ADVANCED MICRO DEVICES INC
Form S-4
January 20, 2005
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As filed with the Securities and Exchange Commission on January 20, 2005

Registration No. 333 -

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ADVANCED MICRO DEVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**3674**	**94-1692300**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

One AMD Place

Sunnyvale, California 94088-3453

(408) 749-4000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Harry Wolin, Esq.

Senior Vice President, General Counsel

Advanced Micro Devices, Inc.

One AMD Place

Sunnyvale, California 94088-3453

(408) 749-4000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Tad J. Freese

Latham & Watkins LLP

505 Montgomery Street, Suite 2000

San Francisco, California 94111

(415) 391-0600

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration number for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier, effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Offering Price Per Note**	**Proposed Aggregate Offering Price**	**Amount of Registration Fee**
7.75% Senior Notes due 2012	$ 600,000,000	100%(1)	$ 600,000,000	$ 70,620

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(f).

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 20, 2005

PRELIMINARY PROSPECTUS

OFFER TO EXCHANGE

up to $600,000,000 aggregate principal amount of its

7.75% Senior Notes due 2012,

which have been registered under the Securities Act,

for any and all of its outstanding 7.75% Senior Notes due 2012

The exchange offer expires at 5:00 p.m., New York City time, on , 2005, unless extended.

We will exchange all outstanding private notes that are validly tendered and not validly withdrawn for an equal principal amount of a new series of notes, referred to in this prospectus as exchange notes, which are registered under the Securities Act.

The exchange offer is not subject to any conditions other than that it not violate applicable law or any applicable interpretation of the staff of the SEC.

You may withdraw tenders of outstanding notes at any time before the exchange offer expires.

The exchange of notes will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the exchange notes are substantially identical to the outstanding private notes, except for transfer restrictions and registration rights relating to the outstanding notes.

You may tender outstanding notes only in denominations of $1,000 and multiples of $1,000.

Our affiliates may not participate in the exchange offer.

Please refer to Risk Factors beginning on page 15 of this prospectus for a description of the risks you should consider before exchanging the notes.

We are not making this exchange offer in any state where it is not permitted.

Neither the Securities and Exchange Commission nor any state securities commission has approved of the notes or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

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We have not authorized any dealer, salesperson or other person to give any information or make any representations to you other than the information contained in this prospectus. You must not rely on any information or representations not contained in this prospectus as if we had authorized it. This prospectus does not offer to sell or solicit an offer to buy any securities other than the registered notes to which it relates, nor does it offer to buy any notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information contained in this prospectus is current only as of the date on the cover page of this prospectus, and may change after that date.

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge to you upon written or oral request. If you would like a copy of any of this information, please submit your request to Advanced Micro Devices, Inc., One AMD Place, Sunnyvale, California 94088, Attention: Legal Department, or call (408) 749-4000 and ask to speak to someone in our Legal Department. In addition, to obtain timely delivery of any information you request, you must submit your request no later than , 2005, which is five business days before the date the exchange offer expires.

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Each broker-dealer that receives exchange notes for its own account in exchange for private notes, which the broker-dealer acquired as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. The letter of transmittal accompanying this prospectus states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. A broker-dealer may use this prospectus, as it may be amended or supplemented from time to time, in connection with resales of exchange notes received in exchange for private notes which the broker-dealer acquired as a result of market-making or other trading activities. We have agreed that, starting on the expiration date and ending on the close of business 180 days after the expiration date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

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MARKET AND INDUSTRY DATA

Market and industry data throughout this prospectus were obtained from a combination of third-party industry data and good faith estimates of management based on these data. While we believe these industry data and estimates of management are reliable, neither we nor the initial purchasers have independently verified this data. Accordingly, neither we nor the initial purchasers make any representations as to the accuracy or completeness of these data. We are not aware of any misstatements regarding market or industry data contained in this prospectus; however, such data involves risks and uncertainties and is subject to change based on various factors, including those factors discussed in the Risk Factors section of this prospectus.

TRADEMARKS

AMD, the AMD Arrow logo, AMD Opteron, AMD Athlon, AMD Sempron, AMD Turion, AMD PowerNow!, Alchemy, Geode and combinations thereof are trademarks of Advanced Micro Devices, Inc. Spansion and MirrorBit are trademarks of Spansion LLC. HyperTransport is a licensed trademark of the HyperTransport Technology Consortium. Windows is a registered trademark of Microsoft Corporation in the United States and/or other jurisdictions. MIPS is a registered trademark of MIPS Technologies, Inc. Other names are for informational purposes only and may be trademarks of their respective owners.

FORWARD-LOOKING STATEMENTS

Discussions contained in this prospectus and the documents incorporated by reference in this prospectus include forward-looking statements. These forward-looking statements involve numerous risks and uncertainties and 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, approximately, intends, forma, estimates, or anticipates or the negative of these words and phrases or other variations of these words and phrases or comparable terminology or by discussions of strategy, plans or intentions. 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. The forward-looking statements relate to, among other things:

- our sales, operating results and anticipated cash flows;
- the adequacy of resources to fund operations and capital expenditures;
- marketing, general and administrative expenditures;
- customer and market acceptance of our AMD Opteron, AMD Athlon 64, AMD Turion 64 and AMD Sempron microprocessors;
- customer and market acceptance of Spansion Flash memory products based on MirrorBit and floating gate technology;
- our ability to remain competitive and maintain our market position;

our ability to maintain and develop key relationships with our customers;

the ability to produce our microprocessor and Flash memory products in the volumes and mix required by the market;

our ability to maintain the level of investment in research and development and capacity that is required to remain competitive;

- our ability to transition to new products and manufacturing process technologies in a timely and effective way;
- our ability to achieve cost reductions in the amounts and in the timeframes anticipated;
- the process technology transitions in our wafer fabrication facilities; and
- our ability to gain market share in high growth global markets such as China, Latin America, India and Eastern Europe.

See Risk Factors, as well as such other risks and uncertainties as are detailed in our other documents incorporated by reference in this prospectus, for a discussion of the factors that could cause actual results to differ materially from the forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which reflect management s analysis only. We assume no obligation to update forward-looking statements.

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PROSPECTUS SUMMARY

As used in this prospectus, references in this prospectus to us, we, our, the Company or AMD shall mean Advanced Micro Devices, Inc. and our consolidated subsidiaries, including Spansion LLC, unless the context indicates otherwise. The summary highlights selected information contained or incorporated by reference in this prospectus. This summary is not complete and does not contain all the information that you should consider before exchanging your notes. You should read this entire prospectus, including the risk factors, the financial statements and the related notes included elsewhere in this prospectus, as well as the information incorporated by reference, before tendering your private notes in exchange for exchange notes.

Our Company

We are a leading semiconductor company with manufacturing facilities in the United States, Europe and Asia, and sales offices throughout the world. We design, manufacture and market industry-standard digital integrated circuits, or ICs, that are used in diverse product applications such as desktop and mobile personal computers, or PCs, workstations, servers, communications equipment such as mobile telephones and automotive and consumer electronics. Our products consist primarily of:

- microprocessors, which are used for control and computing tasks, and complementary chipset components, which perform essential logic functions that support the microprocessors; and
- Flash memory devices, which are used to store data and programming instructions.

In addition, we are targeting the embedded processor market for personal connectivity devices.

Our major direct microprocessor customers are original equipment manufacturers, or OEMs, such as Acer, eMachines, Fujitsu-Siemens, Hewlett-Packard and Sun Microsystems. Our major direct Flash memory customers include five of the top seven mobile phone manufacturers. For the nine months ended September 26, 2004, we had approximately $3.7 billion of consolidated net sales. We are listed on the New York Stock Exchange under the trading symbol AMD.

Our Industry

The 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. The performance of a microprocessor is a critical factor impacting the performance of a PC and other similar devices. The principal indicators of microprocessor performance are work-per-cycle, or how many instructions are executed per cycle, and clock speed, representing the rate at which its internal logic operates, measured in units of hertz, or cycles processed per second. Other factors impacting microprocessor performance include memory size, data access speed and power consumption.

Emerging trends in the microprocessor market include:

64-bit computing. For nearly the last ten years, microprocessors have had 32-bit processing capabilities. While 32-bit processors have historically been sufficient, we believe that they will face challenges as new data and memory-intensive consumer and enterprise software applications gain market popularity. Microprocessors with 64-bit processing capabilities enable systems to have greater performance by allowing software applications and operating systems to access more memory and process more data.

Dual-core processors. Over the last ten years as microprocessors have increased in transistor density and overall performance capabilities, they have increasingly faced power consumption challenges. The

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expected introduction of dual-core processors, consisting of two processor cores on one semiconductor die, provides an attractive method of increasing processor performance with minimal increase in power consumption.

