
  - *** ***

Key CMOS 12SeD Design Milestones

Milestone	Comment	
D0.0	***	***
D0.3	***	***
D1.0	***	***
D1.3	***	***
D2.0	***	***
D2.3	***	***
D3.0	***	***

Definitions:

D0.0 – ***

D0.3 – ***

D1.0 – ***

D1.3 – ***

D2.0 – ***

D2.3 – ***

D3.0 – ***

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EXHIBIT C

MINIMUM STAFFING PARTICIPATION
(Average Annual Staffing Level)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
CMOS + eDRAM	***	***	***	***	***	***	***	***	***
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.
*** If AMD exercises its termination right pursuant to Section 12.8, AMD’s minimum staffing participation for CMOS + eDRAM will be reduced by 5 during 2009 and 2010.

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EXHIBIT D

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.

EXHIBIT E

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

EXHIBIT E

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

EXHIBIT F

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.

EXHIBIT G

RESPONSIBILITIES OF THE PRE-T0 STEERING COMMITTEE

8 Responsible for providing technical guidance to the Management Committee for defining Pre-T0 Activities and Technical Objectives (Exh. A)

9 Responsible for assisting the Project Leaders in the implementation of the Pre-T0 Activities

10 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

11 Actively participate in the review and approval process regarding external communication about the goals of the projects and external publications

12 Responsible for reporting on Pre-T0 Activities

13 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.

14 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.

EXHIBIT H

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

EXHIBIT H

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

EXHIBIT I

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

EXHIBIT I

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

EXHIBIT J

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

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 paramaters 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.)

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

eDRAM Documentation

eDRAM Design Manual Addendum

eDRAM Macro (hard core) Documentation and Design Kit, including specifications, product description, Schematics, VHDL, GDS, CDL netlist, timing cross sections

eDRAM Pump Macro (hard core) Documentation and Design Kit, including product description, Schematics, VHDL, GDS, CDL netlist

eDRAM BIST Macro (soft core) Documentation and Design Kit, including product descriptions, Schematics, VHDL (soft core)

Memory Subsystem Test Chip Documentation

Functional Test Specifications and Test Programs

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.

EXHIBIT K

BULK CMOS AND INDUSTRY STANDARD CMOS LIST

- ***

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EXHIBIT L

HIGH SENSITIVITY PRE-T0 INFORMATION

***

***Confidential Treatment Requested.

Exhibit 21

ADVANCED MICRO DEVICES, INC.
LIST OF SUBSIDIARIES
As of 12/31/06

Legal Entity Name	State or Jurisdiction in Which Incorporated or Organized
Domestic Subsidiaries	
AMD (EMEA) LTD.	Delaware
AMD Far East Ltd.	Delaware
AMD International Sales & Service, Ltd.	Delaware
AMD Texas Properties, LLC	Delaware
AMD Latin America Ltd.	Delaware
AMD Saxony LLC	Delaware
Coatue Corporation	Delaware
AMD US Finance, Inc. (12)	Delaware
AMD (US) Holdings, Inc.	Delaware
AMD Investments, Inc. (1)	Delaware
AMD FAB 36 LLC	Delaware
ATI Technologies (U.S.) Inc.	Delaware
ATI Research, Inc.	California
ATI Technologies Systems Corp.	California
ATI Research Silicon Valley Inc.	California
Foreign Subsidiaries	
Advanced Micro Devices Belgium N.V.	Belgium
AMD South America LTDA (2)	Brazil
Advanced Micro Devices (Canada) Limited	Canada
1262986 Alberta ULC (13)	Canada
Advanced Micro Devices (China) Co. Ltd.	China
Advanced Micro Devices (Shanghai) Co. Ltd. (11)	China
AMD Technologies (China) Co. Ltd. (9)	China
AMD Technology Development (Beijing) Co. (10)	China
AMD International Trading (Shanghai) Co. Ltd.	China
Advanced Micro Devices S.A.S.	France
Advanced Micro Devices GmbH	Germany
AMD FAB 36 Limited Liability Company & Co. KG (3)	Germany
AMD FAB 36 Admin GmbH (4)	Germany
AMD FAB 36 Holding GmbH	Germany
AMD Saxony Limited Liability Company & Co. KG (5)	Germany
AMD Saxony Admin GmbH (6)	Germany
AMD Saxony Holding GmbH	Germany
AMD India Engineering Centre Private Limited	India
Advanced Micro Devices S.p.A.	Italy
AMD Japan Ltd.	Japan
Advanced Micro Devices Sdn. Bhd.	Malaysia
Advanced Micro Devices Export Sdn. Bhd. (7)	Malaysia
AMD (Netherlands) B.V. (8)	Netherlands
Advanced Micro Devices (Singapore) Pte. Ltd.	Singapore
Advanced Micro Devices, AB	Sweden
Advanced Micro Devices (U.K.) Limited	United Kingdom
ATI Technologies U.L.C.	Alberta
ATI International U.L.C.	Alberta

Legal Entity Name	State or Jurisdiction in Which Incorporated or Organized
ATI Technologies Distribution U.L.C.	Alberta
ATI Technologies (Europe) GmbH	Germany
ATI Research GmbH	Germany
ATI International SRL (15)	Barbados
ATI Technologies (Hungary) Ltd.	Hungary
ATI Technologies India Private Limited	India
ATI Technologies (L) Inc.	Malaysia
ATI Technologies Ltd.	Malaysia
Amersham 1099 Limited (17)	Hong Kong
ATI Technologies (Japan) Inc.	Japan
ATI Technologies (Korea) Co. Ltd	Korea
ATI Technologies (H.K.) Ltd. (16)	Hong Kong
ATI Technologies Singapore Pte. Ltd.	Singapore
ATI Visual Technologies (Shanghai) Co. Ltd.	Shanghai
ATI Technologies (Europe) Limited	Ireland
ATI Technologies (Finland) Oy (14)	Finland
6296378 Canada Inc.	Canada

(1) Subsidiary of AMD (US) Holdings, Inc.
(2) Subsidiary of AMD International Sales & Service, Ltd.
(3) Partnership in which AMD Fab 36 LLC is the general partner and AMD Fab 36 Holding GmbH and AMD Fab 36 Admin GmbH are the limited partners
(4) Subsidiary of AMD Fab 36 Holding GmbH
(5) Partnership in which AMD Saxony LLC is the general partner and AMD Saxony Holding GmbH and AMD Saxony Admin GmbH are the limited partners
(6) Subsidiary of AMD Saxony Holding GmbH
(7) Subsidiary of Advanced Micro Devices Sdn. Bhd.
(8) Subsidiary of Advanced Micro Devices Export Sdn. Bhd.
(9) Subsidiary of Advanced Micro Devices (China) Co. Ltd.
(10) 51% owned by Advanced Micro Devices, Inc., 49% owned by AMD Technologies (China) Co. Ltd.
(11) Subsidiary of Advanced Micro Devices (China) Co. Ltd.
(12) 91.67% owned by AMD, Inc., 8.33% owned by AMD (US) Holdings, Inc.
(13) Subsidiary of AMD US Finance, Inc.
(14) 96.2% owned by ATI Technologies ULC., 2.5% owned by Mikko Saari, 1.3% owned by Petri Norlund
(15) 99% owned by ATI Technologies ULC., 1% owned by ATI International ULC
(16) 95% owned by ATI International SRL., 5% owned by ATI International ULC
(17) 99.9% owned by ATI Technologies (L) Inc., 0.1% owned by ATI International ULC

Exhibit 23-a

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Advanced Micro Devices, Inc. of our reports dated February 23, 2007, with respect to the consolidated financial statements and schedule of Advanced Micro Devices, Inc. and Subsidiaries, Advanced Micro Devices, Inc. and Subsidiaries management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Advanced Micro Devices, Inc. and Subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2006:

- Registration Statement on Form S-8 (No. 333-138291) pertaining to the ATI Technologies Inc. Restricted Share Unit Plans for U.S. Directors and Employees, as amended and restated, ATI Technologies Inc. Restricted Share Unit Plans for Canadian Directors and Employees, as amended and restated, ATI Technologies Inc. Share Option Plan, as amended, ARTX, Inc. 1997 Equity Incentive Plan, as amended;
- Registration Statement on Form S-8 (No. 333-134853) pertaining to the Advanced Micro Devices, Inc. 2004 Equity Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statement on Form S-8 (No. 333-115474) pertaining to the Advanced Micro Devices, Inc. 2004 Equity Incentive Plan;
- Registration Statements on Forms S-8 (Nos. 33-46578 and 33-55107) pertaining to the Advanced Micro Devices, Inc. 1992 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-00969) pertaining to the Advanced Micro Devices, Inc. 1991 Employee Stock Purchase Plan and to the 1995 Stock Plan of NexGen, Inc;
- Registration Statements on Forms S-8 (Nos. 333-04797 and 333-57525) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan;
- Registration Statements on Form S-8 (Nos. 333-60550 and 333-40030) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statement on Form S-8 (No. 333-68005) pertaining to the Advanced Micro Devices, Inc. 1998 Stock Incentive Plan;
- Registration Statements on Form S-8 (Nos. 333-55052 and 333-74896) pertaining to the Advanced Micro Devices, Inc. 2000 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-108217) pertaining to the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-95888-99) pertaining to the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan;
- Post-Effective Amendment No. 1 on Form S-8 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc., the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan;

/s/ ERNST & YOUNG LLP

San Jose, California
February 23, 2007

Exhibit 23-b

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements listed below of Advanced Micro Devices, Inc.:

- Registration Statement on Form S-8 (No. 333-138291) pertaining to the ATI Technologies Inc. Restricted Share Unit Plans for U.S. Directors and Employees, as amended and restated, ATI Technologies Inc. Restricted Share Unit Plans for Canadian Directors and Employees, as amended and restated, ATI Technologies Inc. Share Option Plan, as amended, ARTX, Inc. 1997 Equity Incentive Plan, as amended;
- Registration Statement on Form S-8 (No. 333-134853) pertaining to the Advanced Micro Devices, Inc. 2004 Equity Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statement on Form S-8 (No. 333-115474) pertaining to the Advanced Micro Devices, Inc. 2004 Equity Incentive Plan;
- Registration Statements on Forms S-8 (Nos. 33-46578 and 33-55107) pertaining to the Advanced Micro Devices, Inc. 1992 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-00969) pertaining to the Advanced Micro Devices, Inc. 1991 Employee Stock Purchase Plan and to the 1995 Stock Plan of NexGen, Inc;
- Registration Statements on Forms S-8 (Nos. 333-04797 and 333-57525) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan;
- Registration Statements on Form S-8 (Nos. 333-60550 and 333-40030) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statement on Form S-8 (No. 333-68005) pertaining to the Advanced Micro Devices, Inc. 1998 Stock Incentive Plan;
- Registration Statements on Form S-8 (Nos. 333-55052 and 333-74896) pertaining to the Advanced Micro Devices, Inc. 2000 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-108217) pertaining to the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-95888-99) pertaining to the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan; and
- Post-Effective Amendment No. 1 on Form S-8 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc., the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan;

of our report dated February 26, 2007, with respect to the consolidated financial statements of Spansion Inc., included in this Annual Report (Form 10-K) of Advanced Micro Devices, Inc. for the year ended December 31, 2006.

/s/ ERNST & YOUNG LLP

San Jose, California
February 26, 2007

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hector de J. Ruiz and Robert J. Rivet, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Advanced Micro Devices, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/S/ HECTOR DE J. RUIZ **Hector de J. Ruiz**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 28, 2007
/S/ ROBERT J. RIVET **Robert J. Rivet**	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	February 23, 2007
/S/ W. MICHAEL BARNES **W. Michael Barnes**	Director	February 23, 2007
/S/ JOHN E. CALDWELL **John E. Caldwell**	Director	February 27, 2007
/S/ BRUCE L. CLAFLIN **Bruce L. Claflin**	Director	February 25, 2007
/S/ H. PAULETT EBERHART **H. Paulett Eberhart**	Director	February 23, 2007
/S/ JAMES FLECK **James Fleck**	Director	February 27, 2007
/S/ ROBERT B. PALMER **Robert B. Palmer**	Director	February 26, 2007
/S/ LEONARD M. SILVERMAN **Leonard M. Silverman**	Director	February 23, 2007
/S/ MORTON L. TOPFER **Morton L. Topfer**	Director	February 23, 2007

Exhibit 31.1

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 annual report on Form 10-K 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: February 28, 2007

/s/ HECTOR DE J. RUIZ

Hector de J. Ruiz
Chairman and 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 annual report on Form 10-K 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: February 28, 2007

/s/ ROBERT J. RIVET

Robert J. Rivet
Executive Vice President,
Chief Financial Officer

Exhibit 32.1

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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2006 (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: February 28, 2007

/s/ HECTOR DE J. RUIZ

Hector de J. Ruiz
Chairman and Chief Executive Officer

Exhibit 32.2

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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2006 (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: February 28, 2007

/s/ ROBERT J. RIVET

Robert J. Rivet
Executive Vice President,
Chief Financial Officer

Spansion Inc.

