

\$400,000,000 [LOGO OF AMD INC  
ADVANCED MICRO DEVICES, INC. APPEARS HERE]  
11% SENIOR SECURED NOTES DUE 2003

The 11% Senior Secured Notes due 2003 (the "Senior Secured Notes") offered hereby (the "Offering") are being issued by Advanced Micro Devices, Inc., a Delaware corporation ("AMD" or the "Company").

Interest on the Senior Secured Notes will accrue at the rate of 11% per annum, payable semi-annually in arrears on February 1 and August 1 of each year, commencing February 1, 1997, to the holders of record on the immediately preceding January 15 and July 15, respectively. Except as set forth in "Description of Senior Secured Notes--Repurchase at the Option of Holders," the Company will not be required to make mandatory redemption or sinking fund payments with respect to the Senior Secured Notes. The Senior Secured Notes will not be redeemable at the Company's option prior to August 1, 2001. Thereafter, the Senior Secured Notes will be subject to redemption at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices set forth herein, plus accrued and unpaid interest through the redemption date. In the event of a Change of Control, the holders of the Senior Secured Notes will have the right to require the Company to purchase their Senior Secured Notes at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of purchase. See "Description of Senior Secured Notes."

The Company has entered into an agreement with three commercial banks which provides for a new \$400.0 million term loan and revolving credit facility (the "New Credit Agreement"). Prior to January 1, 1997, the Indenture will limit the aggregate borrowings which can be made under the New Credit Agreement to \$250.0 million. The Senior Secured Notes will be senior secured indebtedness of the Company and will rank senior in right of payment to all subordinated interests of the Company and pari passu with the Company's senior borrowings, including the New Credit Agreement. The Senior Secured Notes and borrowings under the New Credit Agreement will be secured by one or more Deeds of Trust and Security Agreements representing a first priority security interest, subject to the terms of an Intercreditor and Collateral Agency Agreement, in substantially all of the Company's real property, plant and equipment at its 950,000 square foot integrated circuit manufacturing facility located in Austin, Texas. The Senior Secured Notes will be effectively subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Company's subsidiaries. Any right of the Company to receive assets of any of its subsidiaries upon the latter's liquidation or reorganization (and the consequent right of the holders of the Senior Secured Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that the Company is itself recognized as a creditor of such subsidiary, in which case the claims of the Company would still be subordinate to any security in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by the Company. As of June 30, 1996, the indebtedness (including trade payables and lease obligations) of the Company's subsidiaries was \$53.8 million. See "Description of Senior Secured Notes."

The Senior Secured Notes will be represented by one or more Global Notes registered in the name of a nominee of The Depository Trust Company, as depository (the "Depository"). Beneficial interests in the Senior Secured Notes will be shown on, and transfers thereof will be effected only through, records maintained by the Depository (with respect to its participants' interests) and its participants. Except as described herein, the Senior Secured Notes in certificated form will not be issued in exchange for Global Notes. Settlement for the Senior Secured Notes will be made in immediately available funds. The Senior Secured Notes in global form will trade in the Depository's Same-Day Funds Settlement System until maturity, and secondary market trading activity for the Senior Secured Notes will therefore settle in immediately available funds. See "Description of Senior Secured Notes."

Approximately \$150.0 million of the net proceeds of the Offering will be used to prepay the Company's existing four-year term bank loan. The remaining net proceeds will be used for general corporate purposes. See "Use of Proceeds."

SEE "RISK FACTORS" BEGINNING ON PAGE S-10 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS IN CONNECTION WITH AN INVESTMENT IN THE SENIOR SECURED NOTES.

THE SENIOR SECURED NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>

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	PRICE TO THE PUBLIC (1)	UNDERWRITING DISCOUNTS AND COMMISSIONS (2)	PROCEEDS TO THE COMPANY (3)
<S>	<C>	<C>	<C>
Per Senior Secured Note.....	100.000%	2.125%	97.875%
Total.....	\$400,000,000	\$8,500,000	\$391,500,000

</TABLE>

- (1) Plus accrued interest, if any, from the date of issuance.  
(2) See "Underwriting" for indemnification arrangements with the Underwriters.  
(3) Before deducting expenses payable by the Company estimated at \$3,000,000.

The Senior Secured Notes are being offered by Donaldson, Lufkin & Jenrette Securities Corporation and BA Securities, Inc. (collectively, the "Underwriters"), subject to prior sale, when, as and if delivered to and accepted by them, and subject to various prior conditions, including the right to reject any order in whole or in part. It is expected that delivery of the Senior Secured Notes will be made in New York, New York through the facilities of The Depository Trust Company on or about August 13, 1996, against payment therefor in immediately available funds.

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

BA SECURITIES, INC.

THE DATE OF THIS PROSPECTUS SUPPLEMENT IS AUGUST 8, 1996

LOGO

[AERIAL PHOTOGRAPH OF AMD'S FAB 25 ADVANCED SEMICONDUCTOR MANUFACTURING FACILITY IN AUSTIN, TEXAS, AS WELL AS CERTAIN OTHER NONCOLLATERAL AMD FACILITIES ADJACENT TO THE PROPERTY.]

AMD's Fab 25 advanced semiconductor manufacturing facility located in Austin, Texas. Also shown are certain other noncollateral AMD facilities adjacent to the property, including Fab 10, as well as property and buildings not owned by AMD.

AMD, the AMD logo, and combinations thereof are trademarks of Advanced Micro Devices, Inc. Am486, MACH and Nx586 are registered trademarks of AMD. K86, K86 RISC SUPERSCALAR, AMD-K5, AMD-K6, SLAC, Am29000 and Nx686 are trademarks of AMD. Microsoft, MS-DOS, Windows and WindowsNT are registered trademarks of Microsoft Corporation. When used in this Prospectus Supplement, the term logic circuits includes bipolar digital logic and memory circuits.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SENIOR SECURED NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

#### PROSPECTUS SUPPLEMENT SUMMARY

Cautionary Statement Regarding Forward Looking Statements. The statements in this Prospectus Supplement that are forward looking are based on current expectations and involve numerous risks and uncertainties that could cause actual results to differ materially. The forward looking statements include the expectations of the Company regarding the future of the integrated circuit industry; the strategies of the Company; the development, validation, certification, introduction, market acceptance and pricing of K86(TM) products; the future impact of the Company's acquisition of NexGen, Inc.; future business prospects for microprocessor and Flash memory products and other product lines; the Company's future commitment to research and development; planned build-out and expected capability of Fab 25; and projects which are proposed or under construction in Japan, Germany and China. For a discussion of the factors that could cause actual results to differ materially, see "Risk Factors" and such other risks and uncertainties as are detailed in AMD's Securities and Exchange Commission reports and filings. The following summary is qualified in its entirety by the more detailed information and financial statements appearing elsewhere or incorporated by reference in this Prospectus Supplement.

#### THE COMPANY

AMD, founded in 1969, is one of the largest United States-based semiconductor manufacturers, based on sales to third parties, with manufacturing facilities and sales offices throughout the world. AMD's products include a wide variety of industry-standard integrated circuits ("ICs") which are used in many diverse product applications, such as telecommunications equipment, data and network

communications equipment, consumer electronics, personal computers ("PCs") and workstations. AMD's customers include leading electronics manufacturers such as AT&T, Compaq, Hewlett-Packard, IBM, LM Erickson, Motorola and Siemens, each of which was among AMD's top eleven customers in 1995. AMD is a New York Stock Exchange listed company with an equity market capitalization of over \$1.5 billion as of August 1, 1996. For the twelve-month period ended June 30, 1996, AMD's net sales and EBITDA (as defined herein) were approximately \$2.2 billion and \$181.0 million, respectively.

The IC market has grown dramatically over the past ten years, driven primarily by the demand for electronic business and consumer products. Today, ICs are used in virtually all products involving electronics, including personal computers and related peripherals, voice and data communications and networking products, fax and copy machines, home entertainment equipment, industrial control equipment and automobiles. The global demand for ICs has grown at a compound annual rate of 23% (in terms of dollar sales) from 1986 through 1995 based upon figures reported in Worldwide Semiconductor Trade Statistics ("WSTS") published by the Semiconductor Industry Association. The Company believes that the IC market will continue to grow, due to the continuing worldwide demand for electronic business and consumer products. The global IC market is projected by WSTS to grow at a compound annual rate of 13% (in terms of dollar sales) from 1995 through 1999.

The market for ICs can be divided into separate markets for digital and analog devices. AMD participates primarily in the market for digital ICs. In 1995, as reported by WSTS, \$109 billion, or 87%, of the worldwide IC market consisted of digital ICs. The three principal types of digital ICs used in most electronic systems are: (i) memory circuits, (ii) logic circuits and (iii) microprocessors. Memory circuits are used to store data and programming instructions; logic circuits are employed to manage the interchange and manipulation of digital signals within a system; and microprocessors are used for control and computing tasks. In 1995, as reported by WSTS, the \$109 billion digital integrated circuit market was segmented as follows: \$53 billion of memory circuits, \$23 billion of logic circuits and \$33 billion of microprocessors. AMD participates in all three segments of the digital IC market through, collectively, its Communications and Components Group ("CCG"), its Programmable Logic Division ("PLD") and its Computation Products Group ("CPG"). AMD believes that it is

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a leading manufacturer of ICs in the Flash memory, communications and networking, and programmable logic device markets.

CCG products (\$1,220.6 million, or 50%, of 1995 net sales) include Flash memory devices, erasable programmable read-only memories ("EPROMs"), voice and data communications products and embedded processors. CCG provides a variety of connectivity solutions which include ICs used in central office switches, PBX equipment, voice and data terminals and local area network infrastructure equipment. CCG's memory products are primarily Flash memory devices and EPROMs used in a wide range of applications such as PCs, workstations, peripherals, cellular telephones, instrumentation, PBX equipment, avionics and a variety of other equipment where programmed data storage is needed. The Company does not produce any dynamic random access memory ("DRAM") products, the largest and most commodity oriented segment of the memory market. CCG's communications products are used in cellular telephones, central office switching equipment and networking equipment. CCG's embedded processor products are used in applications which include high-performance laser printer controllers, high-resolution graphics controllers, communications controllers and accelerator cards. CCG net sales grew at a compound annual rate of 12% during the period from 1991 through 1995, driven primarily by increased demand for CCG's Flash memory devices.

PLD products (\$255.9 million, or 10%, of 1995 net sales) are high speed programmable logic devices which are used in a wide range of electronic systems, including communications equipment, computers, peripherals, instrumentation, industrial control and military systems. Programmable logic devices are standard logic products produced in a "blank" state that can be custom configured into specific logic circuits by programming the devices with electrical signals. Programmable logic devices give designers the ability to create their own custom logic circuits quickly and decrease time to market for new products. PLD net sales grew at a compound annual rate of 44% during the period from 1991 through 1995, driven primarily by the improved operating performance of programmable logic devices.

CPG products (\$991.8 million, or 40%, of 1995 net sales) include microprocessors and input/output ("I/O") and network products. The majority of CPG's net sales are derived from Microsoft(R) Windows(R) compatible microprocessors which are used primarily in personal computers. Today these products include the Am486(R) and AMD-K5(TM) products and in the future will include the AMD-K6(TM) and subsequent generations of microprocessors. For the six months ended June 30, 1996, CPG's net sales decreased to \$229.7 million from \$612.4 million for the same period in 1995 due to lower Am486 microprocessor sales and limited AMD-K5 microprocessor sales. The Company recently began shipping 100 megahertz ("MHz") AMD-K5 products in volume and

intends to begin volume shipments of AMD-K6 microprocessors in the first half of 1997, although no assurance of such shipments can be given. The Company anticipates that the AMD-K5 microprocessor, which was introduced relatively late in the life cycle of fifth generation microprocessor products, will be a transitional product, unlikely to result in the levels of revenue realized from the Am486 microprocessor. CPG also supplies products for connecting personal computers to local area networks used for networking and Internet applications as well as products that work with central processing units to manage selected I/O system functions such as keyboards, printers, mass storage applications, communications and networking devices. CPG net sales grew at a compound annual rate of 27% during the period from 1991 through 1995, driven primarily by demand for Microsoft Windows compatible microprocessors. CPG net sales declined 62% in the six months ended June 30, 1996, from the same period in 1995.