Microprocessors are essential components of both PCs and servers, with the greatest demand for microprocessors today coming from PC manufacturers. In 2003, the global market for microprocessors used in PCs was $20.8 billion according to International Data Corporation, or IDC. IDC expects the global market for microprocessors used in PCs to increase to $31.4 billion by 2008, representing a compound annual growth rate of 8.6 percent from 2003. According to IDC, the majority of this growth is expected to be driven by increased demand for mobile PCs, with microprocessors used in mobile PCs being expected to grow at a compound annual growth rate of 18.2 percent from 2003 to 2008. In addition, according to Gartner, server unit shipments are expected to grow at a 9.0 percent compound annual growth rate from 2003 to 2008. Accordingly, we believe that there will be increased demand for microprocessors from server manufacturers as enterprises continue to upgrade their networks.

The Flash Memory Market

Flash memory devices store data and instructions and retain information after electrical power is shut off. Flash memory can be used to provide storage of control programs and system-critical data in communication devices such as mobile telephones and routers. There are two major types of Flash memory employed in the market today: Boolean logic-based NOR (Not Or) Flash memory and NAND (Not And) Flash memory. According to Gartner, in 2003, global NOR Flash memory sales were $6.8 billion and global NAND Flash memory sales were $4.1 billion. NOR Flash memory is generally more reliable than NAND Flash memory and less prone to data corruption. NOR Flash memory is typically used to store program code in communication devices such as mobile telephones and consumer products such as DVD players. NAND Flash memory has generally been less expensive to manufacture and is typically used in devices that require high-capacity data storage such as memory cards for digital cameras and MP3 players. Within the Flash memory market, we sell NOR Flash memory products. However, we have designed a new architecture called ORNAND based on our MirrorBit technology that we believe will enable us to offer products that combine the best features of both NOR and NAND architectures. We believe that ORNAND will allow us to offer products with higher densities in the NOR Flash memory market and will enable us to enter and compete in end markets traditionally served by NAND.

The global Flash memory market (both NAND technology and NOR technology) has grown significantly over the past five years, from $2.8 billion in 1998 to $10.9 billion in 2003 according to Gartner, representing a compound annual growth rate of 31.5 percent. Gartner projects the global Flash memory market will increase to $22.6 billion in 2008, representing a compound annual growth rate of 15.7 percent from 2003. Over this period, Gartner projects that global sales of NOR Flash memory will grow by 11.0 percent and global sales of NAND Flash memory will grow by 22.0 percent. We believe much of this growth will be driven by an increase in unit shipments and Flash memory content in mobile telephones, growth in unit shipments and Flash memory content for personal connectivity and consumer electronic devices and proliferation of Flash memory within a variety of new automotive applications.

Our Strengths

We believe that the following strengths have enabled us to attain a leading position as a global manufacturer and supplier of microprocessors and Flash memory devices, and will assist us in penetrating the embedded microprocessor market for personal connectivity devices:

Customer-Focused Product Development. We work with customers to identify evolving needs and new applications in order to develop innovative products and features. For example, we developed our AMD64 technology to address increasing customer demand for systems with greater performance. Our AMD64

technology allows both 32-bit and 64-bit computing, enabling our customers to protect their investment by continuing to use their 32-bit software applications while transitioning to a 64-bit platform. Currently more than 40 percent of *Forbes* 100 companies or their affiliates now use AMD64 processor-based systems to run critical enterprise applications. In Flash memory, we have worked closely with mobile telephone customers to develop products that deliver high performance and functionality at lower price points. We believe that our MirrorBit technology will enable our customers to cost effectively include next-generation applications, such as high-resolution cameras and streaming video, on their mobile telephones.

Technology and Product Innovation. We believe that our strong research and product development capabilities have resulted in innovative IC designs and the creation of advanced products. For example, we led the industry in providing x86 64-bit computing with the introduction of our AMD Opteron microprocessors in April 2003. In addition, we were the first to demonstrate x86 dual-core processor technology, which provides a path for increasing processor performance with a minimal increase in power consumption. In Flash memory, we have designed our ORNAND architecture to provide the high reliability of NOR, read speeds and burst write speeds significantly faster than those of NAND today and the ability to scale to high densities at competitive costs.

Leading Manufacturing Process Technology. We have devoted significant resources to develop manufacturing process technologies used in the production of ICs. In order to meet anticipated microprocessor demand, we are completing the construction of and facilitizing a new 300-millimeter wafer fabrication facility in Dresden, Germany, which will be equipped to manufacture microprocessors at 65-nanometer geometries and below. In addition, we recently upgraded Fab 30 to add incremental capacity at 90-nanometer geometries. For our Flash memory products, we are in volume production on 110-nanometer geometries, and we plan to be in production on 90-nanometer geometries in the second half of 2005.

Key Technology and Manufacturing Relationships. In order to maintain our technology and manufacturing expertise, we have entered into strategic relationships with several companies. Key relationships include:

Fujitsu. In June 2003, we established Spansion LLC, a new Flash memory company, which integrated our and Fujitsu s Flash memory businesses, including our previous Flash memory manufacturing joint venture with Fujitsu called Fujitsu AMD Semiconductor Limited, or FASL. We hold a 60 percent interest in Spansion LLC and Fujitsu holds the remaining 40 percent interest. Spansion LLC is currently a leading provider of NOR Flash memory.

IBM. We have a joint development agreement with IBM to develop new microprocessor process technologies, including 65-nanometer and 45-nanometer, to be implemented on silicon wafers, which we deploy in our wafer fabrication facilities.

Strong Market Position. We are one of the largest suppliers of microprocessors and the largest company dedicated exclusively to developing, designing and manufacturing Flash memory. According to IDC, in 2003, we had a market share of 16.5 percent in microprocessors based on unit sales, second to Intel. According to the market research firm iSupply, we were the largest NOR Flash memory supplier by revenue based on the first nine months of 2004, with 25.2 percent of the NOR Flash memory market.

Our Strategy

We intend to continue to leverage our technology, manufacturing expertise and customer relationships to build on our position as a leading provider of microprocessors and Flash memory products, and to penetrate the embedded processor market for personal connectivity devices. We are pursuing the following strategies to achieve these goals:

Expand Our Market Opportunity. Through our continued commitment to research and development of cutting-edge products, we plan to continue to be an innovator in the design of new ICs. We plan to leverage our technology to expand our market share in existing markets, as well as enter new markets and expand our presence in high growth global markets such as China, Eastern Europe, India and Latin America. Our strategy in each of our operating segments is as follows:

Microprocessors. We will seek to increase market acceptance of our AMD64 technology, particularly in the enterprise segment. In addition, we have successfully demonstrated our dual-core processors and we plan to offer commercially dual-core processors for servers and workstations in mid-2005, followed by dual-core processors for the PC market in late 2005. We also intend to invest in our mobile microprocessor product portfolio with increasing emphasis on low-power computing in order to address further the thin-and-light segment.

Flash Memory. In the Flash memory sector, we intend to expand our leading position in the NOR Flash memory market as well as leverage our ORNAND architecture based on MirrorBit technology to enter markets traditionally served by NAND Flash memory.

Accelerate New Product Development through Our Customer-Centric Innovation. We are focused on providing new products that assist our customers in adding functionality and enhancing the performance of their products. As we did with our AMD64 and MirrorBit technology, we intend to continue to work closely with our customers to jointly define our next-generation products in order to develop solutions for their technology needs.

Leverage Our Manufacturing and Process Technology Expertise to Support Next-Generation Products. We are focused on developing microprocessor and Flash memory designs using advanced manufacturing process technology. We plan to continue manufacturing products with smaller geometries, such as 90-nanometer geometries and below, on larger silicon wafers, such as 300-millimeter wafers. We believe that using such smaller geometries and larger wafers will result in a lower cost per unit and enhance our competitive advantage.

Continue to Pursue Strategic Alliances. We will continue to pursue strategic technology and manufacturing alliances that provide us with the ability to develop more efficient manufacturing capabilities, offer a stronger product portfolio with next-generation products, and increase market share. We believe these alliances will enable us to continue to improve our cost structure and decrease the risks associated with the development of new products and technologies.

Distinguish and Market Our Brand Name. We seek to increase sales of our products through targeted advertising directed at both business and home users as part of our branding campaign. Through a combination of online media, multimedia, print collateral, public relations activities, trade events and sponsorships, we are also seeking to position ourselves in the market as a leader in innovation driven by customer needs. For example, we seek to distinguish the AMD Athlon 64 brand by marketing our AMD Athlon 64 processors to sophisticated PC users, gamers and enterprises, and our AMD Sempron processors to value-conscious buyers of desktop and notebook PCs. We are also marketing our AMD Opteron processors to server OEMs. In addition, we are marketing our Spansion Flash memory devices to mobile phone and embedded systems markets.