Consolidated Statements of Operations

	Year Ended Dec. 31, 2006	Year Ended Dec. 25, 2005	Year Ended Dec. 26, 2004
	(in thousands, except per share amounts)		
Net sales	$ 1,310,479	$ —	$ —
Net sales to related parties/members	1,268,795	2,002,805	2,262,227
Total net sales	2,579,274	2,002,805	2,262,227
Expenses:			
Cost of sales (*including $202,122, $251,626 and $345,512 of expenses charged by related parties/members*)	2,066,642	1,809,929	1,840,862
Research and development (*including $14,105, $31,994 and $54,304 of expenses charged by related parties/members*)	347,740	295,849	280,954
Marketing, general and administrative (*including $24,296, $63,902 and $73,377 of expenses charged by related parties/members*)	255,648	181,910	137,159
Operating income (loss)	(90,756)	(284,883)	3,252
Other income (expense):			
Gain on sale of marketable securities	6,884	—	—
Loss on early extinguishment of debt (*Note 9*)	(17,310)	—	—
Interest income and other, net	22,107	3,173	3,198
Interest expense (*including $11,998, $25,975 and $24,134 of expenses to related parties/members*)	(70,903)	(45,032)	(40,165)
Loss before income taxes	(149,978)	(326,742)	(33,715)
Benefit for income taxes	(2,215)	(22,626)	(14,013)
Net loss	$ (147,763)	$ (304,116)	$ (19,702)
Net loss per common share:			
Basic and diluted	$ (1.15)	$ (4.15)	$ (0.27)
Shares used in per share calculation:			
Basic and diluted	128,965	73,311	72,549

See accompanying notes

Net loss for the year ended December 31, 2006 included stock-based compensation expense of $17.4 million, which consisted of $17.3 million related to the Company's stock options and restricted stock units, and $0.1 million related to AMD stock options granted to the Company's employees. Net loss for the year ended December 25, 2005 included stock-based compensation expense of approximately $0.2 million. As a result of adopting FASB Statement No. 123(R) on December 26, 2005, the Company's losses before income taxes and net losses for the year ended December 31, 2006 was $3.4 million higher than if it had continued to account for its stock options under APB Opinion No. 25. Basic and diluted loss per share for the year ended December 31, 2006 were $0.03 higher than if the Company had continued to account for its stock options under Opinion 25. See Notes 3 and 4 to the consolidated financial statements for additional information. The Company did not provide stock-based compensation to its employees or third parties and there was no stock-based compensation expense for the year ended December 26, 2004.

Spansion Inc.

Consolidated Balance Sheets

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands, except par value and share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 759,794	$ 506,439
Marketable securities	125,975	219,377
Trade accounts receivable	202,359	—
Trade accounts receivable from related parties (*Note 5*)	195,816	406,789
Allowance for doubtful accounts (including $2,088 and $2,214 for related parties)	(4,597)	(2,214)
Trade accounts receivable, net	393,578	404,575
Other receivables from related parties	2,325	14,067
Inventories:		
Raw materials	44,840	31,299
Work-in-process	344,603	354,748
Finished goods	66,397	74,096
Total inventories	455,840	460,143
Deferred income taxes	1,395	34,452
Prepaid expenses and other current assets	36,163	33,789
Total current assets	1,775,070	1,672,842
Property, plant and equipment:		
Land	38,828	39,081
Buildings and leasehold improvements	1,445,037	1,430,086
Equipment	4,601,702	4,390,435
Construction in progress	258,084	153,017
Total property, plant and equipment	6,343,651	6,012,619
Accumulated depreciation and amortization	(4,607,957)	(4,424,856)
Property, plant and equipment, net	1,735,694	1,587,763
Deferred income taxes	13,556	7,128
Other assets	25,397	34,232
Total assets	$ 3,549,717	$ 3,301,965
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to banks under revolving loans	$ 33,608	$ 43,020
Accounts payable	408,365	280,057
Accounts payable to related parties (*Note 5*)	14,559	123,801
Accrued compensation and benefits	51,598	51,534
Accrued liabilities to related parties (*Note 5*)	11,273	21,470
Other accrued liabilities	59,045	35,564
Income taxes payable	4,333	13,058
Deferred income on shipments to a related party	229	31,901
Deferred income on shipments	32,267	—
Current portion of long-term obligations to related parties (*Note 9*)	500	21,638
Current portion of long-term debt	12,560	60,021
Current portion of long-term obligations under capital leases	61,706	108,876
Total current liabilities	690,043	790,940

Spansion Inc.

Consolidated Balance Sheets—(Continued)

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands, except par value and share amounts)	
Deferred income taxes	188	29,498
Long-term accrued liabilities to a related party *(Note 4)*	—	8,732
Long-term obligations to related parties, less current portion (*Note 9*)	—	162,277
Long-term debt, less current portion	934,138	256,762
Long-term obligations under capital leases, less current portion	75,535	107,019
Other long-term liabilities	4,053	24,760
Commitments and contingencies		
Stockholders' equity:		
Capital stock:		
Preferred stock, $0.001 par value per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, $0.001 par value per share, 714,999,998 shares authorized; 134,219,224 and 95,793,402 shares issued and outstanding as of December 31, 2006 and December 25, 2005 *(Note 16)*	134	96
Class B convertible common stock, $0.001 par value per share, 1 share authorized, 1 share issued and outstanding *(Note 16)*	—	—
Class C convertible common stock, $0.001 par value per share, 1 share authorized, 1 share issued and outstanding *(Note 16)*	—	—
Class D convertible common stock, $0.001 par value per share, 35,000,000 shares authorized; 0 and 32,352,934 shares issued and outstanding as of December 31, 2006 and December 25, 2005 (*Note 16*)	—	32
Additional paid-in capital	2,204,513	2,110,540
Accumulated deficit	(279,181)	(131,418)
Accumulated other comprehensive loss	(79,706)	(57,273)
Total stockholders' equity	$ 1,845,760	$ 1,921,977
Total liabilities and stockholders' equity	$ 3,549,717	$ 3,301,965

See accompanying notes

Spansion Inc.

Consolidated Statements of Cash Flows

	Year Ended Dec. 31, 2006	Year Ended Dec. 25, 2005 (in thousands)	Year Ended Dec. 26, 2004
Cash Flows from Operating Activities:			
Net loss	$ (147,763)	$ (304,116)	$ (19,702)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	540,151	542,286	534,275
Loss on early extinguishment of debt	17,310	—	—
Provision for doubtful accounts	2,383	2,214	—
Benefit for deferred income taxes	(2,528)	(27,710)	(35,220)
Gain on equipment sale-leaseback transactions	—	—	(785)
Gain on sale and disposal of property, plant, and equipment	(14,582)	(2,282)	(6,003)
Gain on sale of marketable securities	(6,884)	—	—
Compensation recognized under employee stock plans	17,424	231	—
Changes in operating assets and liabilities:			
Decrease (increase) in trade accounts receivable from related parties/members	210,973	(34,097)	34,794
Decrease (increase) in other receivables from related parties/members	11,742	(6,312)	5,681
Increase in trade account receivables	(202,359)	—	—
Decrease (increase) in inventories	4,304	404	(18,366)
(Increase) decrease in prepaid expenses and other current assets	(2,374)	(16,873)	18,833
(Increase) decrease in other assets	(3,757)	(19,772)	2,908
(Decrease) increase in accounts payable and accrued liabilities to related parties/members	(111,776)	77,092	(54,566)
Increase (decrease) in accounts payable and accrued liabilities	153,429	101,367	(51,257)
(Decrease) increase in accrued compensation and benefits	(13,403)	8,385	15,624
(Decrease) increase in income taxes payable	(8,725)	(14,324)	21,650
(Decrease) increase in deferred income on shipments to a related party/member	(31,672)	861	15,432
Increase in deferred income on shipments	32,267	—	—
Net cash provided by operating activities	444,160	307,354	463,298
Cash Flows from Investing Activities:			
Proceeds from sale of property, plant and equipment	20,075	6,409	36,432
Purchases of property, plant and equipment	(716,618)	(425,339)	(530,095)
Proceeds from maturity and sale of marketable securities	372,583	77,950	50,139
Purchases of marketable securities	(279,587)	(212,086)	(108,089)
Net cash used in investing activities	(603,547)	(553,066)	(551,613)

Spansion Inc.

Consolidated Statements of Cash Flows—(Continued)

	Year Ended Dec. 31, 2006	Year Ended Dec. 25, 2005 (in thousands)	Year Ended Dec. 26, 2004
Cash Flows from Financing Activities:			
Cash contribution from related parties/members	—	3,750	—
Cash distributions to related parties/members for stock-based compensation	(8,485)	(869)	(1,438)
Proceeds from sale-leaseback transactions	48,236	144,096	44,160
Proceeds from borrowings from related parties/members, net of issuance costs	—	158,970	—
Proceeds from borrowings, net of issuance costs	897,192	409,965	50,209
Payments on loans from related parties/members	(197,619)	(265,607)	(36,907)
Payments on debt and capital lease obligations	(402,711)	(364,257)	(181,600)
Proceeds from issuance of common stock, net of offering costs	67,813	525,612	—
Net cash provided by (used in) financing activities	404,426	611,660	(125,576)
Effect of exchange rate changes on cash and cash equivalents	8,316	2,303	22,535
Net increase (decrease) in cash and cash equivalents	253,355	368,251	(191,356)
Cash and cash equivalents at the beginning of period	506,439	138,188	329,544
Cash and cash equivalents at end of period	$ 759,794	$ 506,439	$ 138,188
Supplemental Cash Flows Disclosures:			
Interest paid (including $11,306, $30,944, $23,608 of interest related to obligations to related parties/members)	$ 48,457	$ 45,111	$ 41,360
Income taxes paid	6,229	17,540	2,137
Non-cash investing and financing activities:			
Equipment sale-leaseback transactions	45,956	167,991	34,515
Contributed assets from AMD Investments, Inc., net	—	7,500	—
Contributed assets from Fujitsu Microelectronics Holding, Inc., net	—	7,500	—
Accrued capital distributions to (contribution from) realted parties/members for stock-based compensation (*Note* 4)	(9,157)	9,166	8,777
Conversion of debt to common stock	—	100,000	—
Acquisition of assets from AMD	—	11,121	

See accompanying notes

Spansion Inc.

Consolidated Statement of Stockholders' Equity/Members' Capital
(in thousands)

	Common Stock						
	Number of Shares	Amount	Capital in Excess of Stated Value	Contributed Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity/ Members' Capital
Balance at December 28, 2003	—	—	—	1,485,456	192,400	(20,261)	1,657,595
Distribution to members for stock-based compensation (*Note 4*):							
AMD Investments, Inc.	—	—	—	(6,129)	—	—	(6,129)
Fujitsu Microelectronics Holding, Inc.	—	—	—	(4,086)	—	—	(4,086)
Comprehensive loss:							
Net loss	—	—	—	—	(19,702)	—	(19,702)
Other comprehensive income:							
Net change in cumulative translation adjustment	—	—	—	—	—	19,529	19,529
Total other comprehensive income							19,529
Total comprehensive loss	—	—	—	—	—	—	(173)
Balance at December 26, 2004	—	—	—	1,475,241	172,698	(732)	1,647,207
Contributed capital:							
AMD Investments, Inc.	—	—	—	11,250	—	—	11,250
Fujitsu Microelectronics Holdings, Inc.	—	—	—	7,500	—	—	7,500
Distribution to members for stock-based compensation (*Note 4*):							
AMD Investments, Inc.	—	—	—	(5,500)	—	—	(5,500)
Fujitsu Microelectronics Holding, Inc.	—	—	—	(3,666)	—	—	(3,666)
Comprehensive loss:							
Net loss	—	—	—	—	(304,116)	—	(304,116)
Other comprehensive income:							
Net unrealized gains on investment, net of taxes of $0	—	—	—	—	—	7,291	7,291
Net change in minimum pension liability, net of taxes of $0	—	—	—	—	—	10,792	10,792
Net change in cumulative translation adjustment	—	—	—	—	—	(74,624)	(74,624)
Total other comprehensive loss							(56,541)
Total comprehensive loss							(360,657)
Issuance of shares:							
Issuance of common stock in initial public offering, net of issuance costs of $7,526	47,264	47	525,565	—	—	—	525,612
Conversion of debt to common stock	8,333	8	99,992	—	—	—	100,000
Conversion of contributed capital to common stock	72,549	73	1,484,752	(1,484,825)	—	—	—
Compensation recognized under employee stock plans	—	—	231	—	—	—	231
Balance at December 25, 2005	128,146	128	2,110,540	—	(131,418)	(57,273)	1,921,977
Comprehensive loss:							
Net loss	—	—	—	—	(147,763)	—	(147,763)
Other comprehensive income:							
Net unrealized gains on investment, net of taxes of $0	—	—	—	—	—	(407)	(407)
Net change in minimum pension liability, net of taxes of $0	—	—	—	—	—	7,412	7,412
Net change in cumulative translation adjustment	—	—	—	—	—	(11,801)	(11,801)
Reclassification adjustment for realized gain on sale of marketable securities included in net loss						(6,884)	(6,884)
Total other comprehensive loss							(11,680)
Total comprehensive loss							(159,443)
Adjustment to initially apply FASB Statement No. 158, net of tax	—	—	—	—	—	(10,753)	(10,753)
Stock-based compensation activity with related party, net	—	—	(415)	—	—	—	(415)
Discharge of stock-based compensation payable to AMD *(Note 4)*	—	—	9,157	—	—	—	9,157
Issuance of shares:							
Vesting of RSUs	826	1	(1)	—	—	—	—
Issuance of common stock in secondary offering, net of issuance costs of $2,133	5,247	5	67,808	—	—	—	67,813
Compensation recognized under employee stock plans	—	—	17,424	—	—	—	17,424
Balance at December 31, 2006	134,219	134	2,204,513	—	(279,181)	(79,706)	1,845,760

See accompanying notes

Spansion Inc.

Notes to Consolidated Financial Statements

1. Nature of Operations

The Company

Spansion Inc. is a semiconductor manufacturer headquartered in Sunnyvale, California, with manufacturing, research and assembly operations in the United States and Asia. The Company designs, manufactures and markets Flash memory devices that encompass a broad spectrum of densities and features to address the integrated Flash memory market. The Company's products are marketed under the Spansion® global product brand name.

The Company's Flash memory devices are incorporated into a broad range of electronic products, including mobile phones, consumer electronics, automotive electronics, networking and telecommunications equipment and PC peripheral applications.

Spansion LLC, the former manufacturing venture owned 60 percent by Advanced Micro Devices, Inc. (AMD) and 40 percent by Fujitsu Limited (Fujitsu), was reorganized into Spansion Inc. and completed its underwritten initial public offering (IPO) of its Class A common stock on December 21, 2005. The Company's shares of Class A common stock trade on The Nasdaq Global Select Market under the symbol "SPSN."

History of the Company

In 1993, AMD and Fujitsu formed a corporate manufacturing venture, Fujitsu AMD Semiconductor Limited (FASL).

FASL produced wafers containing Flash memory circuits. These wafers were then sold to AMD and Fujitsu, who separated the circuits on each wafer into individual die, processed the die into finished goods and sold the finished Flash memory devices to their customers. AMD and Fujitsu performed all research and development activities for the design and development of Flash memory devices and developed the manufacturing processes that were to be used in the operation of the fabs to manufacture Flash memory devices. Through June 30, 2003, FASL contracted with AMD and Fujitsu for the receipt of certain support and administrative services (See Note 5).