AMD's strategy is to continue to improve its process technologies used in the production of integrated circuits; to build high volume integrated circuit manufacturing facilities which use these technologies; and to design products that are targeted at high volume markets with the potential to produce high margin revenues for the Company and that can be manufactured at its facilities. As part of this strategy, AMD has invested over \$3.4 billion in capital expenditures and research and development over the past five years. The majority of these expenditures have been made on advanced manufacturing process technology and manufacturing facilities, including Fab 25, the Company's state-of-the-art manufacturing facility. The high volume product markets

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targeted by the Company include Flash memory, communications and networking products, programmable logic devices and Microsoft Windows compatible microprocessors.

In the third quarter of 1995, AMD commenced manufacturing at Fab 25, its newest manufacturing facility, located in Austin, Texas ("Fab 25"). Fab 25 was recognized as one of the best integrated circuit manufacturing facilities in the world for 1995 by Semiconductor International magazine. Fab 25, primarily dedicated to the production of the Company's microprocessor products, has over 950,000 overall square feet and includes 86,700 square feet of clean room space, which the Company believes makes it one of the largest integrated circuit manufacturing facilities in the United States. As presently equipped, Fab 25 is capable of producing approximately 2,000 eight-inch semiconductor wafers per week. AMD has invested over \$860.0 million in the Fab 25 Complex (as defined herein) as of June 30, 1996, and currently expects to have invested over \$1.2 billion by the end of 1997 and over \$1.6 billion by the end of 1999, although the Company is not obligated to make such further investments. Fab 25 is planned to be capable of producing approximately 6,000 eight inch semiconductor wafers per week when operating at full capacity in 2000, although there can be no assurance that Fab 25 will achieve this capability level. The Fab 25 Complex includes ancillary buildings for ultrapure water production, chemical supply, stock and gowning, and facility support (collectively, the "Fab 25 Complex"). The Senior Secured Notes and the New Credit Agreement will be secured by substantially all of the Company's real property, plant and equipment at the Fab 25 Complex.

AMD also has three other integrated circuit manufacturing facilities in Austin, Texas, which, in the aggregate, contain 66,000 square feet of clean room space. AMD is planning to construct a new microprocessor manufacturing facility in Dresden, Germany through an Unrestricted Subsidiary (as defined herein). AMD and Fujitsu Limited ("Fujitsu") are parties to a joint venture, Fujitsu AMD Semiconductor Limited, an Unrestricted Subsidiary pursuant to the terms of the Indenture ("FASL" or the "FASL Unrestricted Subsidiary"), which owns and operates a Flash memory integrated circuit manufacturing facility in Aizu-Wakamatsu, Japan. FASL is currently constructing a second Flash memory device manufacturing facility at the same location. The Company's Submicron Development Center (the "SDC"), in Sunnyvale, California, which has 42,500 square feet of clean room space, commenced operations in the fourth quarter of 1990. The SDC's primary purpose is to develop advanced manufacturing technologies for Flash memory devices, programmable logic devices and microprocessors.

AMD has sales offices worldwide and has manufacturing and assembly and testing facilities in Sunnyvale, California; Austin, Texas; Bangkok, Thailand; Penang, Malaysia; and Singapore. AMD is planning to construct a new test and assembly facility in Suzhou, China.

AMD's executive offices and corporate headquarters are located at One AMD Place, Sunnyvale, California 94086, and its telephone number is (408) 732-2400.

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#### THE OFFERING

Issuer..... Advanced Micro Devices, Inc.

Securities Offered..... \$400.0 million aggregate principal amount of 11%

Senior Secured Notes due 2003.

Maturity..... August 1, 2003.

Interest Payment Dates..... Interest on the Senior Secured Notes will accrue at the rate of 11% per annum, payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1997, to holders of record on the immediately preceding January 15 and July 15, respectively (whether or not a business day). See "Description of Senior Secured Notes--Principal, Maturity and Interest."

Mandatory Redemption..... Except as set forth in "Description of Senior Secured Notes--Repurchase at the Option of Holders," the Company will not be required to make mandatory redemption or sinking fund payments with respect to the Senior Secured Notes.

Optional Redemption..... The Senior Secured Notes will not be redeemable at the Company's option prior to August 1, 2001. Thereafter, the Senior Secured Notes will be subject to redemption at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices set forth herein, plus accrued and unpaid interest through the redemption date. See "Description of Senior Secured Notes--Optional Redemption."

Security..... The Senior Secured Notes will be secured by a first priority security interest, subject to the terms of the Intercreditor Agreement (as defined herein), in substantially all of the Company's real property, plant and equipment at the Fab 25 Complex, subject to Permitted Liens (as defined herein), and excluding, among other things, inventory, accounts receivable and the proceeds thereof (collectively, the "Collateral"). The Collateral also includes proceeds resulting from an Event of Loss (as defined herein) or a Collateral Asset Sale (as defined herein) pending application thereof. Pursuant to the terms of the Intercreditor Agreement, the net proceeds of any disposition of the Collateral following default will be distributed in proportion to the principal amounts outstanding under the New Credit Agreement (as defined herein) and the Senior Secured Notes. No appraisals of any of the Collateral have been prepared by or on behalf of the Company in connection with the sale of the Senior Secured Notes. The value of the Collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers for the Collateral. In no event will debt (including capital lease obligations relating to Fab 25) secured by the Collateral exceed \$650.0 million in principal amount on or before January 1, 1997, or \$800.0 million thereafter less, under certain circumstances, any permanent reduction in the obligations and commitments under the New Credit Agreement. See "Description of Collateral," "The Intercreditor Agreement" and "Description of Senior Secured Notes--Security."

Ranking..... The Senior Secured Notes will be senior secured indebtedness of the Company ranking pari passu in right of payment with all other senior borrowings, including the borrowings under the New Credit Agreement. Any right of the Company to receive assets of any of its subsidiaries upon the latter's liquidation or reorganization (and the consequent right of the holders of the Senior Secured Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that the Company is itself recognized as a creditor of such subsidiary, in

which case the claims of the Company would still be subordinate to any security in the assets of

such subsidiary and any indebtedness of such subsidiary senior to that held by the Company. As of June 30, 1996, the indebtedness (including trade payables and lease obligations) of the Company's subsidiaries (excluding the FASL Unrestricted Subsidiary) was \$53.8 million. See "Description of Senior Secured Notes--Ranking."

Intercreditor Agreement..... The security will be held by IBJ Schroder Bank & Trust Company, as a collateral agent (the "Collateral Agent"), for the benefit of United States Trust Company of New York, as trustee (the "Trustee") for the further benefit of the holders of the Senior Secured Notes, and for the Banks, as defined in the New Credit Agreement (the "Banks"). The Intercreditor Agreement allows the Trustee and Bank of America NT&SA, as agent for the Banks (the "Bank Agent"), to instruct the Collateral Agent to take certain actions under certain circumstances, such as exercising remedies under the security documents. Whether the holders of the Senior Secured Notes or the Banks control those instructions will depend on both the relative principal amounts outstanding of the Senior Secured Notes and loans under the New Credit Agreement, and the type of action which the Collateral Agent is instructed to take. Under certain circumstances, while the New Credit Agreement is outstanding and there is no Event of Default under the Indenture, the Bank Agent, acting alone, may respond in certain specified circumstances to certain ministerial requests of the Company relating to the Collateral. See "The Intercreditor Agreement."

Change of Control..... In the event of a Change of Control (as defined herein) the holders of the Senior Secured Notes will have the right to require the Company to purchase their Senior Secured Notes at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of purchase. See "Description of Senior Secured Notes--Repurchase at the Option of Holders--Change of Control."

Certain Covenants..... The Indenture (as defined herein) pursuant to which the Senior Secured Notes will be issued will contain certain covenants that, among other things, will restrict under certain circumstances the ability of the Company and its Restricted Subsidiaries (as defined herein) to (i) declare or pay dividends; (ii) purchase or redeem capital stock, warrants, options or other rights to acquire capital stock; (iii) redeem subordinated indebtedness; (iv) make certain investments; (v) designate any Restricted Subsidiary to be an Unrestricted Subsidiary (as defined herein); (vi) incur additional indebtedness; (vii) issue any shares of Disqualified Stock (as defined herein) or preferred stock; (viii) incur liens; (ix) create encumbrances or restrictions on the ability of any Restricted Subsidiary of the Company to pay dividends and other payments to the Company; (x) merge or consolidate with any other person; (xi) sell, transfer or lease its assets; (xii) except under certain conditions, sell or otherwise transfer any portion of its equity in any Wholly Owned Restricted Subsidiary (as defined herein); (xiii) enter into transactions with affiliates; or (xiv) amend, modify or change in certain respects the New Credit Agreement. In addition, the Indenture and the Deeds of Trust will require the Company to maintain certain insurance policies covering the Collateral and to provide certain reports to the holders of the Senior Secured Notes. The Collateral Documents will contain certain further covenants relating to the Collateral. As of the Issue Date (as defined herein), the Company's Dresden, Germany Unrestricted Subsidiary and the

Under certain circumstances, the Company will be able to designate current or future subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to most of the covenants set forth in the Indenture. Transactions between the Company and such Unrestricted Subsidiaries will remain subject to the covenants set forth in the Indenture.

Events of Default..... Events of default with respect to the Senior Secured Notes will include, subject to certain qualifications and exceptions, (i) failure to pay principal of or premium, if any, or interest on the Senior Secured Notes; (ii) breach of certain provisions of the Indenture (in certain cases, after the giving of notice); (iii) default or event of default under the New Credit Agreement or other indebtedness under certain circumstances involving a failure to pay principal of or premium, if any, or interest on such indebtedness or resulting in the acceleration the New Credit Agreement or such indebtedness; (iv) failure by the Company or its subsidiaries to pay final judgments aggregating in excess of \$50.0 million; (v) material breach by the Company of any representation and warranty set forth in the Collateral Documents (as defined herein); (vi) material default by the Company in the performance of any covenant set forth in the Collateral Documents; (vii) repudiation by the Company of its obligations under the Collateral Documents; (viii) the unenforceability of the Collateral Documents against the Company for any reason; and (ix) certain events of bankruptcy and insolvency with respect to the Company or certain of its subsidiaries. See "Description of Senior Secured Notes--Events of Default and Remedies."

Use of Proceeds..... Approximately \$150.0 million of the net proceeds will be used to prepay the Company's existing four-year term bank loan. The balance, approximately \$238.5 million, will be used for general corporate purposes.

THE NEW CREDIT AGREEMENT

On July 19, 1996, the Company entered into a \$400.0 million term loan and revolving credit agreement, which was amended on August 7, 1996 (as amended, the "New Credit Agreement"), with Bank of America NT&SA, ABN AMRO Bank N.V. and Canadian Imperial Bank of Commerce (the "Banks"), replacing the Company's existing unsecured, and currently unused, \$250.0 million revolving line of credit and its unsecured \$150.0 million four-year term loan. The Company will use a portion of the proceeds of the Offering to repay the existing \$150.0 million term loan. The New Credit Agreement provides for a \$150.0 million three-year secured revolving line of credit (which can be extended for one additional year, subject to approval of the Banks) and a \$250.0 million four-year secured term loan which is available to the Company for a period of six months after the effective date of the New Credit Agreement (July 19, 1996) and which the Company expects to utilize fully. Borrowings under the New Credit Agreement are subject to the issuance of the Senior Secured Notes. All indebtedness under the New Credit Agreement will be secured by the Deeds of Trust and Security Agreements representing a first priority security interest, subject to the terms of the Intercreditor Agreement, in the Fab 25 Complex. Net proceeds of any disposition of the Collateral following default would be distributed in proportion to the principal amounts outstanding under the New Credit Agreement and the Senior Secured Notes. Prior to January 1, 1997, the Indenture will limit the aggregate borrowings which can be made under the New Credit Agreement to \$250.0 million. See "Description of Collateral," "The Intercreditor Agreement" and "The New Credit Agreement."