Recent Developments

Results of Operations for the Fourth Quarter and Fiscal Year Ended December 26, 2004

On January 18, 2005, we reported net sales of $1.26 billion and operating income of $20 million for the quarter ended December 26, 2004. The net loss of $30 million, or $0.08 per share, for the fourth quarter included charges of approximately $49 million, or $0.13 per share. These charges are primarily associated with the exchange of an aggregate of $201.0 million of our 4.50% Convertible Senior Notes due 2007 for 29,391,261 shares of our common stock and the prepayment premium associated with the prepayment of the full amount owed by our indirect wholly-owned German subsidiary, AMD Saxony Limited Liability Company & Co. KG, under its existing term loan, which was paid using the net proceeds from the sale of the notes. For more

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information, see Use of Proceeds. For the fiscal year ended December 26, 2004, net sales were approximately $5 billion, a 42 percent increase from the fiscal year ended December 28, 2003. Net income for fiscal year 2004 was $91 million, or $0.25 per share.

Net sales in the fourth quarter increased by two percent compared to the third quarter of 2004 and increased by five percent compared to the fourth quarter of 2003. In the fourth quarter of 2003, we reported sales of $1.21 billion and net income of $43 million, or $0.12 per share. In the third quarter of 2004, we reported sales of $1.24 billion and net income of $44 million, or $0.12 per share. The increase in net sales in the fourth quarter compared to the third quarter of 2004 was primarily attributable to an increase in net sales for Computation Products of nine percent. In addition, in the fourth quarter, net sales of AMD64-based microprocessors increased to 50 percent of total PC processor sales.

Net sales for Computation Products were $730 million in the fourth quarter of 2004, an increase of 26 percent from the fourth quarter of 2003 and an increase of nine percent from $672 million in the third quarter of 2004. Operating income for Computation Products of $89 million in the fourth quarter was flat compared with the third quarter. The growth in net sales for Computation Products was primarily attributable to an increase in unit shipments across all segments, particularly our server and mobile processor products, with strong sales in high-growth global markets.

Net sales for Memory Products were $504 million in the fourth quarter of 2004, a decrease of 11 percent from the fourth quarter of 2003 and a decrease of six percent from $538 million in the third quarter of 2004. Net sales decreased due to an aggressive pricing environment, significantly lower sales in Japan and a delay in qualifying a new product in the wireless segment. Operating loss for Memory Products in the fourth quarter was $39 million, compared to operating income of $15 million in the third quarter of 2004. The average bit density in Spansion Flash memory products grew in the fourth quarter and we shipped a record number of bits, with MirrorBit technology increasing as a percentage of overall bits shipped.

Operating income for the fourth quarter of $20 million declined from $46 million in the fourth quarter of 2003 and from $68 million in the third quarter of 2004. Operating expenses of $498 million increased from $389 million in the fourth quarter of 2003 and from $433 million in the third quarter of 2004. Research and development costs for the fourth quarter increased by nine percent compared to the third quarter largely due to start-up costs associated with our new 300-millimeter fabrication facility, Fab 36, and other server and workstation product development costs. Marketing, general and administrative costs in the fourth quarter increased 21 percent as compared to the third quarter of 2004 primarily due to seasonal merchandising activities, increased marketing investments and costs related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Gross margin increased to 41 percent in the fourth quarter of 2004 from 40 percent in the third quarter of 2004 due primarily to increased net sales of Computation Products. Our cash, cash equivalents and short-term investments at December 26, 2004 totaled $1.20 billion, compared with $1.19 billion at the end of the third quarter of 2004.

Other Information

We were incorporated under the laws of Delaware on May 1, 1969. Our mailing address and executive offices are located at One AMD Place, Sunnyvale, California 94088, and our telephone number is (408) 749-4000. Our website is *www.amd.com*. The information contained on our website does not constitute a part of this prospectus.

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The Exchange Offer

The Exchange Offer	We are offering to exchange the exchange notes for the outstanding private notes that are properly tendered and accepted. You may tender outstanding private notes only in denominations of $1,000 and multiples of $1,000. We will issue the exchange notes on or promptly after the exchange offer expires. As of the date of this prospectus, $600,000,000 principal amount of private notes is outstanding.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2005, unless extended, in which case the expiration date will mean the latest date and time to which we extend the exchange offer.
Conditions to the Exchange Offer	The exchange offer is not subject to any condition other than that it not violate applicable law or any applicable interpretation of the staff of the SEC. The exchange offer is not conditioned upon any minimum principal amount of private notes being tendered for exchange.
Procedures for Tendering Private Notes	If you wish to tender your private notes for exchange notes pursuant to the exchange offer, you must transmit to Wells Fargo Bank, N.A., as exchange agent, on or before the expiration date, either: a computer generated message transmitted through The Depository Trust Company s Automated Tender Offer Program system and received by the exchange agent and forming a part of a confirmation of book-entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal; or a properly completed and duly executed letter of transmittal, which accompanies this prospectus, or a facsimile of the letter of transmittal, together with your private notes and any other required documentation, to the exchange agent at its address listed in this prospectus and on the front cover of the letter of transmittal. If you cannot satisfy either of these procedures on a timely basis, then you should comply with the guaranteed delivery procedures described below. By executing the letter of transmittal, you will make the representations to us described under The Exchange Offer Procedures for Tendering.
Special Procedures for Beneficial Owners	If you are a beneficial owner whose private notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your private notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender on your behalf. If you wish to tender on your own behalf, you must either (1) make appropriate arrangements to register ownership of the private notes in your name or (2) obtain a properly completed bond power from the registered

	holder before completing and executing the letter of transmittal and delivering your private notes.
Guaranteed Delivery Procedures	If you wish to tender your private notes and time will not permit the documents required by the letter of transmittal to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you must tender your private notes according to the guaranteed delivery procedures described in this prospectus under the heading The Exchange Offer Guaranteed Delivery Procedures.
Acceptance of the Private Notes and Delivery of the Exchange Notes	Subject to the satisfaction or waiver of the conditions to the exchange offer, we will accept for exchange any and all private notes which are validly tendered in the exchange offer and not withdrawn before 5:00 p.m., New York City time, on the expiration date.
Withdrawal Rights	You may withdraw the tender of your private notes at any time before 5:00 p.m., New York City time, on the expiration date, by complying with the procedures for withdrawal described in this prospectus under the heading The Exchange Offer Withdrawal of Tenders.
U.S. Federal Tax Considerations	The exchange of notes will not be a taxable event for United States federal income tax purposes. For a discussion of certain federal tax considerations relating to the exchange of notes, see U.S. Federal Income Tax Considerations.
Exchange Agent	Wells Fargo Bank, N.A., the trustee under the indenture governing the notes, is serving as the exchange agent.
Consequences of Failure to Exchange	If you do not exchange your private notes for exchange notes, you will continue to be subject to the restrictions on transfer provided in the private notes and in the indenture governing the private notes. In general, the private notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently plan to register the private notes under the Securities Act.
Broker-Dealers	Each broker-dealer that receives exchange notes for its own account in exchange for private notes, which the broker-dealer acquired as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. See Plan of Distribution.
Registration Rights Agreement	You are entitled to exchange your private notes for exchange notes with substantially identical terms. This exchange offer satisfies that right. After the exchange offer is completed, you will no longer be entitled to any exchange or registration rights with respect to your private notes.

We explain the exchange offer in greater detail beginning on page 32.

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The Exchange Notes

The summary below describes the principal terms of the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of the Notes section of this prospectus contains a more detailed description of the terms of the exchange notes.

The form and terms of the exchange notes are the same as the form and terms of the private notes, except that the exchange notes will be registered under the Securities Act and, therefore, the exchange notes will not be subject to the transfer restrictions, registration rights and provisions providing for an increase in the interest rate applicable to the private notes. The exchange notes will evidence the same debt as the private notes and are governed by the same indenture as the private notes.

Issuer	Advanced Micro Devices, Inc.
Notes Offered	$600,000,000 aggregate principal amount of 7.75% Senior Notes due 2012.
Interest Payment Dates	May 1 and November 1 of each year, beginning on May 1, 2005.
Maturity Date	November 1, 2012.
Ranking	The notes are our general unsecured senior obligations. The notes:

- rank equal in right of payment with all of our current and future unsecured senior debt;
- are effectively subordinated in right of payment to all of our existing and future secured debt, to the extent of the value of the assets securing such debt;
- are effectively subordinated to our debt that is guaranteed in the future by our subsidiaries with respect to the assets and earnings of those subsidiaries, including Spansion LLC, our majority-owned subsidiary;
- are structurally subordinated to all existing and future debt and other liabilities, including trade payables, of our subsidiaries including Spansion LLC; and
- are senior in right of payment to all of our subordinated obligations, if any.