As of June 30, 2003, in order to expand their existing manufacturing venture, AMD and Fujitsu formed a limited liability company called FASL LLC and later renamed Spansion LLC. In addition to its 49.992 percent ownership in FASL, AMD contributed to Spansion LLC its Flash memory inventory, its wafer manufacturing facility located in Austin Texas, its Flash memory research and development facility (the Submicron Development Center (SDC)) located in Sunnyvale, California, and its Flash memory assembly and test facilities located in Thailand, Malaysia and China. Fujitsu contributed to Spansion LLC its 50.008 percent ownership interest in FASL, its Flash memory inventory and its Flash memory assembly and test facilities located in Malaysia. Both AMD and Fujitsu transferred employees to Spansion LLC to perform various research and development, marketing and administration functions. AMD and Fujitsu also provided working capital to Spansion LLC in the form of cash contributions and loans (See Note 9). As a result, Spansion LLC began manufacturing finished Flash memory devices which through the first fiscal quarter of fiscal 2006 were exclusively sold to AMD and Fujitsu. In the second quarter of fiscal 2006, the Company began selling its products directly to customers previously served by AMD (See Note 5).

2. Change in Fiscal Year and Basis of Presentation

Fiscal Year

The Company operates on a 52- to 53-week fiscal year ending on the last Sunday in December. The year ended December 31, 2006 consisted of 53 weeks and the years ended December 25, 2005 and December 26, 2004 each consisted of 52 weeks.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany accounts and transactions.

Use of Estimates

The preparation of consolidated financial statements and disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of commitments and contingencies and the reported amounts of revenues and expenses during the reporting periods. Estimates are used for revenue recognition, allowance for doubtful accounts, product warranties, inventory valuation, impairment of long-lived assets, income taxes, stock-based compensation expenses and pension and postretirement benefits, among others. Actual results may to differ from those estimates, and such differences may be material to the financial statements.

Cash Equivalents

Cash equivalents consist of financial instruments that are readily convertible into cash and have original maturities of three months or less at the time of purchase.

Investments

The Company's investments in marketable securities consist of money market funds, commercial paper, auction rate securities and publicly traded equity securities. These securities are designated as available-for-sale and are reported at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax, a component of stockholders equity/members' capital. The Company recognizes an impairment charge when the declines in the fair values of its investments below the cost basis are judged to be other-than-temporary. The Company considers various factors in determining whether to recognize a decline in value, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the issuer or investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. The Company has not recorded any such impairment in any of the periods presented. The cost of securities sold is based on the specific identification method. The Company classifies investments in marketable securities as current when their remaining time to maturity is less than or equal to 12 months or, if time to maturity is greater than 12 months, when they represent investments of cash that are intended to be used in current operations.

Allowance for Doubtful Accounts

The following describes activity in the accounts receivable allowance for doubtful accounts for the years ended December 31, 2006, December 25, 2005 and December 26, 2004.

Year	Balance at Beginning of Period	Addition Charged to Costs and Expenses	Deductions[(1)]	Balance at End of Period
	(in thousands)			
2006	$ 2,214	$ 2,383	$ —	$ 4,597
2005	$ —	$ 2,472	$ 258	$ 2,214
2004	$ —	$ —	$ —	$ —

(1) Uncollectible amounts written off, net of recoveries

Inventories

Inventories are stated at standard cost adjusted to approximate the lower of actual cost (first-in, first-out method) or market. Inventories in stock in excess of forecasted customer demand over the next six months are not valued. Obsolete inventories are written off.

Revenue Recognition

Prior to the second quarter of fiscal 2006, the Company generally recognized revenue when AMD and Fujitsu, the Company's sole distributors, sold its products to their OEM customers and title and risk of loss for the products transferred to the OEM. In the second quarter of fiscal 2006, the Company began selling its products directly to the customers previously served by AMD. Since such time, the Company generally recognizes revenue when it has sold its products to its OEM customers and title and risk of loss for the products have transferred to the OEM. Estimates of product returns and sales allowances, related to reasons other than product quality, are based on actual historical experience and are recorded as a reduction in revenue at the time revenue is recognized.

Prior to the second quarter of fiscal 2006, AMD sold the Company's products to its distributors under terms allowing these distributors certain rights of return, stock rotation and price protection privileges on unsold merchandise held by them. The Company extended the same rights on these Flash memory product sales to AMD. Accordingly, the Company deferred revenue and related product costs from such sales to AMD as deferred income on shipments to related party/member, until the merchandise was resold by AMD's distributors. In the second quarter of fiscal 2006, the Company began to sell directly to such distributors and to provide similar rights of return, stock rotation and price protection previously offered by AMD. The Company defers the recognition of revenue and related product costs on these sales as deferred income until the merchandise is resold by its distributors. The Company also sells some of its products to certain distributors under sales arrangements with terms that do not allow for rights of returns or price protection on unsold products held by them. In these instances, the Company recognizes revenue when it ships the product directly to the distributors.

Fujitsu also sells the Company's products to its distributors. The Company's distribution agreement with Fujitsu grants limited stock rotation rights to Fujitsu and allows Fujitsu to provide similar limited rights to some of its distributors. However, to date, Fujitsu has not extended these rights to its distributors. Accordingly, the Company recognizes revenue for sale of products sold to Fujitsu when Fujitsu sells the Company's products to its distributors.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of property, plant and equipment for financial reporting purposes are as follows: machinery and equipment, two to five years; buildings and building improvements, from five to 26 years; and leasehold improvements, the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

Impairment of Long-Lived Assets

For long-lived assets used in operations, the Company evaluates the potential for impairment losses when events and circumstances indicate that those assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying value. If assets are judged to be impaired, impairment losses are determined based on the excess, if any, of the carrying value of these assets over their respective fair value. If impairment losses are recorded, the fair value of the assets would become the new cost basis. Fair value is determined by discounted future cash flows, appraisals or other methods. For assets held for sale, impairment losses are measured at the lower of the carrying amount of the assets or their fair value less costs to sell. For assets to be disposed of other than by sale, impairment losses are measured as their carrying amount less salvage value, if any, at the time the assets cease to be used. Impairment losses were not material in any of the periods presented.

Product Warranties

The Company offers a one-year limited warranty for Spansion Flash memory devices (See Note 8). At the time revenue is recognized, the Company provides for estimated costs that may be incurred under product warranty, with the corresponding expense recognized in cost of sales. Estimates of warranty expense are based on the Company's historical experience. Warranty accruals are evaluated periodically and are adjusted for changes in experience.

Foreign Currency Translation/Transactions

The functional currency of the Company and its foreign subsidiaries, except for its wholly owned subsidiary in Japan (Spansion Japan), is the U.S. dollar. Adjustments resulting from remeasuring the foreign currency financial statements of these subsidiaries, other than Spansion Japan, into U.S. dollar financial statements are included in operations. Adjustments resulting from translating the foreign currency financial statements of Spansion Japan, for which the functional currency is the Japanese yen, into U.S. dollar financial statements are included as a separate component of accumulated other comprehensive income (loss). Gains or losses resulting from transactions denominated in currencies other than the functional currencies of the Company and its subsidiaries are recorded in cost of sales. The aggregate exchange loss included in determining net loss was $0.9 million, $4.7 million, and $5.3 million for the year ended December 31, 2006, December 25, 2005 and December 26, 2004, respectively.

Derivative Financial Instruments

The Company has sales, expenses, assets and liabilities denominated in Japanese yen and other foreign currencies. Therefore, movements in exchange rates could cause net sales and expenses to fluctuate, affecting the Company's profitability and cash flows. The Company's general practice is to use foreign currency forward

contracts to reduce its exposure to foreign currency exchange rate fluctuations. Realized and unrealized gains and losses associated with these foreign currency contracts are reflected in the Company's balance sheet and recorded in other current asset or accrued liabilities. Changes in fair value and premiums paid for foreign currency contracts are recorded directly in cost of sales. The objective of these contracts is to reduce the impact of foreign currency exchange rate movements on the Company's operating results. All of the Company's foreign currency forward contracts mature within the next twelve months. The Company does not use derivatives for speculative or trading purposes, nor does the Company designate its derivative instruments as hedging instruments, as defined by the Financial Accounting Standard Board, or FASB, under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Research and Development Expenses

The Company expenses such research and development costs in the period in which such costs are incurred.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2006, December 25, 2005 and December 26, 2004 were approximately $8.1 million, $4.8 million and $3.4 million, respectively.

Net Loss per Share

Basic net loss per share is computed based on the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income of the Company.

In connection with the IPO, certain employees have been awarded initial stock option and restricted stock unit grants to purchase Class A common stock of the Company. For the years ended December 31, 2006 and December 25, 2005, respectively, the Company excluded approximately 16.8 million and 5.5 million shares issuable upon exercise of outstanding stock options, upon vesting of outstanding restricted stock units and upon conversion of Spansion LLC's 2.25% Exchangeable Senior Subordinated Debentures because they had an antidilutive effect due to net losses recorded.

The Company has presented basic and diluted net loss per share amounts for periods prior to the IPO as if the exchange of AMD's and Fujitsu's contributed capital for the Company's common stock had occurred at the beginning of the periods presented. Prior to the completion of the IPO, the Company had approximately 43.5 million shares of Class A common stock, 1 share of Class B common stock, 1 share of Class C common stock and approximately 29.0 million shares of Class D common stock outstanding as a result of the contribution from AMD and Fujitsu. On November 21, 2006, the Company closed a secondary stock offering of its Class A common stock held by AMD and Fujitsu, and subsequently issued and sold 5,247,000 shares of its Class A common stock in such offering in December 5, 2006. As a result of this offering, the Company has approximately 134.2 million shares of Class A common stock, 1 share of Class B common stock, and 1 share of Class C common stock as of December 31, 2006. In connection with this offering, all the Class D common stock converted to Class A common stock.

Accumulated Other Comprehensive Loss

The following are the components of accumulated other comprehensive loss:

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Minimum pension liability, net of tax benefits of ($5,429) in 2006 and 2005	$ (298)	$ 3,043
Cumulative translation adjustment	(79,408)	(67,607)
Net unrealized gains on marketable securities, net of taxes of $0	—	7,291
Total accumulated other comprehensive loss	$(79,706)	$(57,273)

Total other comprehensive loss for fiscal 2006 includes reclassification adjustment of $6.9 million realized gain, net of tax of $0, from sale of marketable securities. There was no reclassification adjustment for fiscal 2005 and fiscal 2004.

Stock-Based Compensation

Accounting Treatment for AMD Options Held by Spansion Employees

Prior to the IPO, the Company did not provide stock-based compensation to its employees or third parties. However, certain of the Company's employees received stock options to purchase shares of AMD common stock from the Company's then majority and controlling member, AMD who consolidated Spansion's financial statements for financial reporting purposes. The Company accounted for AMD's stock option grants and restricted stock unit, or RSU, awards to its employees under the intrinsic value recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, consistent with the accounting method followed by AMD for stock options and RSU awards issued to employees of the consolidated AMD group. The exercise price of these stock options was equal to the market price of AMD's common stock on the date of grant. The Company reimbursed AMD for these stock options based on an agreed amount equal to the grant-date fair value of the stock options calculated using the Black-Scholes-Merton valuation model, less a 15 percent discount (the "grant-date fair value"). The Company recorded a liability for amounts due to AMD under this arrangement with a corresponding reduction to additional paid-in capital. Reimbursements to AMD, which commenced on the last day of the quarter following the quarter in which the stock options were granted, were payable in sixteen equal quarterly installments through fiscal 2009 (See Note 4).

Subsequent to the Company's IPO and the cessation of AMD's consolidation of Spansion's financial statements, these awards were being accounted for under variable fair value accounting following the guidance in Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Good or Services," and EITF Issue No. 00-12, "Accounting by an Investor for Stock-Based Compensation Granted to Employee of an Equity Method Investee," and continued to be remeasured to their fair value in future periods until they were fully vested (See Note 4).

Spansion Stock-Based Incentive Compensation Plans

Effective December 26, 2005, the Company adopted FASB Statement No. 123(R), Share-Based Payment, which requires a public entity to reflect on its income statement, instead of pro forma disclosures in its financial footnotes, the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Statement 123(R) supersedes the Company's previous accounting under Opinion 25 for periods beginning in fiscal 2006.

The Company adopted Statement 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of December 26, 2005, the first day of the Company's fiscal year ending December 31, 2006. The Company's consolidated financial statements as of and for the year ended December 31, 2006, reflect the impact of Statement 123(R). In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of Statement 123(R).

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 regarding the SEC's interpretation of Statement 123(R) and the valuation of share-based payments for public companies. The Company applied the provisions of SAB 107 in its adoption of Statement 123(R).

The Company estimated the fair value of its stock-based awards to employees using Black-Scholes-Merton option pricing model. Stock-based compensation expense recognized during a period is based on the higher of the grant-date fair value of the portion of share-based payment awards that is ultimately expected to vest, or actually vest, during the period. Stock-based compensation expense recognized in the Company's consolidated statement of operations for the year ended December 31, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 25, 2005 based on the grant-date fair value estimated in accordance with the pro forma provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, and compensation expense for the share-based payment awards granted subsequent to December 25, 2005 based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Compensation expense for all share-based payment awards was recognized using the straight-line attribution method reduced for estimated forfeitures. The Company does not have sufficient historical forfeiture experience related to its own stock-based awards. Therefore, the Company estimated forfeitures based on the average of its own fiscal 2006 forfeiture rate and AMD's historical forfeiture rates, as the Company believes these forfeiture rates to be the most indicative of its own expected forfeiture rate. Statement 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

Pension and Post-retirement Benefits

The Company provides a pension plan for certain employees of Spansion Japan, and as a result, the Company has significant pension benefit costs and credits that are computed and recorded in the Company's financial statements based on actuarial valuations. The actuarial valuations require assumptions and methods which must be used to develop the best estimate of the benefit costs. These valuation assumptions include salary growth, long-term return on plan assets, discount rates and other factors. The salary growth assumptions reflect the Company's future and near-term outlook for salary growth within the industry. Long-term return on plan assets is determined based on historical results in the debt and equity markets and management's expectation of the current economic environment and the allocation target and expected future yields of each asset class. The discount rate assumption is based on current investment yields on Japanese government long-term bonds, as no deep corporate market exists for high quality corporate debt instruments. Actual results that differ from these assumptions are accumulated and amortized over the future life of the plan participants. While the Company believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the pension costs and obligations.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) ratified the Emerging Issue Task Force (EITF) Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB

Statement No. 43.” Issue 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate. If such benefits are deemed to accumulate, they should be accrued for, as compensation expense over the employee’s requisite service period. The provisions of this Issue are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment approach upon adoption. The Company adopted this Issue beginning January 1, 2007 using the cumulative effect adjustment approach. The effect of this adoption resulted in an additional increase to the Company’s sabbatical liability and accumulated deficit of approximately $10 million as of the beginning of fiscal 2007.