SUMMARY AND PRO FORMA FINANCIAL DATA

<TABLE>  
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FISCAL YEARS ENDED					SIX MONTHS ENDED		TWELVE MONTHS ENDED
1991	1992	1993	1994	1995	JULY 2, 1995	JUNE 30, 1996	JUNE 30, 1996
(DOLLARS IN THOUSANDS)							

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:								
Net sales.....	\$1,226,649	\$1,514,489	\$1,648,280	\$2,155,453	\$2,468,379	\$1,266,248	\$ 999,289	\$2,201,420
Gross profit.....	567,825	768,003	858,716	1,141,864	1,051,372	644,658	250,775	657,489
Operating income (loss).....	97,756	257,362	282,392	469,035	222,200	232,753	(122,847)	(133,400)
Net income (loss).....	133,171	233,619	208,356	270,942	216,326	164,982	(9,345)	41,999
OTHER FINANCIAL DATA:								
CCG net sales.....	\$ 789,762	\$ 779,661	\$ 865,249	\$ 830,957	\$1,220,604	\$ 535,054	\$ 638,456	\$1,324,006
PLD net sales.....	59,588	105,159	163,116	186,511	255,930	118,755	131,148	268,323
CPG net sales.....	377,299	629,669	619,915	1,137,985	991,845	612,439	229,685	609,091
Total net sales.....	1,226,649	1,514,489	1,648,280	2,155,453	2,468,379	1,266,248	999,289	2,201,420
EBITDA(1).....	255,323	411,045	459,219	686,700	486,875	346,849	40,958	180,984
Depreciation and amortization.....	157,567	153,683	176,827	217,665	264,675	114,096	163,805	314,384
Capital expenditures(2).....	137,536	223,634	390,493	586,473	650,322	342,203	205,989	514,108
Net interest expense (income) (3).....	17,341	7,132	(4,949)	(10,627)	(8,416)	(2,141)	1,544	(4,731)
PRO FORMA DATA:								
Net interest expense(3) (4).....					\$ 24,085	\$ 13,779	\$ 18,525	\$ 28,831
EBITDA/net interest expense.....					20.2x	25.2x	2.2x	6.3x

<CAPTION>

<S>	AT FISCAL YEARS ENDED					AT JUNE 30, 1996	
	1991	1992	1993	1994	1995	ACTUAL	PRO FORMA (5)
	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:							
Cash(6).....	\$ 312,006	\$ 365,300	\$ 496,620	\$ 430,921	\$ 509,665	\$ 281,658	\$ 520,158
Working capital.....	179,256	382,027	514,532	441,649	461,509	404,570	643,070
Total assets.....	1,304,773	1,453,768	1,944,953	2,525,721	3,078,467	2,845,025	3,095,025
Long-term debt(7).....	48,238	22,213	90,066	75,752	214,965	201,922	451,922
Stockholders' equity...	787,727	1,044,369	1,351,806	1,797,354	2,102,462	2,071,355	2,071,355

</TABLE>

- (1) EBITDA is defined as operating income (loss) of the Company and its consolidated subsidiaries plus depreciation and amortization of the Company and its consolidated subsidiaries. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to service and incur debt. EBITDA should not be considered by an investor as an alternative to net income, as an indicator of the Company's operating performance or as an alternative to the Company's cash flows from operating activities as a measure of liquidity.
- (2) Capital expenditures include capital leases incurred in the amounts of \$26.2 million, \$0.1 million, \$64.5 million, \$34.2 million, \$24.4 million, \$16.5 million, \$0.3 million and \$8.3 million for the fiscal years ended 1991, 1992, 1993, 1994 and 1995, the six months ended July 2, 1995 and June 30, 1996 and the twelve months ended June 30, 1996, respectively.
- (3) Net interest expense (income) is defined as total interest incurred (including all capitalized interest) less all interest income.
- (4) Pro forma net interest expense is pro forma for the Offering and the application of the net proceeds therefrom. Pro forma net interest expense excludes any interest income on the excess cash proceeds of the Offering. Giving effect to interest income from the excess net proceeds from the Offering, pro forma net interest expense, assuming an interest rate of 5% on the excess cash proceeds, would have been \$6.0 million lower for the six months ended July 2, 1995 and June 30, 1996, and \$11.9 million lower for the fiscal year ended December 31, 1995 and the twelve months ended June 30, 1996.
- (5) The pro forma balance sheet data is pro forma for the Offering and the application of the net proceeds therefrom.
- (6) Cash includes cash, cash equivalents and short-term investments.
- (7) Long-term debt includes capital lease obligations but excludes current portions of both long-term debt and capital lease obligations.

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#### RISK FACTORS

Each prospective investor should carefully consider the following risk factors in evaluating the Company before purchasing the Senior Secured Notes.

#### SENIOR SECURED NOTES

**Leverage; Debt Restrictions.** As of June 30, 1996, and for the twelve months ended June 30, 1996, on a pro forma basis after giving effect to the sale of the Senior Secured Notes and the anticipated use of approximately \$150.0 million of the estimated net proceeds therefrom to prepay the Company's



existing four-year term bank loan, the Company would have had total consolidated indebtedness, including capital lease obligations, of approximately \$491.5 million and a ratio of consolidated indebtedness to stockholders' equity of approximately 0.24 to 1.0, and earnings would have been insufficient to cover fixed charges by \$83.3 million. See "Use of Proceeds" and "Capitalization."

The Company's ability to make interest payments on the Senior Secured Notes and to repay the Senior Secured Notes at maturity will be dependent on the Company's future operating performance, which is itself dependent on a number of factors, many of which are not within the Company's control.

The Company has substantial financial commitments with respect to its Dresden, Germany Unrestricted Subsidiary and its FASL Unrestricted Subsidiary, as those terms are defined below. The Indenture will permit the Company to invest up to \$500.0 million in the aggregate in its Dresden, Germany Unrestricted Subsidiary, either as equity investments or loans, and to purchase products manufactured at the Dresden facility at prices not in excess of formula prices established in the Indenture. Similarly, the Indenture will permit the Company to make up to \$50.0 million of additional investments in its FASL Unrestricted Subsidiary, to guarantee up to \$175.0 million of borrowings by such subsidiary and to purchase products manufactured by such subsidiary at prices not in excess of formula prices in effect on the Issue Date. In addition, the Company may invest in its Dresden, Germany Unrestricted Subsidiary and its FASL Unrestricted Subsidiary such amounts as are permitted under the restricted payment covenant contained in the Indenture. See "Description of Senior Secured Notes--Certain Covenants--Restricted Payments" and "Certain Material Agreements."

The documents governing the indebtedness of the Company expected to be outstanding upon consummation of the Offering (including the New Credit Agreement) will contain significant covenants that will limit the Company's and its subsidiaries' ability to engage in various transactions and, in certain cases, require satisfaction of specified financial performance criteria. In addition, the occurrence of certain events (including, without limitation, failure to comply with the foregoing covenants, material inaccuracies of representations and warranties, certain defaults under or acceleration of other indebtedness and events of bankruptcy or insolvency) would, in certain cases after notice and grace periods, constitute events of default permitting acceleration of such indebtedness. The limitations imposed by the documents governing the outstanding indebtedness of the Company and its subsidiaries will be substantial, and failure to comply with such limitations could have a material adverse effect on the business, results of operations and financial condition of the Company. See "The New Credit Agreement," "Description of Senior Secured Notes" and "Certain Material Agreements--Dresden."

Risk of Not Realizing Collateral Value; Risk of Shared Collateral. No appraisals of any of the Collateral have been prepared by, or on behalf of, the Company in connection with the sale of the Senior Secured Notes. AMD has invested over \$860.0 million in the Fab 25 Complex as of June 30, 1996. The proceeds from a sale of the Collateral in the event of a foreclosure would depend on various factors at the time of the sale, including the strength of the market for integrated circuits and general economic conditions, and whether the Collateral could be sold intact as an integrated circuit manufacturing facility or would have to be disassembled and sold in parts, which would likely result in significantly lower proceeds than the Company's investment. The Collateral is currently dedicated to the production of microprocessors. Because significant time and expense would be required to reconfigure Fab 25 to produce ICs other than microprocessors or logic ICs, the proceeds from a sale of the Collateral in a foreclosure would likely be lower if few or none of the parties interested in purchasing the Collateral intended to utilize the Collateral to produce microprocessors or logic ICs. The Company does not believe that an integrated circuit manufacturing facility has ever been sold in a foreclosure sale, which makes the likely results of such a foreclosure sale more difficult to predict. Accordingly, there can be no assurance that the

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proceeds of any sale of the Collateral following a default would be sufficient to satisfy the aggregate amounts due on the Senior Secured Notes and outstanding under the New Credit Agreement. If such proceeds were not sufficient to repay all such amounts, holders of the Senior Secured Notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Company's remaining assets. See "Description of Collateral." In addition, the ability of holders of Senior Secured Notes to realize upon the Collateral may be subject to certain federal bankruptcy law limitations in the event of a bankruptcy involving the Company. See "Description of Senior Secured Notes--Certain Bankruptcy Limitations." The Intercreditor Agreement allows the Trustee and Bank of America NT&SA, as agent for the Banks (the "Bank Agent"), to instruct the Collateral Agent to take certain actions under certain circumstances, such as exercising remedies under the Collateral Documents. Whether the holders of the Senior Secured Notes or the Banks control those instructions will depend on both the relative

principal amounts outstanding of the Senior Secured Notes and loans under the New Credit Agreement, and the type of action which the Collateral Agent is instructed to take. There can be no assurance that the holders of the Senior Secured Notes will represent a sufficient number of votes to control instructions to the Collateral Agent. See "The Intercreditor Agreement."

Risks in Connection with an Event of Loss Affecting Collateral. The Senior Secured Notes are intended to be secured by liens on substantially all of the Company's real property, plant and equipment at the Fab 25 Complex, including any insurance or condemnation proceeds resulting from an Event of Loss (as herein defined) with respect to the Collateral. Such proceeds will be held in an account with the Collateral Agent pending expenditure by the Company or until used to redeem all or a portion of the Senior Secured Notes and to prepay amounts outstanding under the New Credit Agreement pursuant to the terms of the Intercreditor Agreement. There is no statutory or otherwise clearly established method for perfecting a security interest in such an account under the law applicable to the Security Agreement, which is the applicable Collateral Document. Consequently, no assurance can be given that the holders of the Senior Secured Notes will obtain the benefit of a valid and perfected security interest in any insurance or condemnation proceeds resulting from an Event of Loss.

Change of Control Provisions. Upon the occurrence of a Change of Control, at any time, the Company will be required to offer to repurchase each holder's Senior Secured Notes at a repurchase price equal to 101% of the aggregate principal amount thereof. There can be no assurance that the Company will have the financial resources to effect any such repurchase. See "Description of Senior Secured Notes--Repurchase at the Option of Holders--Change of Control."

Operating Subsidiaries; Structural Subordination. Certain operations of the Company are conducted through subsidiaries, including its Dresden, Germany Unrestricted Subsidiary and its FASL Unrestricted Subsidiary. Except to the extent the Company may itself be a creditor with recognized claims against its subsidiaries, the claims of creditors of the subsidiaries will have priority with respect to the assets and earnings of the subsidiaries over the claims of creditors of the Company, including holders of the Senior Secured Notes, even though subsidiary obligations do not constitute senior indebtedness of the Company. As of June 30, 1996, the indebtedness (including trade payables and capital lease obligations) of the Company's subsidiaries (excluding the FASL Unrestricted Subsidiary) was \$53.8 million. See "Description of Senior Secured Notes--Ranking" and "Certain Material Agreements."

#### MICROPROCESSOR PRODUCTS

Intel Dominance. Intel Corporation ("Intel") has long held a dominant position in the market for microprocessors used in PCs. Intel's dominant market position has to date allowed it to set x86 microprocessor standards and thus dictate the type of product the market requires of Intel's competitors. In addition, Intel's financial strength has enabled it to reduce prices on its microprocessor products within a short period of time following their introduction, which reduces the margins and profitability of its competitors. AMD believes that the process technologies used in the fabrication of the Company's microprocessors are currently somewhat behind those of Intel. The Company expects Intel to continue to invest heavily in research and development and new manufacturing facilities and to maintain its dominant position through advertising campaigns designed to

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engender brand loyalty to Intel among PC purchasers. In addition to its dominant microprocessor market share, Intel also dominates the PC platform in other manners. For example, Intel has obtained a dominant market share in sales of 64-bit or Pentium-class core logic chip sets, has emerged as the world's largest motherboard manufacturer, has become a significant manufacturer of personal computers, incorporating Intel microprocessors, chip sets, motherboards and other Intel-designed components for resale by third-party original equipment manufacturers ("OEMs") under such OEMs' names, and has purchased an equity interest in Phoenix Technologies Ltd., a company which has a significant share of the market for BIOS software (basic input/output system software encoded in read-only memory which controls access to devices connected to a PC, such as the monitor and the serial communications port). The Company does not have the financial resources to compete with Intel on such a large scale. As long as Intel remains in this dominant position, its product introduction schedule, product pricing strategy and customer brand loyalty may continue to have a material adverse effect on the Company, as they have had in the past.