As of September 26, 2004, after giving effect to the issuance of the private notes and the application of the net proceeds therefrom:

we would have had consolidated debt of $2,024 million, approximately $1,503 million of which would have constituted debt directly borrowed by AMD, and approximately $521 million of which would have constituted debt directly borrowed by our subsidiaries;

of the debt directly borrowed by AMD as described above, none of such debt would have been secured or guaranteed by any of our subsidiaries;

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of the debt directly borrowed by our subsidiaries as described above, approximately $213 million of such debt would have been guaranteed by AMD (of which approximately $31 million would have been secured by assets of AMD);

in addition to the debt described above, we would have had other liabilities of approximately $1,869 million, approximately $1,100 million of which would have constituted other liabilities of our subsidiaries; and

in addition to the debt and other liabilities described above, AMD and/or its subsidiaries would have guaranteed approximately $178 million of obligations, which guarantees are not reflected on our consolidated balance sheet.

Furthermore, as of September 26, 2004, we had available up to $100 million for future secured borrowings under a revolving credit facility. We and our subsidiaries may incur additional debt (including secured and guaranteed debt) and other liabilities in the future.

Unrestricted Subsidiaries	We derived approximately 27 percent of our consolidated net sales for the year ended December 28, 2003 and 48 percent of our consolidated net sales for the nine months ended September 26, 2004 from our unrestricted subsidiaries, including Spansion LLC. The indenture governing the notes will provide that Spansion LLC and its subsidiaries will constitute unrestricted subsidiaries under, and as defined in, the indenture, even though certain debt of Spansion LLC and its subsidiaries (a) will be recourse debt and (b) could cause cross-defaults on our debt and the debt of our restricted subsidiaries. Spansion LLC and its subsidiaries, as unrestricted subsidiaries, will not be subject to the covenants or certain defaults applicable to us and our restricted subsidiaries. As of September 26, 2004 we had made loans to Spansion LLC and its subsidiaries in an aggregate amount of approximately $357 million and had guaranteed indebtedness of Spansion LLC and its subsidiaries in an aggregate amount of approximately $213 million.
Optional Redemption	Prior to November 1, 2008, we may redeem some or all of the notes at a price equal to 100 percent of the principal amount, plus accrued and unpaid interest and a make-whole premium. Thereafter, we may redeem all or part of the notes at any time at the redemption prices set forth in the section Description of the Notes Optional Redemption, plus accrued and unpaid interest, if any, to the date of redemption.
	On or prior to November 1, 2007, we may redeem up to 35 percent of the notes with the proceeds of certain sales of our equity securities at 107.75 percent of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption. See Description of the Notes Optional Redemption.

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Change of Control	Upon the occurrence of a change of control, you will have the right as a holder of notes to require us to repurchase all of your notes at a repurchase price equal to 101 percent of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. We may not have enough funds or the terms of our other debt may prevent us from purchasing the notes. See Description of the Notes Repurchase at the Option of Holders Upon a Change of Control.
Certain Covenants	The indenture governing the notes will contain certain covenants that will limit, among other things, our ability and the ability of our restricted subsidiaries to:

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

These covenants are subject to a number of important exceptions and limitations, which are described under the heading Description of the Notes Certain Covenants.

Use of Proceeds	We will not receive any cash proceeds from the exchange offer.
Risk Factors	An investment in the notes involves substantial risks. You should consider carefully all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth under Risk Factors before tendering your private notes in exchange for exchange notes.

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Summary Historical Consolidated Financial Data

The following table sets forth summary historical consolidated financial information. The summary statement of operations and cash flows data for the years ended December 30, 2001, December 29, 2002 and December 28, 2003, and the summary balance sheet data as of December 29, 2002 and December 28, 2003, have been derived from, and should be read together with, our audited consolidated financial statements incorporated by reference in this prospectus. The summary balance sheet data as of December 30, 2001, have been derived from our audited consolidated financial statements not incorporated by reference in this prospectus. The summary balance sheet data and summary statement of operations and cash flows data as of and for the nine months ended September 26, 2004, and the summary balance sheet data and summary statement of operations and cash flows data as of and for the nine months ended September 28, 2003, have been derived from, and should be read together with, our unaudited interim condensed consolidated financial statements incorporated by reference in this prospectus. The summary balance sheet data as of September 28, 2003 have been derived from unaudited interim condensed consolidated financial statements not incorporated by reference in this prospectus. Other financial data, including data for the twelve months ended September 26, 2004, are derived from our unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management include all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation. Our consolidated financial statements for periods subsequent to June 30, 2003 include the financial position and operating results of Spansion LLC, our majority-owned subsidiary, which we formed with Fujitsu Limited, effective June 30, 2003. Results of our operations for periods prior to June 30, 2003 do not include the operating results of Spansion LLC, therefore our operating results for the year ended December 28, 2003 and nine months ended September 26, 2004 are not fully comparable with our results for prior periods. We have provided summary historical consolidated financial data for the twelve-month period ended September 26, 2004 to enable investors to evaluate our consolidated operating results over the most recent cumulative 12-month period. Operating results for the nine months and twelve months ended September 26, 2004 are not necessarily indicative of the results that may be expected for the full year ended December 26, 2004. The following summary historical consolidated financial data should also be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Year Ended			Nine Months Ended		Twelve Months Ended
	Dec. 30, 2001	Dec. 29, 2002	Dec. 28, 2003	Sept. 28, 2003	Sept. 26, 2004	Sept. 26, 2004
			(in thousands)			
Statement of Operations Data:						
Net sales	$ 3,891,754	$ 2,697,029	$ 3,070,228	$ 2,125,989	$ 2,876,699	$ 3,820,938
Net sales to related party			448,940	187,586	861,030	1,122,384
Total net sales	3,891,754	2,697,029	3,519,168	2,313,575	3,737,729	4,943,322
Expenses:						
Cost of sales	2,589,747	2,105,661	2,327,063	1,548,556	2,289,935	3,068,442
Research and development	650,930	816,114	852,075	625,572	681,807	908,310
Marketing, general and administrative	620,030	670,065	587,307	424,500	561,389	724,196
Restructuring and other special charges, net	89,305	330,575	(13,893)	(5,854)	2,514	(5,525)
Operating income (loss)	(58,258)	(1,225,386)	(233,384)	(279,199)	202,084	247,899
Interest income and other, net	25,695	32,132	21,116	12,203	11,280	20,193
Interest expense	(61,360)	(71,349)	(109,960)	(79,017)	(83,258)	(114,201)
Income (loss) before minority interest, income taxes and equity in net income of manufacturing joint venture(1)	(93,923)	(1,264,603)	(322,228)	(346,013)	130,106	153,891
Minority interest in loss (income) of subsidiary			44,761	25,353	1,832	21,240
Income (loss) before income taxes and equity in net income of manufacturing joint venture	(93,923)	(1,264,603)	(277,467)	(320,660)	131,938	175,131
Provision (benefit) for income taxes	(14,463)	44,586	2,936	2,936	10,819	10,819

Income (loss) before equity in net income of manufacturing joint venture	(79,460)	(1,309,189)	(280,403)	(323,596)	121,119	164,312
Equity in net income of manufacturing joint venture	18,879	6,177	5,913	5,913		
Net income (loss)	$ (60,581)	$ (1,303,012)	$ (274,490)	$ (317,683)	121,119	164,312

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	Fiscal Year Ended			Nine Months Ended		Twelve Months Ended
	Dec. 30, 2001	Dec. 29, 2002	Dec. 28, 2003	Sept. 28, 2003	Sept. 26, 2004	Sept. 26, 2004
	(in thousands)					
Cash Flow Data:						
Net cash provided by (used in) operating activities	$ 167,645	$ (119,963)	$ 295,586	$ (93,006)	$ 724,333	$ 1,112,925
Net cash provided by (used in) investing activities	(553,521)	(854,389)	83,183	290,555	(1,011,791)	(1,219,163)
Net cash provided by (used in) financing activities	140,891	907,440	267,402	365,694	98,886	594
Other Financial Data:						
EBITDA(2)	$ 552,759	$ (466,298)	$ 814,367	$ 457,673	$ 1,098,685	$ 1,455,379
Depreciation and amortization	622,867	756,169	995,663	708,352	895,104	1,182,415
Capital expenditures	678,865	705,147	570,316	407,535	969,758	1,132,539
Ratio of total debt to LTM net income						12.43x
Ratio of total pro forma debt to LTM EBITDA(3)						1.39x
Balance Sheet Data (at end of period):						
Cash(4)	$ 869,997	$ 1,006,655	$ 1,313,367	$ 1,075,939	$ 1,185,177	$ 1,185,177
Working capital	1,039,172	851,303	1,448,008	1,248,941	1,467,314	1,467,314
Total assets	5,647,242(5)	5,710,318(5)	7,049,772	6,664,365(5)	7,282,439	7,282,439
Total long term debt and capital lease obligations	635,705	1,640,055	2,092,940	2,081,576	2,043,044	2,043,044
Stockholders equity	3,555,055	2,467,265	2,438,310	2,282,784	2,571,442	2,571,442

(1) Manufacturing joint venture refers to Fujitsu AMD Semiconductor Limited (FASL), our previous manufacturing joint venture with Fujitsu Limited, which was contributed to Spansion LLC in connection with the formation of Spansion LLC, effective June 30, 2003.