The Company’s Sabbatical Program provides for eight weeks of paid leave for salaried (exempt) employees in the United States upon the completion of seven years of service. In addition, the Company’s Recognition Trip Program provides for one week of paid leave and a fixed cash compensation for hourly (non-exempt) employees in the United States who have completed seven years of service. Prior to the adoption of the Issue, the Company accounted for the above programs only after the completion of the seven years by the eligible employees because none of the benefits vested or accreted to the employee until completion of the full seven years of service. With the adoption of Issue 06-2, the Company account for the programs by recording the estimated total program payouts upon attaining the requisite service conditions as compensation expense ratably over each employee’s requisite service period.

In July 2006, the FASB issued Financial Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which applies to all tax positions related to income taxes subject to Statement 109, Accounting for Income Taxes. FIN 48 requires a new evaluation process for all tax positions taken. If the probability for sustaining a tax position is greater than 50 percent, then the tax position is warranted and recognition should be at the largest amount that is more-likely-than-not to be realized upon ultimate settlement. FIN 48 requires expanded disclosure at each annual reporting period unless a significant change occurs in an interim period. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption are to be accounted for as an adjustment to the beginning balance of retained earnings. The Company is currently evaluating the impact of adoption of FIN 48, and the Company expect to adopt FIN 48 as required for the fiscal year beginning January 1, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under Statement 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in accumulated other comprehensive income in equity, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company’s fiscal year end. Statement 158’s provisions regarding the change in the measurement date of postretirement benefit plans are not applicable to the Company because the Company already uses a year end measurement date for its pension plan. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158, the effect of which is disclosed in Note 14.

4. Stock-Based Compensation

AMD Stock Options

Through December 25, 2005, AMD granted stock options to the Company’s employees with an aggregate grant-date value of approximately $19.4 million. The Company paid AMD approximately $8.5 million and $0.9

million for stock options during the years ended December 31, 2006 and December 25, 2005, respectively. The Company's outstanding liability to AMD for stock option reimbursements as of December 25, 2005 was approximately $17.1 million. On November 21, 2006, the Company closed a public offering of its Class A common stock held by AMD and Fujitsu. As a result of the offering, AMD's ownership interest in the Company dropped below 30 percent and, by their terms all unvested AMD stock options and AMD RSU awards held by the Company's employees were forfeited and cancelled. The Company wrote off its remaining liability to AMD of approximately $9.2 million against additional paid-in capital, a component of stockholders' equity, because the original agreed upon value of these awards to be paid to AMD was recorded as a reduction of contributed capital, a component of stockholders' equity. In addition, upon cancellation of the options in the fourth quarter of fiscal 2006, the Company reversed approximately $6 million of previously recorded compensation expense associated with these cancelled awards, which had been recorded using variable fair value accounting pursuant to ETIF Issues 98-16 and 00-12.

Spansion Stock-Based Incentive Compensation Plans

Plan Description

As of December 31, 2006, the Company had one stock-based incentive plan, the 2005 Equity Incentive Plan, under which 9,500,000 shares of Class A common stock have been reserved and made available for issuance in the form of equity awards, including incentive and nonqualified stock options and RSU awards. The 2005 Equity Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors, and that committee has the authority to, among other things, grant awards, delegate certain of its powers, accelerate or extend the vesting or exercisability of awards and determine the date of grant of an award. Shares that are subject to or underlie awards that expire or for any reason are cancelled, terminated or forfeited, or fail to vest will again be available for grant under the 2005 Equity Incentive Plan. The maximum term of any stock option granted under the 2005 Equity Incentive Plan is 10 years from the date of grant and the exercise price of each option is determined under the applicable terms and conditions as approved by the Compensation Committee.

The 2005 Equity Incentive Plan provides awards that may be granted to an officer or employee, a consultant or advisor, or a non-employee director of the Company or its subsidiaries; provided that, the incentive stock options granted under the 2005 Equity Incentive Plan may only be granted to employees of the Company or its subsidiaries. The exercise price of each incentive stock option is required to be not less than 100 percent of the fair market value of the Company's Class A common stock on the date of grant (not less than 110 percent if such stock option is granted to a person who has more than 10 percent of the total voting power of all classes of the Company's stock).

The 2005 Equity Incentive Plan provides for payment of the exercise price of options in the form of, among other things, cash, services rendered, notice and third party payments as authorized by the Compensation Committee, delivery of shares of common stock and cashless exercise with a third party who provides financing for the purposes of the purchase or exercise of the award.

The Compensation Committee may, in its discretion, accelerate vesting of awards under the plan under certain circumstances, including:

- the acquisition by a person other than AMD or its affiliates of more than 33 percent of either the then outstanding shares of the Company's common stock or the combined voting power entitled to vote in the election of directors, except for any such acquisition by Fujitsu or its affiliates so long as such level of ownership is (1) less than AMD's level of ownership in such securities and (2) not more than 40 percent of the Company's outstanding shares of the Company's common stock or the combined power entitled to vote in the election of directors;

- a change in the Board such that individuals who comprised the Board at the effective date of the 2005 Equity Incentive Plan cease to constitute at least a majority of the Board; and
- the consummation of a reorganization, share exchange, merger, consolidation, or a sale or other dispositions of all or substantially all of the Company's assets.

Shares Available to Grant

Number of awards available for grant under the 2005 Equity Incentive Plan:

Amounts reserved for grant	9,500,000
Stock options granted through December 31, 2006, net of cancelled stock options	(2,134,906)
Restricted stock awards granted through December 31, 2006, net of cancelled restricted stock awards	(3,749,503)
Shares available for grant	3,615,591

The Company grants stock options that generally vest ratably over a period of four years and expire if not exercised by the seventh anniversary of the grant date. RSU awards have no exercise price or expiration date. The Company grants RSU awards that generally vest ratably over a four-year period, except for awards of 2.3 million shares granted on the date of the Company's IPO (December 15, 2005), which vested 25 percent on April 28, 2006 and the remainder in equal installments quarterly over the remaining 36 months.

Valuation and Expense Information

The following table sets forth the total recorded stock-based compensation expense, by financial statement caption, resulting from the Company's stock options and RSU awards under Statement 123(R) for the year ended December 31, 2006:

	Year Ended Dec. 31, 2006 (in thousands)
Cost of sales	$ 8,653
Research and development	4,326
Marketing, general and administrative	4,326
Stock-based compensation expense under Statement 123(R) before income taxes[1]	17,305
Income tax benefit[2]	—
Stock-based compensation expense under Statement 123(R) after income taxes[1]	$ 17,305

(1) Stock-based compensation expense under Statement 123(R) does not include the compensation expense of AMD stock options and AMD RSU awards granted to the Company's employees, which were accounted for under EITF Issue Nos. 96-18 and 00-12.

(2) There is no income tax benefit relating to stock option expenses because all of the Company's U.S. deferred tax assets, net of U.S. deferred tax liabilities continue to be subject to a full valuation allowance.

The weighted average fair value of the Company's stock options granted in the year ended December 31, 2006 and December 25, 2005 was $7.82 and $6.87 per share, respectively. The Company did not provide stock-based compensation to its employees or third parties prior to the IPO on December 15, 2005. The fair value of each stock option was estimated at the date of grant using a Black-Scholes-Merton option pricing model, with the following assumptions for grants:

	Weighted Average for the Year Ended Dec. 31, 2006	Weighted Average for the Year Ended Dec. 25, 2005
Expected volatility	58%	66%
Risk-free interest rate	4.82%	4.54%
Expected term (in years)	4.60	4.61
Dividend yield	0%	0%

The Company's dividend yield is zero because the Company has never paid dividends and does not have plans to do so over the expected life of the stock options. The expected volatility is based on the Company's recent historical volatility and the volatilities of the Company's competitors who are in the same industry sector with similar characteristics ("guideline" companies) given the lack of historical realized volatility data of the Company. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bond with a remaining term equal to the expected stock option life. The expected term is based on the "shortcut approach" provided in SAB 107 for developing the estimate of the expected life of a "plain vanilla" stock option. Under this approach, the expected term is presumed to be the mid-point between the average vesting date and the end of the contractual term.

As of December 31, 2006, the total unrecognized compensation cost related to unvested stock options and RSU awards was approximately $42.1 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through 2010.

Pro Forma Stock-Based Compensation

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provision of Statement 123 to options granted under the Company's stock option plan for fiscal 2005 and 2004. The pro forma stock-based compensation includes the impact for AMD stock options awarded to Spansion employees.

	Year Ended Dec. 25, 2005	Year Ended Dec. 26, 2004
	(in thousands, except per share amounts)	
Net loss—as reported	$ (304,116)	$ (19,702)
Stock-based compensation expense related to stock-based awards, net of tax	(3,421)	(1,040)
Net loss, including the effect of stock-based compensation expense	$ (307,537)	$ (20,742)
Basic and diluted net loss per common share—as reported	$ (4.15)	$ (0.27)
Basic and diluted net loss per common share—pro forma	$ (4.19)	$ (0.29)

Stock Option and Restricted Unit Activity

The following table summarizes stock option activity and related information for the period presented:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options:				
Outstanding as of December 26, 2005[1]	1,949,750	$ 12.00		
Granted	462,500	$ 14.93		
Cancelled	(277,344)	$ 12.00		
Outstanding as of December 31, 2006	2,134,906	$ 12.63	6.08	$ 4,761
Exercisable as of December 31, 2006[2]	35,156	$ 12.00	5.96	$ 101

(1) Outstanding shares at the beginning of fiscal 2006 were the shares granted upon Company's IPO on December 15, 2005

(2) There were 35,156 shares vested during the year ended December 31, 2006, with a total grant date fair value of approximately $241,000.

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of $14.86 as of December 31, 2006, which would have been received by the stock option holders had all stock option holders exercised their stock options as of that date.

The following table summarizes RSU award activity and related information for the period presented:

	Number of Shares	Weighted-Average Grant-date Fair Value
Restricted Stock Units:		
Unvested as of December 26, 2005[1]	3,604,090	$ 12.00
Granted	362,434	$ 15.23
Cancelled	(217,021)	$ 13.02
Vested	(825,888)	$ 12.00
Unvested as of December 31, 2006	2,923,615	$ 12.33

(1) Unvested shares at the beginning of fiscal 2006 were the shares granted upon Company's IPO on December 15, 2005

Employee Stock Purchase Plan

The 2005 Employee Stock Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code with the purpose of providing eligible employees (including officers) and eligible employees of participating subsidiaries with an opportunity to purchase Class A common stock through payroll deductions. The 2005 Employee Stock Purchase Plan would allow eligible and participating employees to purchase, through payroll deductions, shares of Class A common stock at a discount, not to exceed 15 percent, applied to either (1) the fair market value per share of Class A common stock on the first business date of an offering period, or (2) the fair market value per share of Class A common stock on the last business date of that offering period. The Company has reserved 2,250,000 shares of Class A common stock available for

issuance under this plan. As of December 31, 2006, no shares have been issued under this plan and the Company has not determined whether it will issue shares under this plan in the future. The 2005 Employee Stock Purchase Plan, if implemented, will be administered by the Compensation Committee.

5. Related Party Transactions

Prior to the second quarter of fiscal 2006, the Company relied on AMD and Fujitsu as sole distributors of its products. In the second quarter of fiscal 2006, the Company began selling its products directly to the customers previously served by AMD. The Company receives services from AMD and Fujitsu, including among others, certain information technology, facilities, logistics, legal, tax, finance, human resources and environmental health and safety services. Since its IPO, the Company has taken on some of these functions and the Company decreased the use of these services. The charges for these services are negotiated annually between the Company and AMD and Fujitsu based on the Company's expected requirements and the estimated future costs of the services to be provided. AMD has the right to review the proposed services to be provided by Fujitsu, and Fujitsu has the right to review the proposed services to be provided by AMD. The service charges are billed monthly on net 45 days terms.

The following tables present significant related party transactions and account balances between the Company and AMD (See Note 9 for separate disclosure of debt obligations to related parties):

	Year Ended Dec. 31, 2006	Year Ended Dec. 25, 2005	Year Ended Dec. 26, 2004
		(in thousands)	
Net sales to AMD[1]	$ 336,172	$ 1,114,150	$ 1,211,033
Cost of sales:			
Royalties to AMD	$ 6,228	$ 13,760	$ 18,080
Service fees to AMD:			
Cost of sales	$ 3,276	$ 21,397	$ 21,915
Research and development	11,591	21,213	27,614
Marketing, general and administrative	19,981	50,229	56,697
Service fees to AMD[2]	$ 34,848	$ 92,839	$ 106,226
Cost of employees seconded from AMD:			
Marketing, general and administrative	$ —	$ 1,199	$ 1,524

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Trade accounts receivable from AMD, net of allowance for doubtful accounts	$ 3,400	$ 205,351
Other receivables from AMD	$ 2,325	$ 13,850
Accounts payable to AMD	$ 1,513	$ 97,844
Royalties payable to AMD	$ 3,130	$ 6,384
Accrued liabilities to AMD	$ 43	$ 17,434

(1) In the second quarter of fiscal 2006, the Company began selling its products directly to the customers previously served by AMD.
(2) Service fees to AMD are net of reimbursements from AMD for services provided to AMD by the Company.