As Intel has expanded its role in designing and setting standards for PC systems, many PC OEMs have reduced their system development expenditures and have begun to purchase microprocessors in conjunction with chip sets or in assembled motherboards. In marketing its microprocessors to these OEMs and dealers, AMD is dependent upon companies other than Intel for the design and manufacture of core-logic chip sets, motherboards, BIOS software and other components. In recent years, these third-party designers and manufacturers have lost market share to Intel. In addition, these companies are able to

produce chip sets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors only to the extent that Intel makes its related proprietary technology available. Any delay in the availability of such technologies would make it increasingly difficult for them to retain or regain market share. To compete with Intel in this market in 1996 and beyond, the Company intends to form closer relationships with third-party designers and manufacturers of core-logic chip sets, motherboards, BIOS software and other components, expand its chip set and system design capabilities, and sell a portion of the Company's processors along with chip sets and license system designs incorporating the Company's processors and products resulting from AMD's relationships with such third party designers and manufacturers to OEMs. There can be no assurance, however, that such efforts by the Company will be successful. The Company expects that as Intel introduces future generations of microprocessors, chip sets and motherboards, the design of chip sets and higher level board products which support Intel microprocessors will become increasingly dependent on the Intel microprocessor design and may become incompatible with non-Intel PC systems. If the infrastructure of third-party designers and manufacturers which supports non-Intel PC platforms were to fail to continue to support the Company's products or to offer products competitive with Intel's, the Company could experience difficulties marketing its microprocessors, which could have a material adverse effect on the Company.

Dependence on New AMD Microprocessor Products. Am486 microprocessor products contributed a significant portion of AMD's revenues, profits and margins in 1994 and 1995. AMD expects Am486 microprocessor revenues, profits and margins in 1996 to be significantly below those of 1995. As the product life cycle of fourth-generation x86 products declines, AMD's ability to maintain or expand its current levels of revenues from microprocessor products, and its ability to benefit fully from the substantial financial commitments it has made to process technologies and integrated circuit manufacturing facilities dedicated to the production of microprocessors, will depend upon its success in developing and marketing in a timely manner its next generations of microprocessor products, the K86 RISC Superscalar(TM) products. See "--Manufacturing--Process Technology" and "--Manufacturing--Commitments to Facilities Dedicated to Specific Products." The Company recently began shipping its first K86 products including the 100 MHz AMD-K5 products which are designed to be competitive with the Pentium, Intel's fifth generation microprocessor. The Company anticipates that the AMD-K5 microprocessor, which was introduced relatively late in the life cycle of fifth generation microprocessor products, will be a transitional product, unlikely to result in the levels of revenue for the Company realized from the Am486 microprocessor. The Company's AMD-K5 products have not, to date, achieved substantial market acceptance, which has had and continues to have a material adverse effect on the Company. The Company acquired NexGen, Inc. ("NexGen") in January 1996, in part, to accelerate the introduction of its microprocessor products, particularly its sixth generation products. The Company is modifying

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NexGen's sixth-generation design using AMD's design, verification and manufacturing technologies. With these changes, AMD intends to develop and produce the AMD-K6 microprocessor. AMD does not expect any sales of the AMD-K6 products in 1996. The Company intends to begin volume shipments of the AMD-K6 products in the first half of 1997, although no assurance can be given that such shipments will occur. The Company's production and sales plans for K86 microprocessors, including the AMD-K6 microprocessor, are subject to numerous risks and uncertainties, including the timing of the introduction of future AMD-K5 products and of AMD-K6 products, the possibility that volume shipments of the AMD-K6 microprocessor may be delayed due to the time required to verify operating systems and application software compatibility, the development of market acceptance for the AMD-K5 and the AMD-K6 products particularly with leading OEMs of PCs, the effects of marketing and pricing strategies adopted by Intel, the possible adverse effects of existing and future customer inventory levels, the pace at which the Company is able to ramp production of fifth and sixth generation microprocessors in Feb 25, the possibility that products newly introduced by the Company may be found to be defective, possible adverse conditions in the personal computer market and unexpected interruptions in the Company's manufacturing operations. A failure of the Company's K86 products, particularly the AMD-K6, to be timely introduced or achieve market acceptance, would have a material adverse effect on the Company.

Dependence on Market Acceptance of x86 Standard and Dominance of Windows. Customer acceptance of AMD's K86 products will depend upon the continued demand for x86-based personal computers, including the continued development of application software programs for such computers. There can be no assurance of the continued acceptance of the x86 standard or that software developers will continue to develop software compatible with this standard. AMD's K86 products will face competition not only from x86 products manufactured by Intel and others but also from products based upon an increasing number of different architectures which have been developed or are under development by Hewlett-Packard, IBM, Motorola, Silicon Graphics, Sun Microsystems, Digital Equipment Corporation and other manufacturers of integrated circuits. Several of these manufacturers, such as Motorola, Digital

Equipment Corporation, Silicon Graphics and Sun Microsystems, produce microprocessors which are designed to be compatible with such operating systems as WindowsNT(R) and UNIX but not with Windows(R). Currently, as a result of the dominance of the Windows operating system, which operates with x86 based PCs, AMD is able to market its microprocessors without significant competition from these manufacturers. AMD would lose much of this advantage if the Microsoft Windows operating system should be displaced as the dominant operating system software by one or more other systems, such as WindowsNT or UNIX. A reduction in the market acceptance of either the x86 standard or the Windows operating system could have a material adverse effect on the Company.

Compatibility Certifications. For its future generations of K86 microprocessors, AMD intends to obtain Windows and Windows 95 certifications from Microsoft and other appropriate certifications from recognized testing organizations. A failure to obtain certification from Microsoft would prevent the Company from describing and labeling its K86 microprocessors as Microsoft Windows compatible. This could substantially impair the Company's ability to market the products and could have a material adverse effect on the Company.

Acquisition of NexGen. AMD believes that its acquisition of NexGen is important to the development and introduction of its K86 products, particularly the AMD-K6 microprocessor. Achieving the anticipated benefits of the acquisition will depend in part upon whether the integration of the two companies' businesses is accomplished in an efficient and effective manner, and there can be no assurance that this will occur. The inability of management to integrate the operations of the two companies successfully could have a material adverse effect on the Company. In addition, as commonly occurs with mergers of technology companies, aggressive competitors may undertake formal initiatives during the integration phase to attract customers and to recruit key employees through various incentives. AMD has acquired and is currently developing new technologies to manufacture its sixth generation microprocessor which will utilize NexGen's sixth generation design as modified by AMD. A costly reconfiguration of its facilities may be required to implement these new technologies. There can be no assurance that AMD will be successful in implementing these new technologies

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even with a reconfiguration of its facilities. If the new technologies cannot be successfully implemented or if AMD encounters other difficulties in manufacturing its sixth generation microprocessors, such an event would have a material adverse effect on the Company.

Fluctuation in PC Market. Since most of AMD's microprocessor products are used in personal computers and related peripherals, AMD's future growth is closely tied to the performance of the PC industry. The Company could be materially and adversely affected by industry-wide fluctuations in the PC marketplace in the future.

Possible Rights of Others. Prior to its acquisition by AMD, NexGen granted limited manufacturing rights regarding certain of its current and future microprocessors, including the Nx586(R) and Nx686(TM), to IBM and Compaq. The Company does not intend to produce any NexGen products as it is the Company's position that its forthcoming AMD-K6 products are AMD products and not NexGen products. There can be no assurance that neither IBM nor Compaq will seek to establish rights with respect to the products. If either IBM or Compaq or both were deemed to have rights to produce AMD's AMD-K6 products for their own use and IBM were deemed to have the right to produce limited volumes of such products for sale to third parties, such production could reduce the potential market for microprocessor products produced by AMD, the profit margin achievable with respect to such products, or both.

#### MANUFACTURING

Underutilized Capacity. The Company's manufacturing facilities are currently underutilized as a result of reduced demand for certain of the Company's products and may remain so until the Company has developed new products and such products have achieved market acceptance. The Company's operations related to microprocessors are particularly affected by this situation. The underutilization of the Company's manufacturing facilities is having, and could continue to have, a material adverse effect on the Company. The Company plans to increase its manufacturing capacity by making significant capital investments in Fab 25 and in its Dresden, Germany Unrestricted Subsidiary which will construct an integrated circuit manufacturing facility, which is presently intended to be dedicated to the production of microprocessors and other advanced logic products. In addition, its FASL Unrestricted Subsidiary plans to construct a second Flash memory device manufacturing facility. There can be no assurance that the industry projections regarding future growth in the markets for integrated circuits upon which the Company is basing its strategy of increasing its manufacturing capacity will prove to be accurate. If demand for the Company's products does not increase, the underutilization of the Company's manufacturing facilities will likely increase and have a material adverse effect on the Company.

Process Technology. Manufacturers of integrated circuits are constantly

seeking to improve the process technologies used to manufacture their products. In order to remain competitive, the Company must make continuing substantial investments in improving its process technologies. In particular, the Company has made and continues to make significant research and development investments in the technologies and equipment used in the fabrication of its microprocessor products and by FASL in the fabrication of Flash memory devices. Portions of these investments might not be recoverable if the Company's K86 microprocessors fail to gain market acceptance or if the market for its Flash memory products should significantly deteriorate. This could have a material adverse effect on the Company. In addition, any inability of the Company to remain competitive with respect to process technology could have a material adverse effect on the Company.

Commitments to Facilities Dedicated to Specific Products. The Company has made and plans to continue to make substantial capital investments in integrated circuit manufacturing facilities dedicated to the production of specific product lines. AMD has invested over \$860.0 million in the Fab 25 Complex as of June 30, 1996, and currently expects to have invested over \$1.2 billion by the end of 1997 and over \$1.6 billion by the end of 1999, although the Company is not obligated to make such further investments. Fab 25 is currently dedicated to the production of Microsoft Windows compatible microprocessors. Other facilities of the Company are also dedicated to the production of specific product lines. In addition, the Company's Dresden, Germany Unrestricted Subsidiary currently plans to construct a semiconductor manufacturing facility, at an estimated cost of \$1.5 billion over five years, which will be dedicated to the production of microprocessors. Significant time and

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expense would be incurred were the Company to alter any of its facilities so that they could be used to produce other IC products. Any such alteration, resulting from a need to respond to changes in the markets for the Company's products or otherwise, could have a material adverse effect on the Company.

Manufacturing Constraints. While the Company's manufacturing facilities are currently underutilized, there have been situations in the past in which the Company's manufacturing facilities were inadequate to enable the Company to meet demand for certain of its products. In addition to having its own fabrication facilities, AMD has foundry arrangements for the production of its products by third parties. Any inability of AMD to generate sufficient manufacturing capabilities to meet demand, either in its own facilities or through foundry or similar arrangements with others, could have a material adverse effect on the Company.

Manufacturing Interruptions. Any substantial interruption with respect to any of AMD's manufacturing operations, either as a result of a labor dispute, equipment failure or other cause, could have a material adverse effect on the Company. The Company may also be materially adversely affected by fluctuations in manufacturing yields.

Essential Manufacturing Materials. Certain of the raw materials used by AMD in the manufacture of its products are available from a limited number of suppliers. For example, several types of the integrated circuit packages purchased by AMD, as well as by the majority of other companies in the semiconductor industry, are principally supplied by Japanese companies. Shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. If AMD were unable to procure certain of such materials from any source, it would be required to reduce its manufacturing operations which could have a material adverse effect on the Company.

International Manufacturing. Nearly all product assembly and final testing of AMD's products are performed at its manufacturing facilities in Penang, Malaysia; Singapore; and Bangkok, Thailand; or by subcontractors in Asia. Foreign manufacturing entails political and economic risks, including political instability, expropriation, currency controls and fluctuations, changes in freight and interest rates, and loss or modification of exemptions for taxes and tariffs. For example, if AMD were unable to assemble and test its products abroad, or if air transportation between the United States and AMD's overseas facilities were disrupted, there could be a material adverse effect on the Company.

#### OTHER RISK FACTORS

Importance of Flash Memory Device Business; Recent Pricing Weakness. The market for Flash memory devices has recently experienced rapid growth and is likely to become increasingly competitive as additional manufacturers introduce competitive products and production capacity in the industry increases. The Company's primary competition with respect to Flash memory devices is Intel. A substantial portion of the Company's revenues are derived from sales of Flash memory devices, and the Company expects that this will continue to be the case. In the first quarter of 1996, the Company experienced declines in the selling prices of Flash memory devices, and in the second quarter, both demand for the products and their selling prices declined. There

can be no assurance that the Company will be able to maintain its market share in Flash memory devices or that price declines may not accelerate as the market develops and as new competitors emerge. A decline in the Company's Flash memory device business could have a material adverse effect on the Company.