(2) EBITDA is defined as net income (loss) before (i) interest income, (ii) interest expense, (iii) provision for income taxes and (iv) depreciation and amortization. EBITDA does not include Fujitsu Limited s 40 percent share of Spansion LLC s net income or loss. Depreciation and amortization, interest income and interest expense as set forth below represent amounts that are also attributable to the results of operations of Spansion LLC and its subsidiaries. Other companies in our industry may calculate EBITDA differently than we do and EBITDA as presented in this prospectus may not be comparable with similarly titled measures of other companies. We have included this non-GAAP financial measure because we believe that it provides holders of the notes with useful information in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. EBITDA is not a measure of financial performance under GAAP and should not be considered in isolation or as an alternative to cash flow from operating activities or as an alternative to net income as indicators of operating performance or any other measures of performance derived in accordance with GAAP. The reconciliation of net income (loss) under GAAP to EBITDA is as follows:

	Fiscal Year Ended			Nine Months Ended		Twelve Months Ended
	Dec. 30, 2001	Dec. 29, 2002	Dec. 28, 2003	Sept. 28, 2003	Sept. 26, 2004	Sept. 26, 2004
	(in thousands)					
Net income (loss)	$ (60,581)	$ (1,303,012)	$ (274,490)	$ (317,683)	$ 121,119	$ 164,312
Depreciation and amortization	622,867	756,169	995,663	708,352	895,104	1,182,415
Interest income	(56,424)	(35,390)	(19,702)	(14,949)	(11,615)	(16,368)
Interest expense	61,360	71,349	109,960	79,017	83,258	114,201
Provision (benefit) for income taxes	(14,463)	44,586	2,936	2,936	10,819	10,819
EBITDA	$ 552,759	$ (466,298)	$ 814,367	$ 457,673	$ 1,098,685	$ 1,455,379

(3)

Total pro forma debt is total debt taking into effect the issuance of the notes and the application of the net proceeds therefrom. We have included this non-GAAP financial measure because we believe that it provides noteholders with useful information in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The reconciliation of the ratio of total debt to LTM net income (loss) under GAAP to the ratio of pro forma debt to LTM EBITDA is as follows:

	Twelve Months Ended Sept. 26, 2004
For a reconciliation of net income to EBITDA, see Footnote 2 above.	
Reconciliation of total debt to pro forma total debt:	
Total debt	$ 2,043,044
Total pro forma debt	2,024,359
EBITDA	1,455,379
Ratio of total debt to net income	12.43x
Ratio of pro forma total debt to net income	12.32x
Ratio of pro forma debt to EBITDA	1.39x

(4) Cash includes cash, cash equivalents, compensating balance and short-term investments.

(5) Total assets as of December 30, 2001, December 29, 2002 and September 28, 2003 do not reflect a reclassification of certain prior period amounts to conform to current period presentation. After taking effect of the reclassification, total assets for December 30, 2001, December 29, 2002 and September 28, 2003 were $5,636,445, $5,694,453 and $6,628,996. This reclassification will be reflected in our future earnings releases and periodic reports. We do not believe that these reclassifications are material to the overall presentation of our balance sheet data.

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Summary Restricted Group Consolidated Financial Data

The following table sets forth summary restricted group unaudited consolidated financial data for the year ended December 28, 2003 and the nine months and twelve months ended September 26, 2004. Spansion LLC and its subsidiaries constitute unrestricted subsidiaries as defined under the indenture that governs the notes. The restricted group s consolidated financial data does not include the results of operations of Spansion LLC and its subsidiaries. The restricted group consolidated financial data is presented in order to provide investors with financial information that substantially reflects the results of operations of that portion of our business that has been designated as restricted subsidiaries. Periods prior to June 30, 2003 include AMD sales attributable to our memory business, which was contributed to Spansion LLC on June 30, 2003. We have provided summary restricted group consolidated financial data for the twelve-month period ended September 26, 2004 to enable investors to evaluate the restricted group s operating results over the most recent cumulative 12-month period. Operating results for the nine months and twelve months ended September 26, 2004 are not necessarily indicative of the results that may be expected for the full year ended December 26, 2004. The following information should also be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Year Ended Dec. 28, 2003	Nine Months Ended Sept. 26, 2004	Twelve Months Ended Sept. 26, 2004
		(in thousands)	
Statement of Operations Data:			
Net sales	$ 2,583,957	$ 1,962,478	$ 2,628,021
Expenses:			
Cost of sales	1,537,588	862,646	1,179,711
Research and development	708,274	477,982	629,645
Marketing, general and administrative	508,947	449,115	575,851
Restructuring and other special charges, net	(13,893)	2,514	(5,525)
Operating income (loss)	(156,959)	170,221	248,339
Interest income and other, net	19,962	6,346	13,823
Interest expense	(88,539)	(51,021)	(70,484)
Income (loss) before income taxes	(225,536)	125,546	191,678
Provision (benefit) for income taxes	(1,479)	15,192	15,649
Net income (loss)	$ (224,057)	$ 110,354	176,029
Other Financial Data:			
EBITDA(1)	$ 584,111	$ 645,855	$ 886,599
Depreciation and amortization	739,875	479,068	638,589
Capital expenditures	402,607	541,234	624,873
Balance Sheet Data (at end of period):			
Cash(2)	$ 983,823	$ 901,609	$ 901,609
Total long-term debt and capital lease obligations	1,567,338	1,602,664	1,602,664

(1) EBITDA is defined as net income (loss) before (i) interest income, (ii) interest expense, (iii) provision for income taxes, and (iv) depreciation and amortization. Other companies in our industry may calculate EBITDA differently than we do and EBITDA as presented in this prospectus may not be comparable with similarly titled measures of other companies. We have included this non-GAAP financial measure because we believe that it provides holders of the notes with useful information in assessing the restricted group s operating

performance and as an indicator of the restricted group s ability to meet our obligations under the notes. EBITDA is not a measure of financial performance under GAAP and should not be considered in isolation or as an alternative to cash flow from operating activities or as an alternative to net income as

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indicators of operating performance or any other measures of performance derived in accordance with GAAP. The reconciliation of net income (loss) under GAAP to EBITDA is as follows:

	Fiscal Year Ended Dec. 28, 2003	Nine Months Ended Sept. 26, 2004	Twelve Months Ended Sept. 26, 2004
		(in thousands)	
Net income (loss)	$ (224,057)	$ 110,354	$ 176,029
Depreciation and amortization	739,875	479,068	638,589
Interest income	(18,767)	(9,780)	(14,152)
Interest expense	88,539	51,021	70,484
Provision (benefit) for income taxes	(1,479)	15,192	15,649
EBITDA	$ 584,111	$ 645,855	$ 886,599

(2) Cash includes cash, cash equivalents, compensating balance and short-term investments.

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RISK FACTORS

An investment in our notes involves a high degree of risk. In deciding whether to invest in the notes, you should carefully consider the following factors, in addition to the other information and data contained in or incorporated by reference into this prospectus. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, our ability to make payments on the notes could be impaired, the trading price of the notes could decline and you could lose all or part of your investment.

Risks Related to Our Business

If we cannot generate sufficient operating cash flow and obtain external financing, we may be unable to make all of our planned capital expenditures or fulfill our obligations to Fab 36 or Spansion LLC.

Our ability to fund capital expenditures in accordance with our business plan depends on generating sufficient cash flow from operations and the availability of external financing. For example, in 2005 we plan to spend approximately $1.5 billion in capital expenditures.

Under the partnership agreement for AMD Fab 36 Limited Liability Company & Co. KG, or AMD Fab 36 KG, our German subsidiaries, AMD Fab 36 Holding GmbH and AMD Fab 36 Admin GmbH, are obligated to invest approximately $718 million into AMD Fab 36 KG (based on an exchange rate of 0.815 euro to one U.S. dollar as of September 26, 2004). In addition, under the revolving credit agreement among AMD, AMD Fab 36 Holding and AMD Fab 36 KG, we or AMD Fab 36 Holding are required to provide up to approximately $921 million to AMD Fab 36 KG (based on an exchange rate of 0.815 euro to one U.S. dollar as of September 26, 2004). Loans provided to AMD Fab 36 KG under this revolving credit agreement are unsecured and subordinated to the rights of the consortium of banks that will also be providing financing to AMD Fab 36 KG. In addition, we are also obligated through June 30, 2007 to provide Spansion LLC, our majority-owned subsidiary, with additional funding to finance operational cash flow needs. Generally, Spansion LLC must seek any required financing from external sources. However, if such third-party financing is not available, either on a non-recourse basis to us or with guarantees based on our pro rata ownership interest, we must provide funding to Spansion LLC equal to our pro rata ownership interest in Spansion LLC, which is currently 60%. An inability to meet our funding obligations for Spansion LLC could, among other things, result in additional equity in Spansion LLC being issued to Fujitsu or third parties, which would reduce our ownership in and control over Spansion LLC.