The following tables present the significant related party transactions and account balances between the Company and Fujitsu (See Note 9 for separate disclosure of debt obligations to related parties):

	Year Ended Dec. 31, 2006	Year Ended Dec. 25, 2005	Year Ended Dec. 26, 2004
		(in thousands)	
Net sales to Fujitsu	$ 932,623	$ 888,655	$ 1,051,194
Cost of sales			
Royalties to Fujitsu	$ 6,228	$ 13,760	$ 18,080
Other purchases of goods and services from Fujitsu and rental expense to Fujitsu	117,999	69,219	66,525
Subcontract manufacturing purchases from Fujitsu	15,041	35,150	74,800
Commercial die purchases from Fujitsu	51,054	94,327	141,117
Service fees to Fujitsu:			
Cost of sales	$ 2,269	$ 3,271	$ 3,662
Research and development	2,453	6,501	18,449
Marketing, general and administrative	4,220	10,339	11,382
Service fees to Fujitsu	$ 8,942	$ 20,111	$ 33,493
Cost of employees seconded from Fujitsu:			
Cost of sales	$ 27	$ 742	$ 1,333
Research and development	61	4,280	8,241
Marketing, general and administrative	95	2,135	3,774
Cost of employees seconded from Fujitsu	$ 183	$ 7,157	$ 13,348

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Trade accounts receivable from Fujitsu	$ 190,328	$ 199,224
Other receivables from Fujitsu	$ —	$ 217
Accounts payable to Fujitsu	$ 13,046	$ 25,957
Royalties payable to Fujitsu	$ 3,130	$ 6,384
Accrued liabilities to Fujitsu	$ 4,970	$ —

The Company licenses certain intellectual property from AMD and Fujitsu in exchange for the payment of royalties to both AMD and Fujitsu. These royalty expenses are recognized in cost of sales. The Company is required to pay AMD and Fujitsu semi-annual royalties based on net sales (minus the costs of commercial die). The royalty as a percentage of sales will decline to zero over a specified time. The term of the agreement expires in 2013.

Fujitsu provides test and assembly services to the Company on a contract basis. Also, the Company purchases commercial die from Fujitsu, which are packaged together with the Company's Flash memory devices.

Fujitsu seconded certain employees to the Company until the second quarter of fiscal 2006. The Company paid these employees directly. AMD also seconded certain employees to the Company until the fourth quarter of fiscal 2005. The Company reimbursed AMD for the costs of these employees.

On September 28, 2006, Spansion Japan Limited, or Spansion Japan, the Company's wholly-owned subsidiary, entered into an asset purchase agreement with Fujitsu, pursuant to which Spansion Japan will sell two wafer fabrication facilities located in Aizu-Wakamatsu, Japan, which the Company refers to as the JV1/JV2

Facilities, and certain assets located in the JV1/JV2 Facilities, to Fujitsu for a purchase price of approximately $150 million plus the value of the inventory at the time of closing. Concurrently with the execution of the asset purchase agreement, Spansion Japan and Fujitsu also executed (i) a master lease agreement, pursuant to which Spansion Japan will lease certain equipment to Fujitsu to use in the JV1/JV2 Facilities, (ii) a foundry agreement, pursuant to which Fujitsu has agreed to manufacture, and the Company has agreed to purchase, wafers to be manufactured by Fujitsu for Spansion in the JV1/JV2 Facilities (the foundry agreement also includes minimum supply and purchase commitments between both the parties resulting in financial penalties if such supply and purchase commitments are not achieved) and (iii) a secondment and transfer agreement, pursuant to which Spansion Japan has agreed to second a specified number of employees to Fujitsu to work in the JV1/JV2 Facilities and ultimately to transfer certain of the employees to Fujitsu. The Company refers to these agreements collectively as the JV1/JV2 Transaction. Under the terms of the asset purchase agreement, the JV1/JV2 Transaction is scheduled to close in the second quarter of fiscal 2007.

6. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, marketable securities, trade receivables and foreign currency forward contracts. The Company places its cash equivalents and marketable securities with high quality credit financial institutions and, by policy, limits the amount of credit exposure with any one financial institution.

Concentration of credit risk with respect to trade receivables exists because the Company sells a significant portion of its products directly to Fujitsu. Trade accounts receivable from Fujitsu comprised approximately 48 percent and 49 percent of the total consolidated trade accounts receivable balance as of December 31, 2006 and December 25, 2005, respectively. However, the Company does not believe the receivable balances from the related party subject the Company to significant credit risk as historical losses have not been significant and Fujitsu's own customer base represent a large number of geographically diverse companies. Fujitsu is required to pay its trade receivables regardless of whether it can collect from its customers. The Company does not require collateral or other security from Fujitsu.

The counterparties relating to the Company's financial activities, including investing, borrowing and foreign exchange hedging, consist of large international financial institutions. The Company does not believe that there is significant risk of nonperformance by these counterparties because the Company monitors their credit ratings and limits the financial exposure and the notional amount of agreements entered into with any one financial institution. While the notional amounts of derivative financial instruments are often used to express the volume of these transactions, the potential accounting loss on these transactions if all counterparties failed to perform is limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the Company's obligations to the counterparties. As of December 31, 2006 and December 25, 2005, the Company had a total notional amount of approximately $10.9 million and $49.6 million, respectively, in outstanding foreign currency forward exchange contracts. Foreign currency gains and losses were not significant for the periods presented.

7. Financial Instruments

Marketable securities held by the Company as of December 31, 2006 and December 25, 2005 are as follows:

	Amortized Cost	Gross Unrealized Gains	Fair Value
		(in thousands)	
2006			
Cash equivalents:			
Money market funds	$ 67,000	$	$ 67,000
Commercial paper	565,660		565,660
Total cash equivalents	632,660	—	632,660
Marketable securities:			
Auction rate securities	125,975		125,975
Total marketable securities	125,975	—	125,975
Total cash equivalents and marketable securities	$ 758,635	$ —	$ 758,635
2005			
Cash equivalents:			
Money market funds	$ 59,000	$ —	$ 59,000
Commercial paper	336,141	—	336,141
Total cash equivalents	395,141	—	395,141
Marketable securities:			
Auction rate preferred stocks	15,000	—	15,000
Commercial paper	177,086	—	177,086
Investment in equity securities	20,000	7,291	27,291
Total marketable securities	212,086	7,291	219,377
Total cash equivalents and marketable securities	$ 607,227	$ 7,291	$ 614,518

As of December 31, 2006, all investments in the Company's portfolio were either cash equivalents or marketable securities, which, with the exception of auction rate securities, scheduled to mature within next twelve months. The auction rate securities are classified as short-term as they are intended to be used in current operations, and have rate and liquidity resets of 35 days or less.

As of December 31, 2006, the Company's marketable securities approximated the fair market values of the securities and the unrealized gains and losses on these securities were not significant. As of December 25, 2005, the Company had recorded an unrealized gain of approximately $7.3 million in other comprehensive loss on its investment in certain publicly-traded equity securities. In fiscal 2006 the Company sold this investment in its entirety and realized a gain on the sale of $6.9 million.

Fair Value of Other Financial Instruments

The fair value of the Company's fixed rate long-term debt is estimated by considering the Company's credit rating, the interest rates and the terms of the debt. The fair value of the Company's variable rate long-term debt is estimated based on the current rates offered to the Company for debt of the same remaining maturities. The carrying amounts and estimated fair values of the Company's debt instruments are as follows:

	Dec. 31, 2006		Dec. 25, 2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)			
Debt obligations	980,307	1,024,926	359,803	359,803
Debt obligations to related parties	500	500	183,915	183,915
Total debt obligations	$ 980,807	$ 1,025,426	$ 543,718	$ 543,718

The fair value of the Company's accounts receivable and accounts payable approximate their carrying value based on existing payment terms. As of December 31, 2006 and December 25, 2005, the fair values of the Company's foreign currency forward contracts were not significant.

8. Warranties and Indemnities

The Company offers a one-year limited warranty for its Flash memory products.

Changes in the Company's liability for product warranty during the years ended December 31, 2006 and December 25, 2005 are as follows:

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Balance, beginning of fiscal year	$ 1,000	$ 600
Provision for warranties issued	4,529	2,418
Settlements	(5,562)	(5,246)
Changes in liability for pre-existing warranties during the period, including expirations	1,383	3,228
Balance, end of fiscal year	$ 1,350	$ 1,000

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, directors, 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 infringement claims 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, there have been no indemnification claims.

9. Debt and Capital Lease Obligations

The Company's debt and capital lease obligations consist of:

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Debt obligations to related parties:		
Spansion China Line of Credit	$ —	$ 15,000
Spansion Penang Loan	—	4,833
Spansion Penang Building Loan	—	5,112
Senior Subordinated Notes	—	158,970
Promissory Note	500	—
Total debt obligations to related parties	500	183,915
Debt obligations to third parties:		
Spansion Japan Term Loan	—	72,274
Spansion China Bank Enterprise Cooperation Revolver	7,925	18,722
Spansion Japan Revolving Credit Facility	—	43,020
Senior Notes	228,231	225,787
Spansion Japan 2006 Revolving Credit Facility	8,402	—
Spansion Penang Loan	3,543	—
Spansion Japan 2006 Merged Revolving Credit Facility	16,804	
Exchangeable Senior Subordinated Debentures	207,000	—
Spansion Japan 2006 Uncommitted Revolving Credit Facility	8,402	
Senior Secured Term Loan Facility	500,000	—
Obligations under capital leases	137,240	215,895
Total debt obligations to third parties	1,117,547	575,698
Total debt obligations	1,118,047	759,613
Less: current portion	108,374	233,555
Long-term debt and capital lease obligations, less current portion	$ 1,009,673	$ 526,058

Debt Obligations to Related Parties

Spansion China Line of Credit

As part of the reorganization in 2005, the Company assumed $60 million of unsecured debt, payable by the Company's subsidiary in the People's Republic of China, Spansion China Limited, to AMD and its subsidiary in Singapore, Advanced Micro Devices (Singapore) Pte., or AMD Singapore.

On February 15, 2006, the Company repaid the remaining outstanding principal of $15.0 million and accrued interest of approximately $121,000 to AMD under the Spansion China Line of Credit.

Spansion Penang Loan

On January 29, 2004, Spansion Penang entered into a financial arrangement with AMD. Under the terms of the arrangement, Spansion Penang borrowed approximately 29.0 million Malaysian Ringgit (approximately $8.0 million based on the exchange rate as of January 29, 2004) from AMD to fund the purchase of manufacturing equipment.

In January 2006, AMD's loan to Spansion Penang, more fully described under "Debt Obligations to Third Parties—Spansion Penang Loan" below, was transferred from AMD to a third-party financial institution.

Spansion Penang Building Loan

On December 20, 2005, Spansion Penang assumed approximately 19.3 million Malaysian Ringgit (approximately $5 million based on the exchange rate as of December 20, 2005) of an unsecured promissory note, payable to AMD Export, in connection with the sale of certain assets by AMD Export to Spansion Penang.

On June 28, 2006, the Company repaid AMD the remaining outstanding principal of approximately 19.3 million Malaysian Ringgit (approximately $5.4 million based on the exchange rate as of June 28, 2006) under the Spansion Penang Building Loan.

Senior Subordinated Notes

On December 21, 2005, the Company issued to AMD $175 million aggregate principal amount of its 12.75% Senior Subordinated Notes Due 2016. The senior subordinated notes were issued at 90.828 percent of face value, resulting in net proceeds of approximately $158.9 million.

On June 12, 2006, the Company repurchased and cancelled the 12.75% Senior Subordinated Notes. The Company recognized a loss on early extinguishment of debt of approximately $17.3 million as a result of the repurchase of these notes. The loss included the write-off of debt issuance costs of approximately $2.0 million and the write-off of unamortized debt discount of approximately $15.3 million.

Promissory Note

On February 27, 2006, the Company purchased a software license from AMD and, as payment, the Company issued a $3.0 million promissory note to AMD. As of December 31, 2006, the Company has repaid $2.5 million of the principal of the promissory note. The remaining balance of $0.5 million is due in the first quarter of 2007.

Debt Obligations to Third Parties

Spansion Japan Term Loan

Spansion Japan entered into a term loan with a Japanese financial institution in September 2003.

On December 30, 2005, Spansion Japan voluntarily prepaid and terminated the Spansion Japan Term Loan agreement. There were no penalties associated with the prepayment and termination of this loan agreement.

Spansion China Bank Enterprise Cooperation Revolver

On December 1, 2005, Spansion China entered into a bank enterprise cooperation agreement with a local financial institution, effective as of October 24, 2005. Under the terms of the agreement, Spansion China may draw under two credit facilities, equal to U.S. $26 million and RMB 176 million (approximately $22 million as of October 24, 2005), respectively. Borrowings must be used for working capital purposes. The two credit facilities terminate on June 22, 2008. The interest rate for each loan denominated in RMB is a floating rate per annum and is set at the time each revolving loan agreement is entered into. The interest rate may thereafter be adjusted every 12 months at a rate equal to the benchmark rate published by the People’s Bank of China for RMB loans of the same term less a ten percent discount. The interest rate for each loan denominated in U.S. dollars is a floating rate per annum and is initially set at the time each revolving loan agreement is entered into, ranging from 5.39 percent to 6.61 percent for the outstanding balance as of December 31, 2006. The interest rate is thereafter adjusted every six months at a rate equal to the six-month LIBOR plus one percent. The U.S. dollar denominated revolving loan agreements are unsecured. Under the terms of the agreements, Spansion China is prohibited from encumbering any of its assets.

As of December 31, 2006 and December 25, 2005, the amount outstanding under the U.S. dollar denominated loan agreement was approximately $7.9 million and $8.3 million, respectively. There was no amount outstanding under RMB credit facility as of December 31, 2006. The total amount outstanding under the RMB denominated loan agreement was approximately RMB 84 million (approximately $10.4 million) as of December 25, 2005. The dollar amounts for these RMB loans were calculated using an exchange rate as of December 25, 2005.

Spansion Japan Revolving Credit Facility

On September 20, 2005, Spansion Japan entered into an uncommitted revolving credit facility agreement with a certain Japanese financial institution in the aggregate principal amount of up to 5.0 billion yen (approximately $45 million as of September 20, 2005).