Dependence on Third Party for PLD Software; Possible Acquisition of Existing PLD Software Supplier by Competitor. Customers utilizing programmable logic devices must use special software packages, generally provided by the suppliers of the programmable logic devices, to program the programmable logic devices. AMD currently provides its programmable logic device customers with software which it licenses from MINC, Inc. ("MINC"), an unaffiliated company, and is dependent upon MINC for the software and continuing improvements in the software. Recently, AMD has been advised orally by MINC that it intends to enter into an agreement to be acquired by one of the Company's major competitors in the market for programmable logic devices. Such an acquisition could have an adverse effect on the existing relationship between the Company and MINC, as a result of which the Company might seek to develop its own software internally or to license alternative software from another third party. No assurance can be given that the Company would be successful

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in either endeavor. An inability of AMD to continue to obtain appropriate software and improvements from MINC, to license alternative software from another third party, or to develop its own software internally could adversely affect AMD's PLD business, including the timing of new or improved product introductions, which could have a material adverse effect on the Company.

Technological Change and Industry Standards. The market for AMD's products is generally characterized by rapid technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. The establishment of industry standards is a function of market acceptance. Currently accepted industry standards may change at any time. AMD's success depends substantially upon its ability, on a cost-effective and timely basis, to continue to enhance its existing products and to develop and introduce new products that take advantage of technological advances and adhere to evolving industry standards. An unexpected change in one or more of the technologies related to its products, in market demand for products based on a particular technology or in accepted industry standards could have a material adverse effect on the Company. There can be no assurance that AMD will be able to develop new products in a timely and satisfactory manner to address new industry standards and technological changes, or to respond to new product announcements by others, or that any such new products will achieve market acceptance.

Product Incompatibility. While AMD submits its products to rigorous internal and external testing, there can be no assurance that AMD's products will be compatible with all industry standard software and hardware. Any inability of AMD's customers to achieve such compatibility or compatibility with other software or hardware after AMD's products are shipped in volume could have a material adverse effect on the Company. There can be no assurance AMD will be successful in correcting any such compatibility problems that are discovered or that such corrections will be acceptable to customers or made in a timely manner. In addition, the mere announcement of an incompatibility problem relating to the Company's products could have a material adverse effect on the Company.

Competition. The integrated circuit industry is intensely competitive and, historically, has experienced rapid technological advances in product and system technologies together with substantial price reductions in maturing products. After a product is introduced, prices normally decrease over time as production efficiency and competition increase, and a successive generation of products is developed and introduced for sale. Technological advances in the industry result in frequent product introductions, regular price reductions, short product life cycles and increased product capabilities that may result in significant performance improvements. Competition in the sale of integrated circuits is based upon performance, product quality and reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition, financial strength and ability to deliver in large volumes on a timely basis.

In each particular market in which it participates, the Company faces competition from different groups of companies. AMD, Fujitsu and Intel are the world's largest producers of Flash memory devices. Sharp and Atmel Corporation are also participants in the market. With respect to CCG's other product lines, the Company's primary competitors are: SGS Thomson and Texas Instruments with respect to EPROMs; Siemens, NEC, LM Erickson, Alcatel and other large producers of voice communications equipment with respect to line cards; National Semiconductor, 3Com and Intel with respect to networking products; and Motorola, Intel, Texas Instruments and SGS Thomson with respect to embedded processors. In PLD's market, the Company's principal competitors are Altera, Lattice Semiconductor and other smaller companies focused on programmable logic device development and production. With respect to

microprocessors, Intel holds a dominant position which has to date allowed it to set x86 microprocessor standards and thus dictate the type of product the market requires of Intel's competitors. See "--Microprocessor Products--Intel Dominance." The Company's principal competitors with respect to the network and I/O products include: National Semiconductor, Intel, 3Com, Digital Equipment Corporation, Fujitsu and Seeq with respect to Ethernet local area network products; and Western Digital and Hyundai with respect to SCSI disk host controllers.

Fluctuations in Operating Results. AMD's operating results are subject to substantial quarterly and other fluctuations due to a variety of factors, including the effects of competition with Intel in the microprocessor industry, competitive pricing pressures, anticipated decreases in unit average selling prices of AMD's products,

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fluctuations in manufacturing yields, availability and cost of products from AMD's suppliers, the gain or loss of significant customers, new product introductions by AMD or its competitors, changes in the mix of products sold and in the mix of sales by distribution channels, market acceptance of new or enhanced versions of AMD's products, seasonal customer demand, the timing of significant orders and the timing and extent of product development costs. In addition, operating results could be adversely affected by general economic and other conditions affecting the timing of customer orders, a downturn in the market for PCs, and order cancellations or rescheduling. AMD's customers may change delivery schedules or cancel orders without significant penalty. Many of the factors listed above are outside of AMD's control. These factors are difficult to forecast, and these or other factors could materially adversely affect AMD's quarterly or annual operating results.

Order Revision and Cancellation Policies. AMD manufactures and markets a standard line of products. Sales are made primarily pursuant to purchase orders for current delivery, or agreements covering purchases over a period of time, which are frequently subject to revision and cancellation without penalty. As a result, AMD must commit resources to the production of products without having received advance purchase commitments from customers. Any inability to sell products to which it had devoted significant resources could have a material adverse effect on the Company. Distributors typically maintain an inventory of AMD's products. Pursuant to the Company's agreements with the distributors, AMD protects its distributors' inventory of AMD's products against price reductions as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally contain a provision for the return of AMD's products in the event the agreement with the distributor is terminated. The price protection and return rights AMD offers to its distributors may materially adversely affect the Company.

Key Personnel. AMD's future success depends upon the continued service of numerous key engineering, manufacturing, sales and executive personnel. There can be no assurance that AMD will be able to continue to attract and retain qualified personnel necessary for the development and manufacture of its products. Loss of the service of, or failure to recruit, key engineering design personnel could be significantly detrimental to AMD's product development programs or otherwise have a material adverse effect on the Company.

Product Defects. One or more of AMD's products may possibly be found to be defective after AMD has already shipped such products in volume, requiring a product replacement, recall, or a software fix which would cure such defect but impede performance. Product returns could impose substantial costs on AMD and have a material adverse effect on the Company.

Intellectual Property Rights; Potential Litigation. Although AMD attempts to protect its intellectual property rights through patents, copyrights, trade secrets and other measures, there can be no assurance that AMD will be able to protect its intellectual property adequately or that competitors will not be able to develop similar technology independently. There can be no assurance that any patent applications that AMD may file will be issued or that foreign intellectual property laws will protect AMD's intellectual property rights. There can be no assurance that any patent licensed by or issued to AMD will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to AMD. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate AMD's products or design around the patents issued to or licensed by AMD.

From time to time, AMD has been notified that it may be infringing intellectual property rights of others. If any such claims are asserted against AMD, AMD may seek to obtain a license under the third party's intellectual property rights. AMD could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time consuming and could materially adversely affect the Company. For example, for many years the Company was involved in intellectual property litigation with Intel which was settled in 1995. The litigation

required substantial resources of the Company. No assurance can be given that all necessary licenses can be obtained on satisfactory terms, or that litigation may always be avoided or successfully concluded.

Environmental Regulations. The failure to comply with present or future governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in

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the manufacturing process could result in fines being imposed on AMD, suspension of production, alteration of AMD's manufacturing processes or cessation of operations. Such regulations could require AMD to acquire expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure by AMD to control the use, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject AMD to future liabilities and could have a material adverse effect on the Company.

International Sales. AMD derives a substantial portion of its revenues from its subsidiaries located in Europe and Asia. AMD's international sales operations entail political and economic risks, including expropriation, currency controls, exchange fluctuations, changes in freight rates and changes in rates for taxes and tariffs.

Domestic and International Economic Conditions. AMD's business is subject to general economic conditions, both in the United States and abroad. A significant decline in economic conditions in any significant geographic area could have a material adverse effect upon the Company.

Volatility of Stock Price; Ability to Access Capital. Based on the trading history of its stock, AMD believes factors such as quarterly fluctuations in AMD's financial results, announcements of new products by AMD or its competitors and general conditions in the semiconductor industry have caused and are likely to continue to cause the market price of AMD common stock to fluctuate substantially. Technology company stocks in general have experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of the companies. This market volatility may adversely affect the market price of AMD's common stock and consequently limit the Company's ability to raise capital. In addition, an actual or anticipated shortfall in revenue, gross margins or earnings from securities analysts' expectations could have an immediate effect on the trading price of AMD common stock in any given period.

Earthquake Danger. AMD's corporate headquarters, a portion of its manufacturing facilities, assembly and research and development activities and certain other critical business operations are located near major earthquake fault lines. The Company could be materially adversely affected in the event of a major earthquake.

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#### USE OF PROCEEDS

The proceeds from the sale of the Senior Secured Notes offered hereby after deducting underwriting discounts and commissions and estimated expenses of the Offering are expected to be approximately \$388.5 million. The Company will use approximately \$150.0 million of the net proceeds to prepay its existing four-year term bank loan which matures on January 5, 1999, and bears interest at a floating rate (6.6% as of August 1, 1996). The Company expects to use the balance of the net proceeds (approximately \$238.5 million) for general corporate purposes.

Simultaneously with the closing of the Offering, the Company will become entitled to borrow under the New Credit Agreement, which provides for a term loan of up to \$250.0 million and a revolving loan facility in the amount of \$150.0 million which, together with the Senior Secured Notes, will be secured by the Collateral. Prior to January 1, 1997, the Indenture will limit the aggregate borrowings which can be made under the New Credit Agreement to \$250.0 million. See "Risk Factors--Senior Secured Notes--Risk of Not Realizing Collateral Value; Risk of Shared Collateral," "Description of Collateral," "The Intercreditor Agreement" and "The New Credit Agreement."

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#### CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as of June 30, 1996, and as adjusted to give effect to (i) the sale of the Senior Secured Notes offered by the Company, (ii) the receipt by the Company of the estimated net proceeds therefrom and (iii) the repayment of the Company's existing \$150.0 million term loan with a portion of such proceeds. This table should be read in conjunction with the attached Supplemental Consolidated Financial Statements of the Company and the related notes thereto and Management's Discussion and Analysis of Results of Operations and



Financial Condition included elsewhere in this Prospectus Supplement. See "The New Credit Agreement" for information concerning the term loan and revolving credit facility to be available under the New Credit Agreement contemporaneously with the closing of the Offering.

<TABLE>  
<CAPTION>

	JUNE 30, 1996	
	AS	
	ACTUAL	ADJUSTED
	(IN THOUSANDS)	
<S>	<C>	<C>
Cash (1).....	\$ 281,658	\$ 520,158
Short-term debt (2).....	\$ 39,617	\$ 39,617
Long-term debt (3):		
11% Senior Secured Notes.....	\$ --	\$ 400,000
Existing bank term loan.....	150,000	--
New Credit Agreement (4).....	--	--
Other.....	51,922	51,922
Total long-term debt.....	201,922	451,922
Stockholders' equity:		
Common stock, \$0.01 par value:		
Authorized--250,000,000 shares; issued and		
outstanding--135,028,165 shares (5).....	1,404	1,404
Capital in excess of par value.....	936,475	936,475
Retained earnings.....	1,133,476	1,133,476
Total stockholders' equity.....	2,071,355	2,071,355
Total capitalization.....	\$2,273,277	\$2,523,277

</TABLE>

- - - - -
- (1) Cash includes cash, cash equivalents and short-term investments.
  - (2) Short-term debt includes borrowings and current portions of both long-term debt and capital lease obligations.
  - (3) Long-term debt includes capital lease obligations and excludes current portions of both long-term debt and capital lease obligations.
  - (4) The Company expects to borrow \$250.0 million under the term loan provisions of the New Credit Agreement within six months of the Issue Date. Prior to January 1, 1997, the Indenture will limit the aggregate borrowings which can be made under the New Credit Agreement to \$250.0 million.
  - (5) Does not include 5,014,861 shares of common stock reserved for issuance under outstanding options and warrants.