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

If we lose Microsoft Corporation s support for our products, or if there is a significant delay in Microsoft s release of an operating system that works with our AMD64 technology, 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

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does not continue to design and develop its operating systems so that they work with our x86 instruction sets, including the timely introduction of an operating system that works with the AMD64 technology that we introduced with our AMD Opteron and AMD Athlon 64 processors, independent software providers may forego designing their software applications to take advantage of our innovations and customers may not purchase personal computers, or PCs, with our microprocessors. If we fail to retain the support of Microsoft, our ability to market our microprocessors could be materially adversely affected.

In July 2004, Microsoft announced a delay in the release of its Windows Server 2003 Service Pack 1, Windows Server 2003 for 64-bit Extended Systems and Windows XP 64-bit for 64-bit Extended Systems. The new Windows editions are designed to take advantage of 64-bit extensions to the standard x86 instruction set. Microsoft estimated that the release of this software will occur in the first half of 2005. Previously, Microsoft estimated the release date for this software would be in late 2004. This delay could adversely impact the timing of development of 64-bit applications by independent software providers and the adoption of 64-bit computing by end users. As a result, this delay could have a material adverse effect on our ability to sell our AMD Opteron and AMD Athlon 64 processors.

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

We designed our AMD Opteron and AMD Athlon 64 processors to provide users with the ability to take advantage of 64-bit applications while preserving their ability to run existing 32-bit applications on servers and workstations and on desktop and mobile PCs. Market acceptance of these processors is subject to risks and uncertainties including:

- the support of operating system and application program providers for our 64-bit instruction set, including timely development of 64-bit applications;
- the willingness of users to purchase products with 64-bit capability prior to the availability of operating systems and software applications that take full advantage of our AMD64 technology;
- our ability to produce these processors in a timely manner on advanced process technologies, including 90-nanometer silicon-on-insulator technology, in the volume and with the performance and feature set required by customers; and
- the availability, performance and feature set of motherboards, memory and chipsets designed for these processors.

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

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

We make substantial investments in research and development for process technologies in an effort to design and manufacture leading-edge microprocessors. We cannot be certain that we will be able to develop, or obtain or successfully implement leading-edge process technologies needed to manufacture future generations of our products profitably or on a timely basis. Furthermore, we cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive. For example, from the beginning of 2002 through September 26, 2004, we paid approximately $228 million to IBM in connection with agreements and services related to license grants and research and development activities.

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In addition, we have a joint development agreement with IBM, pursuant to which we work together to develop new process technologies. The successful and timely development and implementation of silicon-on-insulator technology and the achievement of other milestones set forth in the joint development agreement with IBM are critical to our AMD Opteron and AMD Athlon 64 microprocessors and to our ability to commence operations at Fab 36 in accordance with our planned schedule. In September 2004, we amended our joint development agreement with IBM and extended its termination date from December 2005 to December 2008. The continuation of the process development projects past December 31, 2005 is conditioned upon the approval of IBM s board of directors. If such approval is not received, either party has the right to terminate the agreement effective December 31, 2005 with respect to process development projects past December 31, 2005. If the agreement were to be terminated, we would either have to resume research and development activities for microprocessor technology internally or find an alternative partner. In either case, our research and development costs could increase, and we could experience delays or other setbacks in the development of new process technologies, any of which could materially adversely affect us.

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

The semiconductor industry is highly cyclical and has experienced significant downturns, often in connection with maturing product cycles, manufacturing overcapacity and declines in general economic conditions. Our historical financial results have also been subject to substantial fluctuations. Our financial performance has been, and may in the future be, negatively affected by these downturns. We incurred substantial losses in recent downturns, due to:

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

For example, in 2001 and 2002, we implemented restructuring plans due to weak customer demand associated with the downturn in the semiconductor industry. If these conditions in the semiconductor industry occur again in the future, we could be materially adversely affected.

Fluctuations in demand for PCs and mobile telephones may adversely affect sales of our products.

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

The Memory Products segment of our business is dependent to a large degree upon demand for mobile telephones. If demand for mobile telephones is below our expectations or if the functionality of successive generations of mobile telephones does not require increasing NOR Flash memory density, we could be materially adversely affected.

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

The IC industry is intensely competitive. 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

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customers. Our ability to develop and qualify such products and related technologies to meet evolving industry requirements and at prices acceptable to our customers are significant factors in determining our competitiveness in our target markets. If we are delayed in developing or qualifying new technologies, we could be materially adversely affected. For example, during the fourth quarter of 2004 we experienced a delay in qualifying a new Spansion Flash memory product in the wireless segment. This delay contributed to a decrease in our Flash memory product revenues.

With respect to our microprocessor products, our competitor is Intel. Microprocessor products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, and successive generations of products are developed and introduced for sale. We may not be able to compete effectively if we fail to reduce our costs on existing products or fail to develop and introduce, on a cost-effective and timely basis, new products or enhanced versions of existing products with higher margins.

The Flash memory market is characterized by migration to higher density and lower cost devices and a competitive pricing environment. Our principal competitors in the Flash memory market are Intel, Samsung, Toshiba, STMicroelectronics N.V., Sharp Electronics Corporation, Silicon Storage Technology and Macronix International. In addition, ample capacity for manufacturing Flash memory products exists due to recent capital investment by some of our competitors, which may further contribute to a competitive pricing environment. In the past, the net increases of supply, meaning the difference of capacity additions less capacity reductions due to obsolescence, sometimes exceeded demand requirements leading to oversupply situations and downturns in the industry. Fluctuations in the rate at which industry capacity is growing relative to the growth rate in demand for Flash memory products, particularly NOR-based products, may in the future put pressure on our average selling prices and hurt our results of operations.

To compete successfully, we must transition to technologies that meet the increasing demand for higher Flash memory content in mobile phones and automotive applications, among other markets, at competitive prices. We expect competition in the Flash memory market to increase 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.

In addition, we and certain of our competitors have licensed non-volatile memory technology called NROM technology from a third party. NROM technology allows memory devices to store two bits of data in a memory cell. NROM technology has similar characteristics to our MirrorBit technology which may allow these competitors to develop Flash memory technology that is competitive with MirrorBit technology.

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

Intel has dominated the market for microprocessors used in desktop and mobile PCs for many years. Intel is also a dominant competitor in the server segment of the microprocessor market and a significant competitor in the Flash memory market. Intel s significant financial resources enable it to market its products aggressively, to target our customers and our channel partners with special incentives, and to discipline customers who do business with us. These aggressive activities can result in lower unit sales and average selling prices for our products, particularly microprocessors and Flash memory products, and adversely affect our margins and profitability. For example, Intel exerts substantial influence over PC manufacturers and their channels of distribution through the Intel Inside brand program and other marketing programs. As long as Intel remains in this dominant position, we may be materially adversely affected by Intel s:

pricing and allocation strategies and actions, including aggressive pricing for Flash memory products and microprocessors to increase market share;

product mix and introduction schedules;

- product bundling, marketing and merchandising strategies;

- exclusivity payments to its current and potential customers;

- control over industry standards, PC manufacturers and other PC industry participants, including motherboard, memory, chipset and basic input/output system, or BIOS, suppliers; and

- user brand loyalty.

Because of its dominant position in the microprocessor market, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the microprocessor market requires of Intel s competitors. Intel also dominates the PC system platform, which includes core logic chipsets, graphics chips, motherboards and other components necessary to assemble a PC system. As a result, PC original equipment manufacturers, or OEMs, are highly dependent on Intel, less innovative on their own and, to a large extent, are distributors of Intel technology. Additionally, Intel is able to drive de facto standards for x86 microprocessors that could cause us and other third-party companies to have delayed access to such standards. In marketing our microprocessors to OEMs, we depend on third-party companies other than Intel for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share to Intel or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel s microprocessors, and Intel has significant leverage over their business opportunities.

We do not currently plan to develop microprocessors that are bus interface protocol compatible with Intel microprocessors because our patent-cross license agreement with Intel does not extend to Intel s proprietary bus interface protocol. Thus, our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. Our ability to compete with Intel in the market for microprocessors will depend on our continued success in developing and maintaining relationships with infrastructure providers in order to ensure that these third-party designers and producers of motherboards, chipsets and other system components support our microprocessor offerings, particularly AMD64-based microprocessors. A failure of the designers and producers of motherboards, chipsets and other system components to support our microprocessor offerings, particularly our AMD64-based microprocessors, could have a material adverse effect on us.