On March 31, 2006, Spansion Japan entered into an Amended and Restated Uncommitted Revolving Credit Facility Agreement with a certain Japanese financial institution (the Spansion Japan 2006 Merged Revolving Credit Facility), which provides for a revolving credit facility in the aggregate principal amount of up to 8.0 billion yen (or up to approximately $68 million based as of March 31, 2006). The Spansion Japan 2006 Merged Revolving Credit Facility replaces the Spansion Japan Revolving Credit Facility and Spansion Japan Uncommitted Revolving Credit Facility as a result of the merger of the two respective financial institutions that had previously provided those separate facilities.

Senior Notes

On December 21, 2005, the Company completed an offering of $250 million aggregate principal amount of 11.25% Senior Notes due 2016. The Senior Notes were issued at 90.302 percent of face value, resulting in net proceeds to the Company of approximately $218.1 million after deducting the initial purchasers' discount and estimated offering expenses. The Senior Notes are general unsecured senior obligations of Spansion LLC and will rank equal in right of payment with any of the Company's existing and future senior debt. Interest is payable on January 15 and July 15 of each year beginning July 15, 2006 until the maturity date of January 15, 2016.

Certain events may result in the accelerated maturity of the Senior Notes, including a default in any interest, principal or premium amount payment; a merger, consolidation or sale of all or substantially all of the Company's property; a breach of covenants in the senior notes or the respective indenture; a default in certain debts; or if a court enters certain orders or decrees under any bankruptcy law. Upon occurrence of one of these events, the principal of and accrued interest on all of the senior notes, as the case may be, may become immediately due and payable. If the Company incurs any judgment for the payment of money in an aggregate amount in excess of $50 million or takes certain voluntary actions in connection to insolvency, all amounts on the Senior Notes shall become due and payable immediately.

Spansion Japan 2006 Revolving Credit Facility

On December 26, 2005, Spansion Japan entered into an uncommitted revolving credit facility agreement with a certain Japanese financial institution in the aggregate principal amount of up to 3.0 billion yen (or up to approximately $25.2 million as of December 31, 2006). Because the amount subject to the credit facility is denominated in yen, the dollar amount stated above is subject to change based on applicable exchange rates.

Spansion Japan may, pursuant to the terms of the credit facility, borrow amounts in increments of 50 million yen (approximately $420,000 as of December 31, 2006), which may remain outstanding for up to three months. Amounts borrowed under the credit facility bear interest at a rate equal to the Tokyo Interbank Offered Rate, or TIBOR, at the time of the drawdown, plus a margin of 0.5 percent per annum.

Pursuant to the terms of the credit facility, Spansion Japan is required, among other things, to submit any annual securities reports, semiannual reports, quarterly reports, extraordinary reports, revision reports, and group reports and accounts prepared by Spansion Japan to the Japanese financial institution.

In addition, Spansion Japan is not permitted, among other things, to:

- create any security interests or liens on any of its assets, subject to certain exceptions;
- subordinate the payment of its debt under the credit facility to the payment of any unsecured debts; and
- enter into any merger, company partition, exchange or transfer of shares, assign all or a part of its business or assets to a third party, or otherwise transfer all or a material part of its assets to a third party, subject to certain exceptions.

The credit facility terminates on December 26, 2007 unless terminated earlier in the event of default, or by either party upon written notice in accordance with the terms of the credit facility.

On December 15, 2006, Spansion Japan borrowed 1.0 billion yen (approximately $8.4 million as of December 31, 2006) under this facility. This amount bears interest at a rate of 1.05 percent and must be repaid no later than March 15, 2007.

Spansion Penang Loan

On January 29, 2004, Spansion Penang entered into a financial arrangement with AMD. Under the terms of the arrangement, Spansion Penang borrowed approximately 29.0 million Malaysian Ringgit (approximately $8.0 million based on the exchange rate as of January 29, 2004) from AMD to fund the purchase of manufacturing equipment. In January 2006, this loan was transferred from AMD to a third-party financial institution. 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.

Spansion Japan 2006 Merged Revolving Credit Facility

On March 31, 2006, Spansion Japan entered into an Amended and Restated Uncommitted Revolving Credit Facility Agreement with a Japanese financial institution (the Spansion Japan 2006 Merged Revolving Credit Facility), which provides for a revolving credit facility in the aggregate principal amount of up to 8.0 billion yen (or up to approximately $67.2 million as of December 31, 2006). The Spansion Japan 2006 Merged Revolving Credit Facility replaced the Spansion Japan Revolving Credit Facility and Spansion Japan Uncommitted Revolving Credit Facility as a result of the merger of the two respective financial institutions that had previously provided those separate facilities.

Pursuant to the terms of the Spansion Japan 2006 Merged Revolving Credit Facility, Spansion Japan may borrow amounts in increments of 50 million yen (approximately $420,000 as of December 31, 2006), which may remain outstanding in monthly increments of up to three months. Amounts borrowed bear interest at a rate equal to TIBOR, at the time of the drawdown, plus a margin of 0.5 percent per annum.

Spansion Japan is not permitted, among other things, to create any security interests or liens on any of its assets, subject to certain exceptions; subordinate the payment of its debt under this credit facility to the payment of any unsecured debts; or enter into any merger, company partition, exchange or transfer of shares, assign all or a part of its business or assets to a third party, or otherwise transfer all or a material part of its assets to a third party, subject to certain exceptions.

All of Spansion Japan's debts under the Spansion Japan 2006 Merged Revolving Credit Facility will automatically become due and payable without any notice or demand if proceedings of bankruptcy, insolvency, dissolution or similar matters are initiated by or against Spansion Japan. All of the debts under this credit facility will become due and payable upon notice to Spansion Japan by the lenders in an event of default, which includes, among other things, the following: a default in performance of payment; any of Spansion Japan's debts or guarantee obligations (other than those under Spansion Japan 2006 Merged Revolving Credit Facility) in an aggregate amount exceeding 10 million yen (approximately $84,000 as of December 31, 2006) become due and payable; or the suspension of the business of Spansion Japan by Spansion Japan or by a government authority, in each case if not cured within applicable time periods set forth in the Spansion Japan 2006 Merged Revolving Credit Facility.

The Spansion Japan 2006 Merged Revolving Credit Facility may be terminated in the event of default or by either party upon written notice in accordance with its terms.

On December 15, 2006, Spansion Japan borrowed 2.0 billion yen (approximately $16.8 million as of December 31, 2006) under this facility. This amount bears interest at a rate of 1.05 percent and must be repaid no later than March 15, 2007.

Exchangeable Senior Subordinated Debentures

In June 2006, Spansion LLC, the wholly owned operating subsidiary of the Company, issued $207.0 million of aggregate principal amount of 2.25% Exchangeable Senior Subordinated Debentures due 2016. The Debentures are general unsecured senior subordinated obligations and rank subordinate in right of payment to all of the Company's senior indebtedness, including the Senior Notes, and senior in right of payment to all of the Company's subordinated indebtedness. The Debentures bear interest at 2.25 percent per annum. Interest is payable on June 15 and December 15 of each year beginning December 15, 2006 until the maturity date of June 15, 2016.

The Debentures were not exchangeable prior to January 6, 2007. On January 6, 2007, the Debentures became exchangeable for shares of the Company's Class A common stock, cash or a combination of cash and shares of such Class A common stock, at the Company's option. Full conversion of the Debentures into shares would result in an initial exchange rate of 56.7621 shares of Class A common stock per debenture representing an initial exchange price of approximately $17.6174 per share of Spansion Inc. Class A common stock. The Company has reserved 11.7 million shares issuable upon conversion of the debentures. The debentures have not been exchanged for Class A common stock as of February 21, 2007.

The Company, at any time prior to maturity may make an irrevocable election to satisfy the exchange obligation in cash up to 100 percent of the principal amount of the debentures exchanged, with any remaining amount to be satisfied in shares of Class A common stock or a combination of cash and shares of Class A common stock at the above exchange ratio. In the event that the Company makes this irrevocable election, debenture holders may exchange their debentures only under the following circumstances:

- during any fiscal quarter after the Company's fiscal quarter ending April 1, 2007 (and only during such fiscal quarter) if the sale price of Spansion Inc. Class A common stock, for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous fiscal quarter, is greater than or equal to 120 percent of the conversion price per share of the Spansion Inc. Class A common stock;

- subject to certain exceptions, during the five business day period following any five consecutive trading day period in which the trading price of the debentures for each day of such period was less than 98 percent of the product of the sale price of the Spansion Inc. Class A common stock and the number of shares issuable upon exchange of $1,000 principal amount of the debentures; or
- Upon the occurrence of specified corporate events that constitute a fundamental change of the Company under certain circumstances. The holders of the Debentures will have the ability to require the Company to repurchase the Debentures in whole or in part for cash in the event of a fundamental change of the Company. In such case, the repurchase price would be 100 percent of the principal amount of the Debentures plus any accrued and unpaid interest.

Spansion Japan 2006 Uncommitted Revolving Credit Facility

On September 29, 2006, Spansion Japan entered into an Uncommitted Revolving Credit Facility Agreement with a Japanese financial institution (the Spansion Japan 2006 Uncommitted Revolving Credit Facility), which provides for a revolving credit facility in the aggregate principal amount of up to 2.0 billion yen (or up to approximately $16.8 million as of December 31, 2006).

Pursuant to the terms of the Spansion Japan 2006 Uncommitted Revolving Credit Facility, Spansion Japan may borrow amounts in increments of 50 million yen (approximately $420,000 as of December 31, 2006), which may remain outstanding in monthly increments of up to three months. Amounts borrowed bear interest at a rate equal to TIBOR, at the time of the drawdown, plus a margin of 0.5 percent per annum.

Spansion Japan is not permitted, among other things, to create any security interests or liens on any of its assets, subject to certain exceptions; subordinate the payment of its debt under this credit facility to the payment of any unsecured debts; or enter into any merger, company partition, exchange or transfer of shares, assign all or a part of its business or assets to a third party, or otherwise transfer all or a material part of its assets to a third party, subject to certain exceptions.

All of Spansion Japan’s debts under the Spansion Japan 2006 Uncommitted Revolving Credit Facility will automatically become due and payable without any notice or demand if proceedings of bankruptcy, insolvency, dissolution or similar matters are initiated by or against Spansion Japan. All of the debts under this credit facility will become due and payable upon notice to Spansion Japan by the lenders in an event of default, which includes, among other things, the following: a default in performance of payment; any of Spansion Japan’s debts or guarantee obligations (other than those under Spansion Japan 2006 Uncommitted Revolving Credit Facility) in an aggregate amount exceeding 10 million yen (approximately $84,000 as of December 31, 2006) become due and payable; or the suspension of the business of Spansion Japan by Spansion Japan or by a government authority, in each case if not cured within applicable time periods set forth in the Spansion Japan 2006 Uncommitted Revolving Credit Facility.

The Spansion Japan 2006 Uncommitted Revolving Credit Facility may be terminated in the event of default or by either party upon written notice in accordance with its terms.

On December 15, 2006, Spansion Japan borrowed 1.0 billion yen (approximately $8.4 million as of December 31, 2006) under this facility. This amount bears interest at a rate of 1.05 percent and must be repaid no later than March 15, 2007.

Senior Secured Term Loan Facility

On November 1, 2006, Spansion LLC entered into a new senior secured term loan facility with a certain domestic financial institution, as administrative agent, and the lenders party thereto, in the aggregate amount of

$500 million. The Company, along with STI, Spansion International, Inc. and Cerium Laboratories LLC, or Cerium, are guarantors of Spansion LLC's obligations under the senior secured term loan facility. Amounts borrowed under the senior secured term loan facility bear interest equal to either (at Spansion LLC's option) (a) LIBOR, plus a 3.0 percent margin or 2.75 percent margin depending upon the Company's credit rating or (b) the base rate, defined as the higher of (i) the administrative agent's prime rate and (ii) the federal funds rate (as defined in the credit agreement for the senior secured term loan facility) plus 0.50 percent, plus a 2.0 percent margin or 1.75 percent margin depending upon the Company's credit rating. The senior secured term loan facility will terminate and all outstanding borrowings must be repaid no later than November 3, 2012.

In connection with the senior secured term loan facility, the Company and each of Spansion LLC, STI, Spansion International and Cerium, collectively referred to as the loan parties, executed a pledge and security agreement pursuant to which the administrative agent received a first priority security interest in (a) all present and future capital stock of each of the Company's present and future direct and indirect subsidiaries, limited in the case of foreign subsidiaries to a pledge of 65 percent of the capital stock of each first-tier foreign subsidiary, (b) all present and future debt of each loan party, but excluding certain intercompany debt to a foreign subsidiary, (c) all present and future other property and assets of each loan party, but excluding intellectual property and any equipment subject to a lien securing a capitalized lease permitted by the credit agreement for the senior secured term loan facility, and (d) all proceeds and products of the property and assets described above. The net book value of the pledged assets as of December 31, 2006 was approximately $663.5 million.

Pursuant to the terms of the senior secured term loan facility, and subject to certain exceptions, Spansion LLC and its subsidiaries are limited in their ability, among other things, to:

- create or permit liens;
- incur indebtedness, subject to certain exceptions, including existing indebtedness under Spansion LLC's 11.25% Senior Notes indenture, Spansion LLC's 2.25% Exchangeable Senior Subordinated Debentures indenture, the senior secured revolving credit facility, capital leases not to exceed 15 percent of Spansion Inc.'s total assets, indebtedness of acquired subsidiaries existing at the time of such acquisition and up to $500 million for capital expenditures at SP1;
- make or hold investments above certain thresholds;
- have interest coverage and minimum liquidity of less than specified amounts;
- consolidate, merge or sell assets as an entirety or substantially as an entirety;
- make any disposition of properties, including any sale leaseback transaction;
- make certain distributions, stock redemptions or other payments on account of any equity interests;
- enter into certain types of transactions with affiliates;
- make or become obligated to make any capital expenditures except for those in the ordinary course of business not to exceed specified amounts; and
- voluntarily prepay any indebtedness.

In addition, under the senior secured term loan facility, the Company is not permitted to engage in any business or activity other than, among other things, holding equity interests in Spansion LLC and STI and activities incidental to being a publicly traded company.