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SELECTED CONSOLIDATED FINANCIAL DATA AND  
RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth selected statement of income data, other financial data and balance sheet data for the Company. The selected statement of income data for the fiscal years ended 1993, 1994 and 1995 and selected balance sheet data at fiscal years ended 1994 and 1995 are derived from supplemental consolidated financial statements of the Company which have been audited by Ernst & Young LLP, the Company's independent auditors. The selected statement of income data for the fiscal years ended 1991 and 1992 and selected balance sheet data at fiscal years ended 1991, 1992 and 1993 are derived from unaudited supplemental consolidated financial statements of the Company. The selected statement of income data and balance sheet data for the six months ended July 2, 1995 and June 30, 1996 are derived from unaudited condensed consolidated financial statements of the Company. Other financial data for all fiscal years and six month periods are derived from the audited financial statements, the unaudited financial statements or the books and records of the Company. The unaudited condensed consolidated financial statements of the Company include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of its financial position at the end of, and the results of its operations for, these periods. Operating results for the six months ended June 30, 1996 are not necessarily indicative of the results that may be expected for the full year ended December 29, 1996. The data should be read in conjunction with the Company's Supplemental Consolidated Financial Statements and the Notes thereto, included elsewhere in this Prospectus Supplement. On January 17, 1996, the Company acquired NexGen in a transaction accounted for as a pooling of interests. All financial data of the Company for the periods presented has been supplementally prepared to give retroactive effect to the merger with NexGen.

<TABLE>  
<CAPTION>

	FISCAL YEARS ENDED					SIX MONTHS ENDED	
	1991	1992	1993	1994	1995	JULY 2, 1995	JUNE 30, 1996
	(DOLLARS IN THOUSANDS)						
STATEMENT OF INCOME DATA:							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$1,226,649	\$1,514,489	\$1,648,280	\$2,155,453	\$2,468,379	\$1,266,248	\$ 999,289
Expenses:							
Cost of sales.....	658,824	746,486	789,564	1,013,589	1,417,007	621,590	748,514
Research and development.....	223,651	237,679	279,412	295,326	416,521	202,569	187,548
Marketing, general and administrative.....	246,418	272,962	296,912	377,503	412,651	209,336	186,074
	1,128,893	1,257,127	1,365,888	1,686,418	2,246,179	1,033,495	1,122,136
Operating income (loss).....	97,756	257,362	282,392	469,035	222,200	232,753	(122,847)
Litigation settlement...	--	--	--	(58,000)	--	--	--
Interest income and other, net.....	57,007	18,913	16,931	17,134	32,465	14,033	51,098
Interest expense.....	(21,592)	(17,677)	(4,398)	(4,410)	(3,059)	(1,079)	(3,793)
Income before income taxes and equity in joint venture.....	133,171	258,598	294,925	423,759	251,606	245,707	(75,542)
Provision (benefit) for income taxes.....	--	24,979	85,935	142,232	70,206	81,840	(31,723)
Income before equity in joint venture.....	133,171	233,619	208,990	281,527	181,400	163,867	(43,819)
Equity in net income (loss) of joint venture.....	--	--	(634)	(10,585)	34,926	1,115	34,474
Net income (loss).....	\$ 133,171	\$ 233,619	\$ 208,356	\$ 270,942	\$ 216,326	\$ 164,982	\$ (9,345)
OTHER FINANCIAL DATA:							
CCG net sales.....	\$ 789,762	\$ 779,661	\$ 865,249	\$ 830,957	\$1,220,604	\$ 535,054	\$ 638,456
PLD net sales.....	59,588	105,159	163,116	186,511	255,930	118,755	131,148
CPG net sales.....	377,299	629,669	619,915	1,137,985	991,845	612,439	229,685
Total net sales.....	1,226,649	1,514,489	1,648,280	2,155,453	2,468,379	1,266,248	999,289
EBITDA(1).....	255,323	411,045	459,219	686,700	486,875	346,849	40,958
Depreciation and amortization.....	157,567	153,683	176,827	217,665	264,675	114,096	163,805
Capital expenditures (2).....	137,536	223,634	390,493	586,473	650,322	342,203	205,989
Net interest expense (income) (3).....	17,341	7,132	(4,949)	(10,627)	(8,416)	(2,141)	1,544
Ratio of earnings to fixed charges(4).....	4.7x	8.9x	15.8x	22.7x	9.4x	17.2x	--
Ratio of earnings to combined fixed charges and preferred stock dividends(4).....	3.6x	6.6x	9.1x	12.6x	9.4x	17.1x	--
<CAPTION>							
	AT FISCAL YEARS ENDED					AT JUNE 30,	
	1991	1992	1993	1994	1995	1996	
BALANCE SHEET DATA:							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash(5).....	\$ 312,006	\$ 365,300	\$ 496,620	\$ 430,921	\$ 509,665		\$ 281,658
Working capital.....	179,256	382,027	514,532	441,649	461,509		404,570
Total assets.....	1,304,773	1,453,768	1,944,953	2,525,721	3,078,467		2,845,025
Long-term debt(6).....	48,238	22,213	90,066	75,752	214,965		201,922
Stockholders' equity....	787,727	1,044,369	1,351,806	1,797,354	2,102,462		2,071,355
</TABLE>							

- (1) EBITDA is defined as operating income (loss) of the Company and its consolidated subsidiaries plus depreciation and amortization of the Company and its consolidated subsidiaries. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to service and incur debt. EBITDA should not be considered by an investor as an alternative to net income as an indicator of the Company's operating performance or as an alternative to the Company's cash flows from operating activities as a measure of liquidity.
- (2) Capital expenditures include capital leases incurred in the amounts of \$26.2 million, \$0.1 million, \$64.5 million, \$34.2 million, \$24.4 million, \$16.5 million and \$0.3 million for the fiscal years ended 1991, 1992, 1993, 1994 and 1995 and the six months ended July 2, 1995 and June 30, 1996, respectively.
- (3) Net interest expense (income) is defined as total interest incurred

(including all capitalized interest) less all interest income.

- (4) For purposes of computing the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, fixed charges consist of interest expense on long-term debt and capital leases, amortization of deferred financing costs and that portion of rental expense deemed to be representative of interest. Earnings consist of income before income taxes and equity in joint venture, plus fixed charges. For the six months ended June 30, 1996, earnings were insufficient to cover fixed charges by \$77.9 million, and no preferred stock was outstanding. On a pro forma basis, assuming \$150.0 million of the net proceeds from the Offering were used to extinguish existing debt of the Company in a refinancing, the ratio of earnings to fixed charges would have been 8.0x and the ratio of earnings to combined fixed charges and preferred stock dividends would have been 8.0x for the year ended December 31, 1995. For the six months ended June 30, 1996, on a pro forma basis, earnings would have been insufficient to cover fixed charges by \$81.1 million.
- (5) Cash includes cash, cash equivalents and short-term investments.
- (6) Long-term debt includes capital lease obligations but excludes current portions of both long-term debt and capital lease obligations.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Cautionary Statement Regarding Forward Looking Statements. The statements in this Management's Discussion and Analysis of Results of Operations and Financial Condition that are forward looking 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 include estimates of 1996 gross margin, operating results, capital expenditures and adequacy of resources to fund operations and capital investments; microprocessor and Flash memory device business and prospects; external financing plans and financial instruments; and proposed Dresden and FASL II manufacturing facilities. See "Risk Factors" for a discussion of the factors that could cause the actual results to differ materially from the forward looking statements.

The following discussion should be read in conjunction with: (i) the Supplemental Consolidated Financial Statements and Notes thereto at December 31, 1995 and December 25, 1994, and for each of the three years in the period ended December 31, 1995; and (ii) the Unaudited Condensed Consolidated Financial Statements and Notes thereto at June 30, 1996 and July 2, 1995, and for the three-month and six-month periods ended June 30, 1996 and July 2, 1995 appearing elsewhere in the Prospectus Supplement. On January 17, 1996, the Company acquired NexGen, Inc. ("NexGen") in a transaction accounted for as a pooling of interests. All financial data and footnote information of the Company, including the Company's previously issued financial statements for the periods discussed herein, have been restated to give retroactive effect to the merger with NexGen.

#### RESULTS OF OPERATIONS

Net Sales. Net sales were \$455.1 million for the second quarter of 1996 as compared to \$638.9 million for the same period in 1995 and \$544.2 million for the first quarter of 1996. For the six month period ended June 30, 1996, net sales decreased to \$999.3 million from \$1,266.2 million for the comparable period in 1995. Net sales decreased in the second quarter of 1996 and for the six month period ended June 30, 1996 as compared to the corresponding periods in 1995 primarily due to a decline in Am486 microprocessor sales, as both unit volume and average selling prices decreased significantly. Net sales in the second quarter of 1996 decreased from the immediately prior quarter primarily due to a decline in Flash memory device sales, as both unit volume and average selling prices declined, and secondarily due to a continued decline in Am486 microprocessor sales caused by a continued decline in average selling prices. Net sales were \$1.6 billion, \$2.2 billion and \$2.5 billion in 1993, 1994 and 1995, respectively. The increase in 1994 was due to substantial growth in Am486 microprocessor sales. The increase in 1995 was primarily attributable to substantial growth in Flash memory sales and secondarily due to an increase in sales of communications products, the combination of which more than offset a decline in microprocessor sales.

Communications and Components Group ("CCG") net sales were \$290.1 million for the second quarter of 1996 as compared to \$279.4 million for the same period in 1995 and \$348.3 million for the first quarter of 1996. For the six month period ended June 30, 1996, CCG net sales increased to \$638.5 million from \$535.1 million for the comparable period in 1995. CCG net sales increased in the second quarter of 1996 as compared to the same period in 1995 due to higher unit shipments of communications products. CCG net sales in the second quarter of 1996 decreased from the immediately prior quarter primarily due to sales declines in Flash memory devices, which constitute a significant portion of CCG net sales, and secondarily due to a decline in unit shipments of other CCG products, slightly offset by increases in sales of SLIC and SLAC devices. CCG net sales increased in the six month period ended June 30, 1996 as

compared to the corresponding period in 1995 due to increased unit shipments of Flash memory devices and communications products. The market for the Company's Flash memory devices in 1996 has been characterized by increasing competition from all major manufacturers, falling prices, and weak unit demand. There can be no assurance that these trends will not continue or accelerate.

CCG net sales were \$865 million, \$831 million and \$1,221 million in 1993, 1994 and 1995, respectively, representing a decrease of 4 percent from 1993 to 1994 and an increase of 47 percent from 1994 to 1995. The decrease in 1994 was due to competition from Intel in the Flash memory market, which caused lower Flash

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pricing. Net sales of Flash memory devices increased from 1994 to 1995, primarily due to growth in unit shipments and secondarily due to a change in product mix resulting in higher average selling prices. During 1995, Flash memory devices contributed a significant portion of the Company's revenues and profits. Revenues from communication products rose from 1994 to 1995 primarily due to growth in the Ethernet family of products. In 1995, EPROM sales decreased as compared to 1994 due to comparable declines in both unit shipments and average selling prices.

Programmable Logic Division ("PLD") net sales were \$61.6 million for the second quarter of 1996 as compared to \$61.4 million for the same period in 1995 and \$69.6 million for the first quarter of 1996. For the six month period ended June 30, 1996, PLD net sales increased to \$131.1 million from \$118.8 million for the comparable period in 1995. PLD net sales in the second quarter of 1996 decreased from the immediately prior quarter due to decreased unit shipments and declines in average selling prices, principally involving simple programmable logic devices. The Company believes this decline is attributable to decreased market demand in the simple and complex programmable logic market. Net sales in the six month period ended June 30, 1996 increased as compared to the corresponding period in 1995 due to increased unit shipments of complex programmable logic devices, which have higher average selling prices than simple programmable logic devices. PLD net sales were \$163 million, \$187 million and \$256 million in 1993, 1994 and 1995, respectively, representing an increase of 14 percent from 1993 to 1994 and an increase of 37 percent from 1994 to 1995. The increases from 1993 through 1995 were primarily due to higher unit shipments.