We expect Intel to maintain its dominant position in the microprocessor market, to continue to be a significant competitor in the Flash memory market and to continue to invest heavily in research and development, new manufacturing facilities and other technology companies. Intel has substantially greater financial resources than we do and accordingly spends substantially greater amounts on research and development and production capacity than we do. We expect competition from Intel to increase to the extent Intel reduces prices on its microprocessor and/or Flash memory products and introduces new competitive products. For example, during June 2004 Intel announced the availability of a 64-bit processor for servers and workstations that runs existing 32-bit software applications. These processors compete with our AMD Opteron microprocessors. In addition, Intel announced that it will offer 64-bit processors for the desktop market and other market segments that will be able to run existing 32-bit software applications in a time frame based on both timing and availability of the infrastructure required to support them, and customer demand. These products would compete with our AMD Athlon 64 microprocessors. Moreover, Intel currently manufactures certain of its microprocessor products on 300-millimeter wafers using 90-nanometer process technology. Use of 90-nanometer technology can result in products that are higher performing, use less power and cost less to manufacture. Use of 300-millimeter wafers can decrease manufacturing costs and increase capacity by yielding more chips per wafer than 200-millimeter wafers. We are currently transitioning to 90-nanometer process technology for microprocessor manufacturing and we expect to transition to 300-millimeter wafers in 2006. To the extent Intel manufactures its microprocessor products on larger wafers and smaller process technologies earlier than we do, we may be more vulnerable to Intel s aggressive pricing strategies for microprocessor products. Intel s dominant position in the microprocessor market, its existing relationships with top-tier OEMs and its aggressive pricing strategies could result in lower unit sales and average selling prices for our products, which could have a material adverse effect on us.

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The loss of a significant customer for our microprocessor products or the loss of a significant customer for our Spansion Flash memory products in the high-end mobile telephone market, may have a material adverse effect on us.

Collectively, our top ten OEM microprocessor customers accounted for approximately 17 percent of our total net revenues in 2003. Our Flash memory product sales growth is dependent on demand for high-end mobile telephones. To date, our sales in that market have been concentrated with a limited group of customers. If we were to lose a significant customer, or if one of our top customers downsizes or otherwise contracts its operations, demand for our products could decrease and we would be materially adversely affected.

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

We believe that market acceptance of MirrorBit technology is a critical factor impacting our ability to increase Flash memory product revenues and market share. MirrorBit technology is a memory cell architecture that enables Flash memory products to store two bits of data in a single memory cell thereby doubling the density or storage capacity of each memory cell. A lack of continued market acceptance of MirrorBit technology, adoption of such technology at a slower rate than we anticipate, or any substantial difficulty in transitioning Flash memory products, including those based on MirrorBit technology, to any future process technology could reduce our ability to be competitive in the market.

In addition, we intend to address end markets traditionally served by Flash memory products based on NAND architecture with our new ORNAND architecture. We are currently developing these products and if they, or any future products based on our MirrorBit technology and ORNAND architecture, fail to achieve acceptance in markets traditionally served by NAND architecture, or at all, we could be materially adversely affected.

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

Flash memory products are generally based on either Boolean logic-based NOR (Not Or) architecture or NAND (Not And) architecture. NAND has historically been the preferred architecture for data storage because of attributes such as high densities and fast write and erase speeds. NOR has been the preferred architecture for code execution because of its fast read performance and superior reliability. To date, our Flash memory products have been based on NOR architecture, and we do not currently manufacture products based on NAND architecture. During 2003, industry sales of products based on NAND architecture grew at higher rates than sales of NOR-based products. This resulted in NAND vendors gaining a greater share of the overall Flash market. As mobile telephones and other consumer-driven applications become more advanced they will require higher density Flash memory to meet increased data storage requirements from music downloads, photos and videos. Because storage requirements will increase to accommodate data-intensive applications, OEMs may increasingly choose NAND-based products, accepting the drawbacks in reliability in exchange for a lower cost alternative than NOR. Any significant shift in the marketplace to products based on NAND architecture or other architectures may reduce the total market available to us and therefore reduce our market share.

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

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

- major investments, acquisitions and dispositions of assets;

- a merger or consolidation resulting in the transfer of more than 50% of the equity interests;

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settlement of major legal proceedings and other actions;

approval of certain material contracts between us and Spansion LLC;

changes to the equity capital structure of the Spansion LLC; and

winding-up Spansion LLC or one of its material subsidiaries.

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

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

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

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

The last economic slowdown in the United States and worldwide adversely affected demand for our products. Although economic conditions have continued to improve since the second half of 2003, another decline in the worldwide semiconductor market or a future decline in economic conditions or consumer confidence in any significant geographic area would likely decrease the overall demand for our products, which could have a material adverse effect on us. For example, China s economy has been growing at a fast pace over the past several years, and Chinese authorities have recently introduced various measures to slow down the pace of economic growth. However, if Chinese authorities are not able to stage an orderly slowdown, China s economy could be materially adversely affected. 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. In addition, 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, ultimately affecting our sales.

Also as a result of terrorism, the United States has been and may continue to be involved in armed conflicts that could have a further impact on our sales, our supply chain and our ability to deliver products to our customers. 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 to the United States economy and worldwide financial markets. Any of these occurrences could have a material adverse effect on us and also may result in volatility of the market price for our securities.

Unfavorable currency exchange rate fluctuations could adversely affect us.

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

- a significant portion of our manufacturing costs for our microprocessor products is denominated in euro while sales of those products are denominated primarily in U.S. dollars;
- some fixed asset purchases are denominated in euro and yen;
- sales of our Flash memory products in Japan are denominated in yen; and
- a significant amount of the costs of our Fab 36 project is denominated in euro.

As a consequence, movements in exchange rates could cause our U.S. dollar-denominated expenses to increase as a percentage of net sales, affecting our profitability and cash flows. For example, the U.S. dollar- denominated cost of construction of Fab 36 has increased from our initial projections as a result of the recent depreciation of the U.S. dollar against the euro. Whenever we believe appropriate, we hedge a portion of our foreign currency exchange exposure to protect against fluctuations in currency exchange rates. As of September 26, 2004 we had an aggregate of $503 million (notional amount) of short-term foreign currency forward contracts and purchased call option contracts denominated in euro and yen. However, 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.

In addition, even where revenues and expenses are matched, we must translate euro and yen denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar versus the euro or yen will affect our reported results of operations and the value of our assets and liabilities in our consolidated balance sheet, even if our results of operations or the value of those assets and liabilities has not changed in their original currency. These transactions could significantly affect the comparability of our results between financial periods and/or result in significant changes to the carrying value of our assets, liabilities and shareholders equity.

Manufacturing capacity constraints and manufacturing capacity utilization rates may adversely affect us.

There may be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with third parties, could have a material adverse effect on us. If we do not complete the transition to 90-nanometer manufacturing process technology at Fab 30 on a timely basis, we may not be able to meet the demand for certain of our microprocessor products. In addition, if we do not transition to manufacturing certain Flash memory products using 90-nanometer and more advanced manufacturing process technology on a timely basis, or otherwise increase capacity for our Flash memory business, we may not be able to meet demand for these products from our customers. If we cannot meet demand for our products we could be materially adversely affected.

At times we may underutilize our manufacturing facilities as a result of reduced demand for certain of our products. During such times, many of our costs remain fixed and cannot be reduced in proportion to the reduced revenues for such a period. We are substantially increasing our manufacturing capacity by building Fab 36, transitioning to smaller manufacturing process technologies and making significant capital investments in our existing manufacturing facilities. In addition, we have announced plans to construct a clean room for and facilitize a new 300-millimeter Flash memory fabrication facility, which we call SP1. If the increase in demand for our products is not consistent with our expectations, we may underutilize manufacturing facilities. This has in the past had, and in the future may have, a material adverse effect on us.

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

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

We are currently completing the transition to 90-nanometer process technology for our microprocessor products. In addition, we plan to transition the manufacture of certain Flash memory products to 90-nanometer process technology in the second half of 2005. 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 could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

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

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

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

One or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of a recall, software fix, product replacements and/or product returns may be substantial and could have a material adverse effect on us. In addition, modifications needed to fix the defect may impede performance of the product.

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

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because some equipment and material that we purchase is complex, it is sometimes difficult for us to substitute one supplier for another or one piece of equipment for another. In addition, certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. For example, we are largely dependent on one supplier for our 200-millimeter and 300-millimeter silicon-on-insulator (SOI) wafers. Although there are alternative sources available for us to procure these wafers, we have not qualified these sources and we do not believe that they currently have sufficient capacity to meet our requirements for SOI wafers. We are also dependent on other key chemicals from a limited number of suppliers and also rely on a limited number of foreign companies to supply the majority of certain types of IC packages we purchase. Similarly, we purchase commercial non-Flash memory die, such as SRAM and pSRAM, from third-party suppliers and incorporate these die into Spansion multi-chip package products. Some of these suppliers are also our competitors. 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 could have a material adverse effect on us.