Amounts outstanding under the senior secured term loan facility may become immediately due and payable upon the occurrence of specified events, including, among other things: failure to pay any obligations under the senior secured term loan facility; the breach of any representation or warranty or certain covenants; any default in

the payment when due of indebtedness of more than $25 million; filings or proceedings in bankruptcy; judgments or awards entered against the Company, Spansion LLC, STI, Spansion International, Cerium or any subsidiaries involving aggregate liability of $10 million or more; or a change of control (as defined in the credit agreement for the senior secured term loan facility).

Senior Secured Revolving Credit Facility

On November 1, 2006, Spansion LLC, the agent and the other lenders party to the senior secured revolving credit facility amended the credit agreement and the security agreement in connection therewith, and the Company, STI and Spansion International entered into certain new pledge agreements. Pursuant to the amendment to the revolving facility credit agreement, lenders consented to the incurrence of the senior secured term loan facility and the grant of related liens, and the amount available under the revolving credit facility was amended to be based on the sum of 85 percent of accounts receivable meeting eligibility requirements, plus the lesser of (i) $10 million and (ii) 25 percent of eligible foreign accounts receivable, minus reserves established by the agent in its reasonable credit judgment. In addition, pursuant to the amendment, subject to certain limitations, the equity interests in Spansion LLC owned by the Company and by STI, the equity interests in foreign subsidiaries owned by Spansion International and Spansion LLC's equipment, inventory and equity interests in its foreign subsidiaries were added as the collateral securing the revolving credit facility. This resulted in the revolving credit facility lenders and the senior secured term loan lenders holding substantially similar security. The relative priorities of the classes of lenders in various types of collateral is set forth in an intercreditor agreement between the agent for the revolving credit facility lenders and the agent for the senior secured term loan lenders.

As of December 31, 2006 and December 25, 2005, no amounts were outstanding under this revolving credit facility.

Obligations under Capital Leases

On September 29, 2006, the Company entered into a sale-leaseback transaction with a third-party financial institution for certain equipment in the amount of $29.1 million of cash proceeds. Upon execution of the agreements, the equipment had a net book value of approximately $30.7 million. As the term on the leaseback transaction is more than 75 percent of the remaining estimated economic life of the equipment, the Company accounted for the leaseback transaction as a capital lease. The equipment leases shall terminate on September 29, 2010, unless terminated earlier in the event of default, or by either party upon written notice in accordance with the terms of the equipment lease. As of December 31, 2006, the outstanding lease obligation under this agreement was approximately $26.2 million.

On December 19, 2006, the Company entered into a sale-leaseback transaction with a third-party financial institution for certain equipment in the amount of $18.5 million of cash proceeds. Upon execution of the agreements, the equipment had a net book value of approximately $18.1 million. This transaction did not result in a significant gain or loss. As the present value of the minimum lease payments was more than 90 percent of the fair values of the equipment at the inception of the lease, the Company accounted for the leaseback transaction as a capital lease. The equipment leases shall terminate on December 19, 2011, unless terminated earlier in the event of default, or by either party upon written notice in accordance with the terms of the equipment lease. As of December 31, 2006, the outstanding lease obligation under this agreement was approximately $17.5 million.

As of December 31, 2006 and December 25, 2005, the Company had aggregate outstanding capital lease obligations of approximately $137 million and $216 million, respectively. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2011. Leased assets consist principally of machinery and equipment.

The gross amount of assets recorded under capital leases totaled approximately $320 million and $396 million as of December 31, 2006 and December 25, 2005, respectively and accumulated amortization of these leased assets was approximately $177 million and $229 million as of December 31, 2006 and December 25, 2005, respectively. These leased assets are included in the related property, plant and equipment category. Amortization of assets recorded under capital leases is included in depreciation expense. AMD has guaranteed approximately $3 million and $36 million of the Company's aggregate outstanding capital lease obligations as of December 31, 2006 and December 25, 2005, respectively. Fujitsu did not guarantee any of the Company's outstanding capital lease obligations as of December 31, 2006. Fujitsu has guaranteed approximately $18 million of the Company's aggregate outstanding capital lease obligations as of December 25, 2005.

Scheduled Maturities of Debt and Future Minimum Capital Lease Payments

For each of the next five years and beyond, the Company's scheduled maturities of debt and future minimum capital lease payments outstanding as of December 31, 2006 are as follows:

	Debt Obligations to Related Parties	Other Debt	Capital Leases
Fiscal 2007	$ 500	$ 46,168	$ 73,418
Fiscal 2008	—	5,635	39,163
Fiscal 2009	—	4,273	29,178
Fiscal 2010	—	4,000	9,728
Fiscal 2011	—	4,000	6,765
2012 and beyond	—	938,000	—
	500	1,002,076	158,252
Less amount representing interest	—		(21,012)
Less amount representing discount	—	(21,769)	—
Total	$ 500	$ 980,307	$ 137,240

10. Guarantees of Company Debt by Related Parties

The following tables summarize the amounts guaranteed by AMD and Fujitsu related to the underlying liabilities of the Company:

Liabilities Guaranteed by AMD

	As of Dec. 31, 2006	As of Dec. 25, 2005
	(in thousands)	
Spansion capital lease guarantees	$ 2,708	$ 35,851
Spansion operating lease guarantees	3,977	7,071
Total debt guaranteed by AMD	$ 6,685	$ 42,922

Liabilities Guaranteed by Fujitsu

	As of Dec. 31, 2006	As of Dec. 25, 2005
	(in thousands)	
Spansion Japan term loan guarantee[(1)]	$ —	$ 72,274
Spansion capital lease guarantees	—	18,184
Spansion operating lease guarantees	223	722
Total debt guaranteed by Fujitsu	$ 223	$ 91,180

(1) AMD agreed to reimburse Fujitsu 60 percent of any amount paid by Fujitsu under its guarantee of this loan.

The amounts above represent the principal amounts of the underlying obligations guaranteed by AMD and Fujitsu and are exclusive of obligations for interest, fees and expenses.

11. Commitments

Certain equipment and facilities are leased under various operating leases expiring at various dates through the year 2011. Certain of these leases contain renewal options. Rental expense was $28.9 million, $35.7 million and $30.6 million for the years ended December 31, 2006, December 25, 2005 and December 26, 2004, respectively.

Future minimum lease payments under operating leases and unconditional commitments to purchase manufacturing supplies and services as of December 31, 2006 are as follows:

	Operating Leases	Unconditional Purchase Commitments
	(in thousands)	
Fiscal 2007	$ 35,807	$ 56,365
Fiscal 2008	26,881	21,487
Fiscal 2009	14,729	5,367
Fiscal 2010	1,234	3,546
Fiscal 2011	413	3,496
	$ 79,064	$ 90,261

AMD and Fujitsu have guaranteed approximately $4 million and $200,000, respectively, of the Company’s operating lease obligations as of December 31, 2006.

In June 2002, AMD and Fujitsu entered into a non-exclusive, perpetual license to manufacture and distribute a third-party company’s patented technology. AMD and Fujitsu agreed to pay this third-party company a running royalty based on AMD’s and Fujitsu’s annual cumulative net sales on the sale of products containing this technology. The royalty is triggered only if annual cumulative sales targets are met. The license to manufacture and distribute these products was assigned to the Company as of September 1, 2003. Royalty related to the sale of products containing this license was not significant in fiscal 2006 and fiscal 2005. The Company did not meet the minimum requirements to trigger royalty payments in fiscal 2004.

12. Interest Income and Other Income, Net

	Year Ended Dec. 31, 2006	Year Ended Dec. 26, 2005 (in thousands)	Year Ended Dec. 26, 2004
Interest income	$ 21,738	$ 3,017	$ 2,708
Other income, net	369	156	490
	$ 22,107	$ 3,173	$ 3,198

13. Income Taxes

The provision (benefit) for income taxes consists of:

	Year Ended Dec. 31, 2006	Year Ended Dec. 25, 2005 (In thousands)	Year Ended Dec. 26, 2004
Current:			
U.S. Federal	$ (2,065)	$ 3,826	$ —
U.S. State and Local	24	150	—
Foreign National and Local	2,373	1,105	21,207
	332	5,081	21,207
Deferred:			
U.S. Federal	2,253	(2,637)	—
U.S. State and Local	—	(959)	—
Foreign National and Local	(4,800)	(24,111)	(35,220)
	(2,547)	(27,707)	(35,220)
Benefit for income taxes	$ (2,215)	$ (22,626)	$ (14,013)

Pre-tax profit from foreign operations was $10 million for the year ended December 31, 2006. Pre-tax losses from foreign operations were $41 million for the year ended December 25, 2005 and $0.7 million for the year ended December 26, 2004.

Deferred income taxes reflect the net tax effects of tax carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting and the balances for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2006 and December 25, 2005 are as follows:

	Dec. 31, 2006	Dec. 25, 2005
	(In thousands)	
Deferred tax assets:		
Net operating loss carryovers	$ 88,633	$ 73,579
Deferred distributor income	16,489	14,432
Inventory valuation	6,604	13,639
Accrued expenses not currently deductible	11,322	12,676
Pension benefits	6,342	957
Property, plant and equipment	31,929	24,254
Federal and state tax credit carryovers	13,346	1,990
Stock-based compensation	2,850	—
Other	9,855	949
Total deferred tax assets	187,370	142,476
Less: valuation allowance	(158,168)	(63,920)
	29,202	78,556
Deferred tax liabilities:		
Property, plant and equipment	(8,703)	(50,770)
Capitalized interest	(4,452)	(4,924)
Unrealized gain on investments	—	(2,552)
Unrealized gain on balance sheet translation	(1,096)	(3,482)
Other	(188)	(4,746)
Total deferred tax liabilities	(14,439)	(66,474)
Net deferred tax assets	$ 14,763	$ 12,082

In 2006, the net valuation allowance increased by $94 million primarily due to losses and tax credits generated in the U.S. and the net reversal of certain deferred tax liabilities from the prior year. In 2005, the net valuation allowance increased by $50 million primarily due to losses incurred in the U.S. and an increase in reinvestment allowances in Malaysia. In 2004, the net valuation allowance decreased by $6.1 million due to the realization of pension benefits and the utilization of tax loss carryforwards in China. In all periods discussed above, management concluded that valuation allowances were necessary in certain jurisdictions due to the Company's historic net operating losses in those jurisdictions.

As of December 31, 2006, the Company had U.S. federal and state net operating loss carryforwards of approximately $241 million and $17, million respectively. These net operating losses, if not utilized, expire from 2016 to 2026. The Company had foreign net operating loss carryforwards of approximately $8 million that will expire in 2010. The Company also had U.S. federal and state tax credit carryovers of $17.2 million which expire from 2023 to 2026. Included in this amount are California state tax credits of $10.5 million which can be carried forward indefinitely.

If the Company conducts an offering of its common stock, it may experience an "ownership change" as defined in the Internal Revenue Code such that its ability to utilize its federal net operating loss carryforwards of approximately $241 million as of December 31, 2006 may be limited under certain provisions of the Internal

Revenue Code. As a result, the Company may incur greater tax liabilities than it would in the absence of such a limitation and any incurred liabilities could materially adversely affect it.

The table below displays the reconciliation between statutory federal income taxes and the total provision (benefit) for income taxes. For purposes of the reconciliation between the provision (benefit) for income taxes and the effective rate for the period prior to the IPO in the year ended December 25, 2005 and earlier periods, a notional U.S. rate of 35 percent is applied.

	Tax	Rate
	(In thousands, except for percentages)	
Year Ended December 31, 2006		
Statutory federal income tax expense	$ (52,493)	35.0%
State taxes	24	— %
Foreign income at other than U.S. rates	(7,677)	5.1%
Reserve release	(6,399)	4.3%
Valuation allowance	64,330	(42.9)%
Benefit for income taxes	$ (2,215)	1.5%
Year Ended December 25, 2005		
Statutory federal income tax expense	$(114,360)	35.0%
State taxes, net of federal benefit	150	(0.1)%
Foreign income at other than U.S. rates	(8,500)	2.6%
Valuation allowance	100,084	(30.6)%
Benefit for income taxes	$ (22,626)	6.9%
Year Ended December 26, 2004		
Provision at U.S. notional statutory rate	$ (11,801)	35.0%
Losses not subject to U.S. notional income tax	11,571	(34.3)%
Foreign income at other than U.S. rates	(7,680)	22.8%
Valuation allowance	(6,103)	18.1%
Benefit for income taxes	$ (14,013)	41.6%

The Company's operations in China and Penang currently operate under tax holidays, which will expire in whole or in part at various dates through 2013. Certain of the tax holidays may be extended if specific conditions are met. The net impact of these tax holidays was to decrease the Company's net loss by approximately $2.3 million in fiscal year 2006 (less than $0.02 per share, diluted), $2.3 million in fiscal year 2005 (less than $.035 per share, diluted), $0.7 million in fiscal year 2004 (less than $0.01 per share, diluted).

The Company has made no provision for U.S. income taxes on approximately $374 million of cumulative undistributed earnings of certain foreign subsidiaries at December 31, 2006 because it is the Company's intention to reinvest such earnings permanently. If such earnings were distributed, the Company would incur additional income taxes of approximately $107 million (subject to an adjustment for foreign tax credits). These additional income taxes may not result in income tax expense or a cash payment to the Internal Revenue Service, but may result in the utilization of deferred tax assets that are currently subject to a valuation allowance.

During fiscal year 2006, the Company resolved audits in Japan and Thailand that resulted in the reversal of the tax reserves of approximately $6.4 million.

14. Employee Benefit Plans

Employee Pension Benefits

Through August 2005, certain employees of Spansion Japan were enrolled in a defined benefit pension plan and/or a lump-sum retirement benefit plan sponsored by Fujitsu. The Company, by agreement with Fujitsu, is required to fund those proportional benefit obligations attributable to the Company's employees enrolled in these plans. Until September 1, 2005, the Company accounted for its participation in these plans as multiemployer plans wherein the expense recorded for the plans was equal to its annual cash contributions. The Company recorded estimated pension expense of approximately $5.7 million and $7.5 million for the years ended December 25, 2005 and December 26, 2004, respectively. There were no unpaid contributions for the year ended December 25, 2005.

Establishment of Spansion Japan Pension Plan

On September 1, 2005, the Company adopted the new Spansion Japan pension plan and changed the formula to a cash balance formula. The new pension plan has two components. The first component provides a lump-sum payment, or twenty-year certain annuity or twenty-year guaranteed life annuity. The second component consists of a lump-sum payment or an optional period certain annuity. Participants have the option to choose a cash payment in lieu of participation in the second component. 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.