Computation Products Group ("CPG") net sales were \$103.4 million for the second quarter of 1996 as compared to \$298.1 million for the same period in 1995 and \$126.3 million for the first quarter of 1996. For the six month period ended June 30, 1996, CPG net sales decreased to \$229.7 million from \$612.4 million for the comparable period in 1995. The decline in CPG net sales was in each case due to increased market acceptance of higher performance fifth generation microprocessors from Intel Corporation, coupled with the Company's delay in introducing competitive fifth generation microprocessors. The market for fourth generation microprocessors, including the Company's Am486 microprocessor, has continued to decline as the product life cycle is ending and the Company anticipates that the decline in Am486 microprocessor unit demand and average selling prices will continue and may accelerate during the remainder of 1996. The Company's fifth generation microprocessor, the AMD-K5 microprocessor, was introduced relatively late in the life cycle of fifth generation products. As such, the Company believes the AMD-K5 microprocessor will be a transitional product and will be unlikely to result in the levels of revenue for the Company realized from the Am486 microprocessor. The Company believes that the success of its fifth generation microprocessor products during the remainder of 1996 will depend on market acceptance of the Company's 100 MHz AMD-K5 product and the ability of the Company to develop and introduce on a timely basis subsequent higher performance fifth generation microprocessors. The Company does not expect any sales of the AMD-K6 products in 1996. The Company intends to begin volume shipments of the AMD-K6 products in the first half of 1997, although no assurance can be made that such shipments will occur.

CPG net sales were \$620 million, \$1,138 million and \$992 million in 1993, 1994 and 1995, respectively, representing an increase of 84 percent from 1993 to 1994 and a decrease of 13 percent from 1994 to 1995. The sales increase in 1994 was due to increased average selling price and unit sales for the Am486 microprocessor. In 1995, Am486 microprocessor sales decreased slightly from the prior year, primarily due to average selling price declines, partially offset by increases in unit sales.

Gross Margin. Gross margins were 17% for the second quarter of 1996 as compared to 51% for the same period in 1995 and 32% for the first quarter of 1996. For the six month period ended June 30, 1996, gross margins decreased to 25% from 51% for the comparable period in 1995. The decline in gross margins was in each case due to lower sales, underutilization of the Company's high fixed cost production facilities, particularly Fab 25, and provisions against higher than expected Flash memory device inventory levels. These factors may contribute to further declines in gross margins during the remainder of 1996. Gross margin was 52 percent, 53 percent and 43 percent in 1993, 1994 and 1995,

respectively. The increase in gross margin from 1993 to 1994 was primarily attributable to increased sales from higher margin Am486 products. The four main factors contributing to the decrease in gross margin in 1995 compared to 1994, in order of significance, were first, Am486 price declines; second, increased purchases by the Company of Flash memory devices from FASL at

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prices higher than the costs of similar products manufactured internally; third, negative gross margins, inventory and manufacturing loss accruals associated with significantly reduced demand for NexGen products; and fourth, the transition of Fab 25 costs from research and development to cost of sales when production commenced in September 1995. The impact of gross margin declines caused by purchases of FASL products during 1995 was mostly offset by the Company's share of FASL income.

Research and Development. Research and development expenses were \$92.8 million for the second quarter of 1996 as compared to \$105.7 million for the same period in 1995 and \$94.8 million for the first quarter of 1996. For the six month period ended June 30, 1996, research and development expenses decreased to \$187.5 million from \$202.6 million for the comparable period in 1995. The decline in research and development expenses was in each case due to a recategorization of Fab 25 expenses from research and development to cost of sales as Fab 25 commenced production in the third quarter of 1995. Research and development expenses were \$279 million, \$295 million and \$417 million for 1993, 1994 and 1995, respectively. The increase from 1993 to 1994 was primarily due to increased spending on microprocessor development. The increase from 1994 to 1995 was primarily due to higher Fab 25 research and development expenses and secondarily due to increased microprocessor development costs.

Marketing, General and Administrative. Marketing, general and administrative expenses were \$83.1 million for the second quarter of 1996 as compared to \$106.6 million for the same period in 1995 and \$103.0 million for the first quarter of 1996. For the six month period ended June 30, 1996, marketing, general and administrative expenses decreased to \$186.1 million from \$209.3 million for the comparable period in 1995. Marketing, general and administrative expenses in the second quarter of 1996 decreased from the immediately prior quarter primarily due to non-recurring costs associated with the NexGen merger in the first quarter of 1996. The decline in marketing, general and administrative expenses was in each other case due to the cessation of promotional expenses associated with NexGen's products, which the Company no longer offers. Marketing, general and administrative expenses were \$297 million, \$378 million and \$413 million in 1993, 1994 and 1995, respectively. The increase from 1993 to 1994 was mainly due to increased legal expenses and microprocessor advertising expenses. The increase from 1994 to 1995 was primarily attributable to promotional expenses for the sale of NexGen's Nx586 and other related products, and secondarily to higher advertising expenses.

Operating Losses (Income). The Company incurred operating losses of \$100.5 million for the second quarter of 1996 as compared to operating income of \$110.7 million for the same period in 1995 and operating losses of \$22.3 million for the first quarter of 1996. For the six month period ended June 30, 1996, operating losses were \$122.8 million as compared to operating income of \$232.8 million for the comparable period in 1995. The decline in operating income was in each case due to lower sales and underutilization of the Company's high fixed cost production facilities, particularly Fab 25. The Company can give no assurance of any improvement in its operating results in the third quarter of 1996.

Interest Income and Other; Interest Expense. Interest income and other, net was \$23.0 million for the second quarter of 1996 as compared to \$7.0 million for the same period in 1995 and \$28.1 million for the first quarter of 1996. For the six month period ended June 30, 1996, interest income and other, net increased to \$51.1 million from \$14.0 million for the comparable period in 1995. The Company's quarter and six-month results for the periods ended June 30, 1996 include pre-tax gains of \$16.3 million and \$41.0 million, respectively, resulting from the sales of equity investments. Interest expense was \$1.8 million for the second quarter of 1996 as compared to \$0.5 million for the same period in 1995 and \$2.0 million for the first quarter of 1996. For the six month period ended June 30, 1996, interest expense increased to \$3.8 million from \$1.1 million for the comparable period in 1995. Interest expense increased in all periods of 1996 from 1995 due to lower capitalized interest mainly related to the completion of the first phase of the construction of Fab 25. Interest income and other, net was \$17 million, \$17 million and \$32 million in 1993, 1994 and 1995, respectively. The increase from 1994 to 1995 is primarily due to a realized gain of approximately \$3 million from equity securities sold during 1995. In 1994, interest income and other, net included a net charge of approximately \$5 million resulting from the securities class action lawsuit and stockholders' derivative action settlements, and a gain from the damages award in an arbitration proceeding with Intel Corporation. Interest expense was \$4.4 million, \$4.4 million and

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\$3.1 million in 1993, 1994 and 1995, respectively. Interest expense in 1995 decreased from 1994 due to higher capitalized interest mainly related to the construction of Fab 25.

Income Taxes. During the second quarter of 1996 the Company recorded a tax credit of \$31.7 million. This results in an effective tax rate (benefit) of approximately 40 percent for the quarter and year-to-date reflecting the benefit of operating loss carrybacks to prior years. The income tax rate was 33 percent in both the second quarter and the first six months of 1995. The income tax rate was approximately 29, 34 and 28 percent in 1993, 1994 and 1995, respectively. Differences in the effective tax rates are primarily attributable to proportionate differences in the benefit of low tax foreign income, lower state taxes in 1995 and available tax credits in 1993.

Net Losses (Income). The Company incurred net losses of \$34.7 million, or \$0.26 per share, for the second quarter of 1996 as compared to net income of \$80.7 million, or \$0.59 per share fully diluted, for the same period in 1995 and net income of \$25.3 million, or \$0.18 per share fully diluted, for the first quarter of 1996. For the six month period ended June 30, 1996, net losses were \$9.3 million, or \$0.07 per share, as compared to net income of \$165.0 million, or \$1.21 per share fully diluted, for the comparable period in 1995.

International Sales and Related Financial Instruments. International sales were 53 percent of net sales in the second quarter of 1996 as compared to 58 percent for the same period in 1995 and 52 percent for the first quarter of 1996. For the six month period ended June 30, 1996, international sales decreased to 52 percent of net sales from 57 percent for the comparable period in 1995. Approximately 17 percent of the Company's net sales were denominated in foreign currencies in the first six months of 1996. International sales were 54, 55, and 56 percent of total sales in 1993, 1994 and 1995, respectively. During 1995, approximately 17 percent of the Company's net sales were denominated in foreign currencies. The Company does not have sales denominated in local currencies in those countries which have highly inflationary economies. (A highly inflationary economy is defined in accordance with the Statement of Financial Accounting Standards No. 52 as one in which the cumulative inflation over a three-year consecutive period approximates 100 percent or more.) The impact on the Company's operating results from changes in foreign currency rates individually and in the aggregate has not been material.

The Company enters into foreign exchange forward contracts to buy and sell currencies as economic hedges of the Company's foreign net monetary asset position including the Company's liabilities for products purchased from FASL. In 1995 and 1996, these hedging transactions were denominated in lira, yen, French franc, Deutsche mark, and pound sterling. The maturities of these contracts are generally short-term in nature. The Company believes its foreign exchange contracts do not subject the Company to material risk from exchange rate movements because gains and losses on these contracts are designed to offset losses and gains on the net monetary asset position being hedged. Net foreign currency gains and losses have not been material. As of June 30, 1996, the Company had approximately \$36.5 million (notional amount) of foreign exchange forward contracts as compared to \$37 million (notional amount) at December 31, 1995 (see Notes 3, 4 and 5 to the Supplemental Consolidated Financial Statements).

The Company has engaged in interest rate swaps primarily to reduce its interest rate exposure by changing a portion of the Company's interest rate obligation from a floating rate to a fixed rate basis. At June 30, 1996, the net outstanding notional amount of interest rate swaps was \$165.0 million, of which \$125.0 million will mature in 1996 and \$40.0 million will mature in 1997. Gains and losses related to these interest rate swaps have been immaterial.

The Company primarily addresses market risk by participating as an end user in various derivative markets to manage its exposure to interest and foreign currency exchange rate fluctuations. The counterparties to the Company's foreign exchange forward contracts and interest rate swaps consist of a number of major, high credit quality, international financial institutions. The Company does not believe that there is significant risk of nonperformance by these counterparties because the Company monitors the credit ratings of such counterparties, and reduces the financial exposure by limiting the amount of agreements entered into with any one financial institution.

Other. In 1995, the Financial Accounting Standards Board released the Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. SFAS 121 is effective for fiscal years beginning after December 15, 1995. The Company adopted SFAS 121 in the first quarter of 1996 and it did not have a material impact on the Company's

financial condition or results of operations.

The Company accounts for its stock option plans and its employee stock purchase plan in accordance with provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." In 1995, the Financial Accounting Standards Board released the Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting For Stock Based Compensation." SFAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company expects to continue to account for its employee stock plans in accordance with the provisions of APB 25. Accordingly, SFAS 123 is not expected to have any material impact on the Company's financial condition or results of operation.

#### FINANCIAL CONDITION

The Company's working capital balance decreased to \$404.6 million at June 30, 1996, from \$480.2 million at March 31, 1996 and from \$461.5 million at December 31, 1995 primarily due to continued capital spending, particularly on Fab 25. The Company's operations required the use of \$50.0 million in cash for the six months ended June 30, 1996. The Company's cash, cash equivalents and short-term investments balance was approximately \$281.7 million at June 30, 1996, compared to \$409.3 million at March 31, 1996 and \$509.7 million at December 31, 1995. Cash, cash equivalents, and short-term investments increased by \$79 million from 1994 to 1995. This increase was primarily attributable to a \$150 million term loan obtained in January of 1995 offset by NexGen's cash used in operations. The \$545 million of cash generated from operating activities in 1995 was used to fund investments in property, plant, and equipment to expand manufacturing capacity, primarily related to Fab 25.

The Company's capital investments and its recent operating performance have resulted in significant negative cash flow and the Company anticipates negative cash flow through the remainder of 1996. The Company is continuing to make substantial capital investments in its process technology and manufacturing capacity based, in part, upon Company and industry projections regarding future growth in the market for integrated circuits. The Company plans to make significant capital investments through the remainder of 1996. The Company made capital investments of approximately \$108.0 million in Fab 25 during the first six months of 1996 and plans to make additional capital investments of an estimated \$215.0 million in Fab 25 during the remainder of 1996.

The Company is currently planning to build a submicron wafer fabrication facility in Dresden, Germany, at an estimated cost of approximately \$1.5 billion over five years. The German federal and state governments will provide financial assistance to the facility through grants and allowances, loan guarantees, and interest subsidies. At June 30, 1996, the Company was engaged in negotiating substantially all of the agreements relating to the construction, operation and financing of the facility which are expected to require the Company to make cash investments and loans, in the aggregate amount of approximately \$350.0 million over the next four years and to undertake related contingent obligations which are anticipated to range from \$100.0 million to \$200.0 million. See "Certain Material Agreements--Dresden." At June 30, 1996, the Company's 1996 capital plans included an estimated investment of \$75.0 million for the new facility in Dresden.