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

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

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

We rely on a third-party provider to deliver our products to our customers and to distribute materials for our fabrication facilities. In addition, we rely on a third-party provider in India to provide certain information technology services to us, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration, and voice, video and remote access. Our relationships with these providers are governed by fixed term contracts. We cannot guarantee that these providers will fulfill their respective responsibilities in a timely manner in accordance with the contract terms, in which case our internal operations, the distribution of our products to our customers and the distribution of materials for our fabrication facilities could be materially adversely affected. Also, we cannot guarantee that our contracts with these third-party providers will be renewed, in which case we would have to transition these functions in-house or secure new providers, which could have a material adverse effect on us.

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

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

Sales of our products are typically made pursuant to individual purchase orders. We generally do not have long-term supply arrangements with our microprocessor customers. From time to time, we enter into long-term supply arrangements with our Flash memory customers. Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. We base our inventory levels on customers estimates of demand for their products, which are difficult to predict. This difficulty may be compounded when we sell to OEMs indirectly through distributors, as our forecasts for demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to failure of anticipated orders to materialize could result in excess or obsolete inventory, which could result in write-downs of inventory. Because market conditions are uncertain, these and other factors could materially adversely affect us.

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

We market and sell our products directly and through third-party distributors pursuant to agreements that can generally be terminated for convenience by either party upon prior notice to the other party. In addition, these agreements are non-exclusive and permit our distributors to offer our competitors products. In 2003, two distributors, Avnet, Inc. and Fujitsu (a distributor of Spansion LLC), each accounted for approximately 13 percent of our consolidated net sales. 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 could 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 our products. Under certain agreements, distributors are allowed to return any product that we have removed from our price book or that is not more than twelve months older than the manufacturing code date. In addition, some agreements with our distributors 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 could 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 have international sales operations and as part of our business strategy, we are continuing to seek expansion of product sales in high growth markets. Our international sales as a percentage of our total consolidated net sales were approximately 80 percent and 77 percent in 2003 and the nine months ended September 26, 2004, respectively. Nearly all product assembly and final testing of our products are performed at manufacturing facilities in China, Malaysia, Singapore and Thailand. We manufacture our microprocessors in Germany and certain Spansion Flash memory products are manufactured in Japan. We also depend on foreign foundry suppliers for the production of our sets and our embedded microprocessors for personal connectivity devices and depend on an international joint venture for the manufacture of optical photomasks that we intend to use in the manufacture of our microprocessors.

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;
- trade protection measures and import or export licensing requirements;
- difficulty in protecting our intellectual property;
- 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 of the above risks, should they occur, could have a material adverse effect on us.

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

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

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

We rely on a combination of protections provided by contracts, copyrights, patents, trademarks and other 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 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.

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

From time to time, we have been notified that we may be infringing 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 necessary licenses on satisfactory terms, if at all. In the event we cannot obtain a license, we may be prevented from using some technology which could result in our having to stop the sale of some of our products, increase the costs of selling some of our products, or damage our reputation. We could decide, in the alternative, 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 the intellectual property rights of us and others will always be avoided or successfully concluded.

Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, alteration of manufacturing processes, sales limitations, and criminal and civil liabilities.

Our operations are subject to various U.S. and foreign environmental statutes and regulations, including those relating to materials used in our products, manufacturing processes and packaging, discharge of pollutants into the air, water and soil, treatment, transport, storage and disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. From time to time, our facilities are subject to investigation by governmental regulators. We have in the past been named and may in the future be named as a responsible party or a potentially responsible party on Superfund clean-up orders and other environmental investigations sponsored by the Environmental Protection Agency, or EPA. We cannot be certain that we have identified all environmental matters giving rise to potential liability. Existing or future regulations could require us to procure expensive pollution abatement or remediation equipment, to modify product designs or to incur other expenses associated with compliance with environmental regulations. Any past misuse of hazardous materials, new releases or newly discovered contaminations at any of our currently or formerly owned or operated properties could result in increased expenditures or liabilities which could materially adversely affect us.

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Future litigation proceedings may materially adversely affect us.

From time to time we are a defendant or plaintiff in various legal actions. Litigation can involve complex factual and legal questions and its outcome is uncertain. Any claim that is successfully asserted against us may cause us to pay substantial damages. In addition, future litigation may result in injunctions against future product sales. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could have a material adverse effect on us.

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

Our worldwide operations could be subject to natural disasters and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. For example, our corporate headquarters are located near major earthquake fault lines in California and some wafer fabrication facilities for Spansion Flash memory products are located near major earthquake fault lines in Japan. In the event of a major earthquake, or other natural or manmade disaster we could experience business interruptions, destruction of facilities and/or loss of life, all of which could materially adversely affect us.

Risks Related to the Notes

If you do not exchange your notes pursuant to this exchange, you may never be able to sell your notes.

It may be difficult for you to sell notes that are not exchanged in the exchange offer. Those notes may not be offered or sold unless they are registered and there are exemptions from the registration requirements under the Securities Act and applicable state securities laws.

If you do not tender your private notes or if we do not accept some of your private notes, those notes will continue to be subject to the transfer and exchange restrictions in:

- the indenture;
- the legend on the private notes; and
- the offering circular relating to the private notes.

The restrictions on transfer of your private notes arise because we issued the private notes pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws. In general, you may only offer or sell the private notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold pursuant to an exemption from such requirements. We do not intend to register the private notes under the Securities Act. To the extent private notes are tendered and accepted in the exchange offer, the trading market, if any, for the private notes would be adversely affected.

We have a substantial amount of indebtedness which could adversely affect our financial position and prevent us from fulfilling our obligations under the notes.

We currently have, and following this offering will continue to have, a substantial amount of indebtedness. As of September 26, 2004, after giving effect to the issuance of the notes and the application of the net proceeds therefrom, we would have had consolidated debt of approximately $2,024 million. In addition, we guaranteed approximately $178 million of obligations which are not reflected on our balance sheet.

Our substantial indebtedness may:

- make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments on the notes and our other indebtedness;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions and general corporate and other purposes;

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- 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.

The notes will be unsecured and effectively subordinated to our existing and future secured indebtedness.

The notes will be unsecured obligations, ranking effectively junior in right of payment to all of our existing and future secured debt, including obligations under our revolving credit facility. As of September 26, 2004, after giving effect to the issuance of the notes and the application of the net proceeds therefrom, we (excluding our subsidiaries) would have had no secured indebtedness but up to $100 million available for future secured borrowings under our revolving credit facility. In addition, the indenture governing the notes will permit the incurrence of additional debt, some of which may be secured. In the event that we are declared bankrupt, become insolvent or are liquidated or reorganized, any secured indebtedness will be entitled to be paid in full to the extent of the assets securing such debt before any payment is made with respect to the notes. As a result, holders of the notes may receive less from our assets, ratably, than holders of our secured indebtedness.

The notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries.

We conduct a substantial portion of our operations, including our international operations and our Flash memory business, through our subsidiaries. In the event of our bankruptcy or the bankruptcy of any of our subsidiaries, the holders of their liabilities, indebtedness and trades payables will generally be entitled to payment of their claim from the assets of the affected subsidiaries before those assets were made available for distribution to us. Even if we were a creditor of such a subsidiary, our claims would remain subordinate to any indebtedness of such subsidiary which is senior in right of payment to the indebtedness held by us. As a result, the claims of holders of the notes will rank effectively junior to the claims of all of the creditors of our subsidiaries, including trade creditors and holders of debt guaranteed by our subsidiaries. If any indebtedness of our subsidiaries were to be accelerated, we cannot assure you that the assets of the subsidiaries remaining after payment of such indebtedness and other liabilities would be sufficient to repay our indebtedness in full, including the notes. As of September 26, 2004, after giving effect to the issuance of the notes and the application of the net proceeds therefrom, no debt directly borrowed by AMD would have been guaranteed or secured by any of our subsidiaries. Our subsidiaries would have had approximately $521 million of their own indebtedness (excluding amounts payable to affiliated entities) and approximately $1,100 million of other liabilities outstanding, including trade payables and deferred income tax liabilities. In addition, the indenture governing the notes will permit, subject to certain limitations, certain of these subsidiaries to incur additional indebtedness and will not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries.

Spansion LLC will not be subject to the covenants contained in the indenture governing the notes and we will be permitted to make certain loans and advances to Spansion LLC in addition to those already outstanding.

Under the terms of the indenture that governs the notes, Spansion LLC and its subsidiaries will constitute unrestricted subsidiaries. The activities of Spansion LLC and its subsidiaries will therefore not be subject to the restrictive covenants or certain defaults in the indenture, and its results of operations will not be considered (except to the extent dividends are paid to us or to a restricted subsidiary) when determining our consolida