As part of the transfer of benefits from the EPF, the new Spansion Japan pension plan also received approximately $48.7 million in pension assets directly from the EPF trust.

As a result of the adoption of the plan and amendment to a cash balance formula, a prior service cost base was established for approximately $12.5 million an unrecognized net loss base was established for approximately $7.7 million and an additional minimum liability was recognized for $20.3 million.

Adoption of Statement 158

As disclosed in Note 3, on December 31, 2006, the Company adopted the pension accounting and disclosure provisions of Statement 158. The incremental effects of adopting the provisions of Statement 158 on the Company's consolidated balance sheet at December 31, 2006 are presented in the following table. The adoption of Statement 158 had no effect on the Company's consolidated statement of operations for the year ended December 31, 2006, or for any prior period presented, and it will not effect the Company's operating results in future periods. Had the Company not been required to adopt Statement 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of Statement 87. The effect of recognizing the additional minimum liability is included in table below in the column labeled "Prior to Application of Statement 158."

	Prior to Adopting Statement 158	Effect of Adopting Statement 158	As Reported at Dec. 31, 2006
		(in thousands)	
Other assets	35,628	(10,231)	25,397
Total assets	3,559,948	(10,231)	3,549,717
Other long-term liabilities	(3,531)	(522)	(4,053)
Accumulated other comprehensive income	68,953	10,753	79,706
Total stockholders' equity	(1,856,513)	10,753	(1,845,760)
Total liabilities and stockholders' equity	(3,559,948)	10,231	(3,549,717)

The below tables summarizes the funded status of the plan components of the minimum pension liability and the related amounts recognized in the statement of financial position as of December 31, 2006:

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Change in Projected Benefit Obligation		
Benefit obligation, beginning of year	$(76,024)	$(81,818)
Service cost	(5,123)	(1,612)
Interest cost	(1,517)	(376)
Actuarial (loss)/gain	87	2,931
Benefits paid	628	526
Foreign currency exchange rate changes	1,893	4,325
Benefit obligation, end of year	$(80,056)	$(76,024)

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Change in Projected Benefit Obligation		
Change in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	$ 63,705	$ 48,736
Actual return on plan assets	4,566	3,247
Employer contribution	11,448	14,468
Benefits paid	(628)	(526)
Foreign currency exchange rate changes	(1,827)	(2,220)
Fair value of plan assets at December 31, 2006	$ 77,264	$ 63,705

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Funded status	$ (2,792)	$(12,319)
Unrecognized net actuarial loss	—	1,965
Unrecognized prior service cost	—	11,619
Amount recognized, end of year	$ (2,792)	$ 1,265
Amount recognized in the statement of financial position consist of:		
Current liability	$ —	$ —
Noncurrent liability	(2,792)	—
Prepaid benefit cost	—	1,265
Intangible asset	—	(11,619)
Accumulated other comprehensive income	—	(1,965)
	$ (2,792)	$(12,319)
Amount recognized in accumulated other comprehensive income consist of:		
Net actuarial loss/(gain)	$ 127	$ —
Prior service cost	10,626	—
	$ 10,753	$ —

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets as of December 31, 2006 and December 25, 2005 were as follows:

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Projected benefit obligation in excess of plan assets		
Projected benefit obligation, end of year	80,056	76,024
Accumulated benefit obligation, end of year	79,534	76,004
Fair value of plan assets, end of year	77,264	63,705

The below table summarizes the weighted average assumptions used for purposes of calculating the benefit obligations as of December 31, 2006 and December 25, 2005:

	Dec. 31, 2006	Dec. 25, 2005
Discount rate	2.00%	2.00%
Average rate of compensation increase	2.70%	2.70%
Cash balance interest crediting rate	2.00%	2.00%

The Company uses Japanese government bonds for setting the discount rate. Japanese government 20-year bonds currently yield in the 2.0 percent range. Due to the current yield on the Japanese government 20-year bonds, the Company believes that a discount rate of 2.0 percent is appropriate as of December 31, 2006.

The below table summarizes the components of the net periodic pension expense:

	Dec 31, 2006	Period from Sept 1, 2005 to Dec 25, 2005
	(in thousands)	
Service cost	$ 5,123	$ 1,612
Interest cost	1,517	376
Expected return on plan assets	(2,818)	(488)
Amortization of prior service cost	741	243
Total net periodic pension expense	$ 4,563	$ 1,743

Prior to September 1, 2005, the plan was not accounted for under single employer plan accounting; therefore, no prior calculation of net period pension expense was completed. However, in prior years, pension expense was recognized equal to cash contributions for the year of approximately $5.7 million and $7.5 million for the years ended December 25, 2005 and December 26, 2004, respectively.

The estimated amount of prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2007 is $724,000.

The below table summarizes the weighted average assumptions used for purposes of calculating the net periodic pension expense for the period ended December 31, 2006:

	Dec. 31, 2006	Dec. 25, 2005
Discount rate	2.00%	1.50%
Expected long-term return on plan assets	4.40%	2.50%
Average rate of compensation increase	2.70%	2.70%
Cash balance interest crediting rate	2.00%	1.50%

The pension plan's investment policy is to invest in assets to best match liabilities and minimize underfunding and risks to the employer related to additional pension contributions. The Company is not currently anticipating investing in non-traditional investments. The long-term rate of return assumption was determined using the building block approach based upon the best estimate range of equity securities (both foreign and domestic) earning 5.0 to 8.0 percent and debt securities (both foreign and domestic) earning 0.5 to 6.0 percent as summarized below:

Asset Category	Target Allocation of Plan Assets	Expected Return by Asset Class
Equity Securities	40%	6.30%
Debt Securities	57%	3.40%
Cash	3%	
Total	100%	

The weighted-average asset allocations by asset category at December 31, 2006 and December 25, 2005 are as follows:

	Dec. 31, 2006	Dec. 25, 2005
Asset Category		
Equity Securities	42%	46%
Debt Securities	55%	51%
Cash	3%	3%
Total	100%	100%

No plan assets are invested in employer securities and no future benefits are currently covered by insurance contracts issued by the insurer or related parties.

The Company expects to contribute $8.2 million to the Spansion Japan pension plan during the fiscal year ending December 30, 2007.

The below table summarizes the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter:

Fiscal Year	Expected Benefit Payments
2007	$ 488,000
2008	570,000
2009	701,000
2010	783,000
2011	984,000
2012-2016	7,570,000

Profit Sharing Program

Effective June 30, 2003 and through January 11, 2007, the Company elected to participate in AMD's profit sharing program. Under that plan, the Company could allocate profit sharing contributions quarterly in any quarter in which it had an operating profit. Employees who had worked with the Company for three months or more were eligible to participate in the plan. Profit sharing expense under this plan was approximately $0, $0 and $3.3 million for the years ended December 31, 2006, December 25, 2005 and December 26, 2004, respectively.

Retirement Savings Plan

Effective June 30, 2003 and through January 11, 2007, the Company elected to participate in AMD's retirement savings plan, commonly known as a 401(k) plan. Under that plan, the Company's U.S. employees were able to contribute up to 100 percent of their pre-tax salary subject to Internal Revenue Service limits. The Company matched employee contributions at a rate of 50 cents on each dollar of the first six percent of participants' contributions, to a maximum of three percent of eligible compensation. The Company's matching contributions to this 401(k) plan were approximately $5.3 million, $4.3 million and $3.7 million for the years ended December 31, 2006, December 25, 2005 and December 26, 2004, respectively.

15. Segment Reporting

The Company operates and tracks its results in one reportable segment. The Company primarily designs, develops, manufactures, markets and sells Flash memory products for the wireless and embedded applications in the integrated category of the Flash memory market.

The following table presents a summary of net sales by geographic areas for the periods presented:

	Year ended Dec. 31, 2006	Dec. 25, 2005 (in thousands)	Dec. 26, 2004
Geographical sales[1]:			
Net sales to end customers[2]:			
North America	$ 174,930	$ —	$ —
China	479,040	—	—
Korea	282,596		
Europe	312,114	—	—
Others	61,799	—	—
Net sales to related parties:			
United States *(net sales to AMD)*[3]	336,172	1,114,150	1,211,033
Japan (*net sales to Fujitsu*)	932,623	888,655	1,051,194
Total	$ 2,579,274	$ 2,002,805	$ 2,262,227

(1) Geographical sales are based on the customer's bill-to/ship-to location.
(2) These represent sales since the end of the first quarter of fiscal 2006 to AMD's former customers and customers not served solely by Fujitsu.
(3) For fiscal year 2006, these represent sales during the first quarter.

In the second quarter of fiscal 2006, the Company began to sell directly to AMD's former customers and customers not served solely by Fujitsu (end customers). Among those customers, Nokia Corporation accounted for approximately 12 percent of the Company's net sales in fiscal 2006.

Long-lived assets information is based on the physical location of the assets at the end of each fiscal year. The following table presents a summary of long-lived assets by geography:

	Dec. 31, 2006	Dec. 25, 2005
	(in thousands)	
Geographical long lived-assets:		
Net property, plant and equipment		
United States	$ 967,568	$ 744,026
Japan	420,870	578,676
Other countries	347,256	265,061
Total	**$ 1,735,694**	**$ 1,587,763**

16. Capital Structure

The Company's authorized capital stock consists of 714,999,998 shares of Class A common stock, par value $0.001 per share, one share of Class B common stock, par value $0.001 per share, one share of Class C common stock, par value $0.001 per share, 35,000,000 shares of Class D common stock, par value $0.001 per share, and 50,000,000 shares of preferred stock, par value $0.001 per share.

Common Stock

In November 2006, the Company completed a secondary offering of Class A common stock held by AMD and Fujitsu. In connection with this offering, the Company also sold an additional 5,247,000 shares of Class A common stock for which it received net proceeds of approximately $68 million. All of the outstanding shares of Class D common stock held by Fujitsu were converted into shares of Class A common stock on a one-for-one basis immediately prior to the initial closing of this offering by resolution of the Board of Directors into shares of Class A common stock on a one-for-one basis.

As of December 31, 2006, the common stock outstanding consists of three classes of stock: Class A common stock, Class B common stock and Class C common stock.

- 134,219,224 shares of Class A common stock issued and outstanding,
- one share of Class B common stock issued and outstanding and beneficially held by AMD;
- one share of Class C common stock issued and outstanding and beneficially held by Fujitsu.

The purpose of the Class B common stock and the Class C common stock is solely to entitle AMD and Fujitsu to elect such number of members to the Company’s board of directors as set forth in the certificate of incorporation, which depends on the holder’s aggregate ownership interest in the Company.

Except as described below or as required by law, the holders of the Company’s common stock are entitled to one vote per share on all matters to be voted on by stockholders and shall vote together as a single class. Stockholders are not entitled to cumulative voting rights, and, accordingly, the holders of a majority of the shares voting for the election of directors can elect the entire board if they choose to do so and, in that event, the holders of the remaining shares will not be able to elect any person to the board of directors. Amendments to the Company’s certificate of incorporation that would alter or change the powers, preferences or special rights of any class of the Company’s common stock, so as to affect the holders of such class adversely, must be proposed in a resolution adopted by the Company’s board of directors, declaring its advisability, and must be approved by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class.

The Company does not anticipate paying dividends on the common stock in the foreseeable future. In addition, the terms of the Company’s current credit arrangements and the indenture governing the Company’s senior notes restrict the Company’s ability to declare or pay dividends on the Company’s common stock. Holders of the common stock are entitled to receive such dividends, if any, as may be declared from time to time by the board of directors, in its discretion, from funds legally available therefrom and subject to prior dividend rights of holders of any shares of preferred stock which may be outstanding. Upon liquidation or dissolution of the company, subject to prior liquidation rights of the holders of any shares of preferred stock which may be outstanding, the holders of common stock are entitled to receive on a pro rata basis the Company’s remaining assets available for distribution. Holders of the common stock have no preemptive or other subscription rights, and there are no redemption or sinking fund provisions with respect to such shares.

There are no conversion rights with respect to the Company’s Class A common stock. Class B common stock and Class C common stock are convertible automatically into Class A common stock upon the occurrence of specific events.

The Class B common stock will convert automatically on a one-for-one basis into Class A common stock in the event that:

- AMD’s aggregate ownership interest in the Company falls below ten percent of the outstanding shares of the Company’s capital stock, as calculated on an as-converted to common stock basis; or
- AMD transfers its share of Class B common stock to any person other than an AMD affiliate.

The Class C common stock will convert automatically on a one-for-one basis into Class A common stock in the event that:

- Fujitsu's aggregate ownership interest in the Company falls below ten percent of the outstanding shares of the Company's capital stock, as calculated on an as-converted to common stock basis; or
- Fujitsu transfers its share of Class C common stock to any person other than a Fujitsu affiliate.

In the event of any such conversion, any rights specifically granted to the holders of Class B common stock or Class C common stock, as the case may be, shall cease to exist, and the Company shall not be authorized to reissue such shares of Class B common stock or Class C common stock, as the case may be.

In the event of the Company's merger or consolidation with or into another company in connection with which shares of common stock are converted into or exchangeable for shares of stock, other securities or property (including cash), all holders of common stock, regardless of class, will be entitled to receive the same kind and amount of shares of stock, other securities or property (including cash).

Preferred Stock

The Company's directors has the authority, without action by the stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, such as dividend rates, dividend rights, liquidation preferences, voting rights and the number of shares constituting any series and designation of such series, which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or
- delaying or preventing a change of control of Spansion Inc. without further action by the stockholders.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Spansion Inc.

We have audited the accompanying consolidated balance sheets of Spansion Inc. as of December 31, 2006 and December 25, 2005, and the related consolidated statements of operations, stockholders' equity / members' capital and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spansion Inc. as of December 31, 2006 and December 25, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Spansion Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

As discussed in Note 4 to the consolidated financial statements, in the year ended December 31, 2006, Spansion, Inc. changed its method of accounting for stock-based compensation in accordance with guidance provided in Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

As discussed in Note 14 to the consolidated financial statements, in the year ended December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)* .

/S/ ERNST & YOUNG LLP

San Jose, California
February 26, 2007