As of June 30, 1996, and as of December 31, 1995, the Company's total cash investment in FASL was \$160.4 million. No additional cash investment is currently planned for the remainder of 1996. In March of 1996, FASL began construction of a second Flash memory fab, FASL II, at a site contiguous to the existing FASL facility in Aizu-Wakamatsu, Japan. The facility is expected to cost approximately \$1.1 billion when fully equipped. Capital expenditures for FASL II construction are expected to be funded by the cash anticipated to be

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generated from FASL operations and, if necessary, bank borrowings by FASL. However, in the event that FASL is unable to secure the necessary funds for FASL II, AMD may be required to contribute cash or guarantee third-party loans in proportion to its percentage interest in FASL. The planned FASL II costs are denominated in yen and, therefore, are subject to change due to foreign exchange rate fluctuations. See "Certain Material Contracts--FASL."

The Company has entered into the \$400.0 million New Credit Agreement, to be available upon the consummation of the Offering, replacing the Company's existing unsecured, and currently unused, \$250.0 million revolving line of credit and its outstanding unsecured \$150.0 million four-year term loan. Prior to January 1, 1997, the Indenture will limit the aggregate borrowings which can be made under the New Credit Agreement to \$250.0 million. The Company will use a portion of the proceeds of the Offering to repay the existing \$150.0 million four-year term loan. The New Credit Agreement provides for a \$150.0 million three-year secured revolving line of credit (which can be extended for one additional year, subject to approval of the Banks) and a \$250.0 million four-year secured term loan which is available to the Company for a period of six months after the effective date of the New Credit Agreement (July 19,

1996) and which the Company expects to utilize fully. Borrowings under the New Credit Agreement are subject to the issuance of the Senior Secured Notes among other conditions. All indebtedness under the New Credit Agreement will be secured, together with the Senior Secured Notes, by the Deeds of Trust and Security Agreements representing a first priority security interest, subject to the terms of the Intercreditor Agreement, in the Collateral.

Upon the sale of the Senior Secured Notes and following the use of approximately \$150.0 million of the net proceeds of such sale to repay the Company's existing \$150.0 million four-year term loan, the Company's available financial resources, as of June 30, 1996 pro forma for the Offering, will consist of (i) \$520.2 million of cash, cash equivalents and short-term investments, (ii) the undrawn \$150.0 million three-year secured and revolving line of credit discussed above, (iii) the undrawn \$250.0 million secured term loan discussed above and (iv) short-term, unsecured uncommitted bank credit in the amount of \$80.0 million.

The Company's current capital plan and requirements are based on the availability of financial resources and various product-mix, selling-price, and unit-demand assumptions and are, therefore, subject to revision. The Company believes that current cash balances, together with cash flows, including anticipated external financing provided by the Offering and the New Credit Agreement, will be sufficient to fund operations and capital investments currently planned for the remainder of 1996.

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Cautionary Statement Regarding Forward Looking Statements. The statements in this Prospectus Supplement that are forward looking are based on current expectations and involve numerous risks and uncertainties that could cause actual results to differ materially. The forward looking statements include the expectations of the Company regarding the future of the integrated circuit industry; the strategies of the Company; the development, validation, certification, introduction, market acceptance and pricing of K86 products; the future impact of the Company's acquisition of NexGen; future business prospects for microprocessor and Flash memory products and other product lines; the Company's future commitment to research and development; planned build-out and expected capability of Fab 25; and projects which are proposed or under construction in Japan, Germany and China. For a discussion of the factors that could cause actual results to differ materially, see "Risk Factors" and such other risks and uncertainties as are detailed in AMD's Securities and Exchange Commission reports and filings.

#### THE COMPANY

AMD, founded in 1969, is one of the largest United States-based semiconductor manufacturers, based on sales to third parties, with manufacturing facilities and sales offices throughout the world. AMD's products include a wide variety of industry-standard integrated circuits which are used in many diverse product applications such as telecommunications equipment, data and network communications equipment, consumer electronics, personal computers and workstations. AMD's customers include leading electronics manufacturers such as AT&T, Compaq, Hewlett-Packard, IBM, LM Erickson, Motorola and Siemens, each of which was among AMD's top eleven customers in 1995. AMD is a New York Stock Exchange listed company with an equity market capitalization of over \$1.5 billion as of August 1, 1996. For the twelve-month period ended June 30, 1996, AMD's net sales and EBITDA (as defined herein) were approximately \$2.2 billion and \$181.0 million, respectively.

#### INDUSTRY

The IC market has grown dramatically over the past ten years, driven primarily by the demand for electronic business and consumer products. Today ICs are used in virtually all products involving electronics, including personal computers and related peripherals, voice and data communications products, fax and copy machines, home entertainment equipment, industrial control equipment and automobiles. The global demand for ICs has grown at a compound annual rate of 23% (in terms of dollar sales) from 1986 through 1995 based upon figures reported by Worldwide Semiconductor Trade Statistics ("WSTS") published by the Semiconductor Industry Association. The Company believes that the IC market will continue to grow, due to the continuing worldwide demand for electronic business and consumer products. The global IC market is projected by WSTS to grow at a compound annual rate of 13% (in terms of dollar sales) from 1995 through 1999.

The market for ICs can be divided into separate markets for digital and analog devices. AMD participates primarily in the market for digital ICs. In 1995, as reported by WSTS, \$109 billion, or 87%, of the worldwide IC market consisted of digital ICs. The three principal types of digital ICs used in most electronic systems are: (i) memory circuits, (ii) logic circuits and (iii) microprocessors. Memory is used to store data and programming instructions, logic is employed to manage the interchange and manipulation of digital signals within a system, and microprocessors are used for control and computing tasks. In 1995, as reported by WSTS, the digital integrated semiconductor



market was segmented as follows: \$53 billion in memory, \$23 billion in logic and \$33 billion in microprocessors and microcontrollers. Set forth below is a discussion of the principal segments of the digital IC market in which the Company participates.

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#### THE MEMORY MARKET

Memory ICs store data or programs and are characterized as either volatile or non-volatile. Volatile devices lose their stored information after electrical power is shut off and non-volatile devices retain their stored information. The three most significant categories of semiconductor memory are dynamic random access memory ("DRAM") and static random access memory ("SRAM"), both of which are volatile memories, and non-volatile memory, which includes read-only memory ("ROM"), Flash memory and EPROM devices. DRAM provides large capacity "main" memory, and SRAM provides specialized high speed memory. Flash and other non-volatile memory are used in applications in which data must be retained after power is turned off. The Company does not produce any DRAM products, the largest and most commodity oriented segment of the memory market.

Demand for semiconductor memory devices in digital electronic systems has grown dramatically over the last several years as a result of the increasing importance of memory in determining system performance. As a result of this trend, the Company believes that the percentage of total system costs represented by memory devices has risen steadily over the past few years. WSTS estimates that in 1995 the memory segment of the worldwide semiconductor market was \$53 billion, or 49%, of the total digital IC market. According to WSTS, the overall memory market is expected to increase to approximately \$77 billion by 1999, which represents a compound annual growth rate of over 9%.

Factors which have contributed to the increasing demand for memory devices include the expanding unit sales of personal computers in the business and consumer market segments; the increasing use of personal computers to perform memory-intensive graphics and multimedia functions; the volume of memory required to support faster microprocessors; the proliferation of increasingly complex personal computer software; and the increasing performance requirements of workstations, servers and networking and telecommunications equipment.

The Company believes that Flash memory (in terms of dollar sales) will be one of the fastest growing segments of the memory market, as an expanding range of applications utilize Flash memory in the computer, telecommunications, networking, consumer electronics, automotive, industrial control and instrumentation industries. The ability of Flash memory devices to be electrically rewritten to update parameters or system software provides greater flexibility and ease of use than other non-volatile memory devices, such as ROM or EPROM devices. Flash memory can be used to provide storage of control programs and system-critical data in communication devices such as cellular phones and routers (devices used to transfer data between local area networks). Another common application for Flash memory is in PC cards, which are inserted into notebook and subnotebook computers or personal digital assistants to provide added data storage. The market for Flash memory devices, as reported by Dataquest, was \$1.8 billion in 1995 and is projected by Dataquest to grow to \$5.8 billion in 1999, which represents a compound annual growth rate of 33%.

#### THE LOGIC MARKET

Logic circuits contain interconnected groupings of simple logical circuits commonly described as "gates." Typically, complex combinations of individual gates are required to implement the specialized logic circuits required for digital systems applications. While system designers use a relatively small number of standard ICs to meet their microprocessor and memory needs, they require a wide variety of logic circuits in order to differentiate their products from those of their competitors.

Logic circuits are found in a wide range of today's electronic systems, including communications equipment, computers, peripherals, instrumentation, industrial control and military systems. The logic market encompasses, among other segments, standard transistor-transistor logic ("TTL"), custom-designed application specific ICs ("ASICs"), which include conventional gate-arrays, standard cells and full custom logic circuits, input/output ("I/O"), communications, multimedia, networking and programmable logic devices. Logic circuits are often classified by the number of gates per circuit, with TTL circuits typically containing up to 100 gates. Conventional gate arrays and custom logic circuits typically have up to several hundred thousand gates.

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Programmable logic devices typically have up to 20,000 gates but may have fewer gates in specialized applications. According to WSTS, logic accounted for approximately \$23 billion, or 21%, of the worldwide digital IC market in

1995. The logic market is expected by WSTS to exceed \$37 billion by 1999, which represents a compound annual growth rate of 13% from 1995 through 1999.

Logic circuits are used extensively in networking and telecommunications applications including Internet and intranet applications. Networking is a method of connecting PCs to other PCs and closely related peripherals (e.g., printers), so that resources and information can be transferred and shared. In large corporations today, most PCs are networked to improve productivity and communication. Networking continues to spread to medium and small-sized companies and could eventually make inroads into the home market. The Ethernet standard is the most commonly used method for networking workstations, network servers, personal computers and related peripheral devices. International Data Corporation ("IDC") forecasts the number of networked PCs to grow from 91 million in 1995 to 249 million by 2000.

Telecommunications applications relate to the lines, switches, and routing equipment required to provide connectivity among enterprises and homes that are part of the public infrastructure. This infrastructure is owned and operated by private companies such as AT&T and the regional Bell operating companies in the U.S., and may be owned and operated by governments, private companies, or some combination in other regions of the world. The infrastructure for voice communications continues to expand throughout the world, fueling demand for IC-based telecommunications line card solutions, which convert signals from analog to digital for transmission, then convert the signals back to analog on the receiving end. To perform these tasks, line cards rely on integrated circuit logic products called SLICs (Subscriber Line Interface Circuits) and SLAC(TM) subscriber line audio processing circuits.

Logic devices are also used extensively with respect to I/O applications, which involve the sending and receiving of data from the central processing unit ("CPU") of a PC to peripheral devices such as disk drives and printers, and multimedia applications, which utilize combinations of sound, graphics, animation and text.

Manufacturers of electronic systems are increasingly challenged to bring differentiated products to market quickly. These competitive pressures sometimes preclude the use of custom-designed ASICs, which generally entail significant design costs and time delay. Standard logic products, an alternative to custom designed ASICs, limit a manufacturer's flexibility to adequately optimize and customize an end system. Programmable logic addresses this inherent dilemma. Programmable logic devices are standard products, purchased by systems manufacturers in a "blank" state, that can be custom configured into many specific logic circuits by programming the device with electrical signals. Programmable logic devices give system designers the ability to quickly create their own custom logic circuits to provide product differentiation and rapid time to market. Certain programmable logic products, including the Company's, are reprogrammable, which means that the logic configuration can be modified, if needed, after the initial logic programming. A recent technology development, in-system programmability, extends the flexibility of standard reprogrammable programmable logic devices by allowing the system designer to configure and reconfigure the logic functions of the programmable logic device with a standard 3 or 5-volt power supply without removing the programmable logic devices from the system board.

Several common types of programmable logic devices currently coexist in the marketplace, each offering customers a particular set of benefits. These include simple programmable logic devices (less than 1,000 gates), complex programmable logic devices ("CPLDs," up to 20,000 gates) and field programmable gate arrays ("FPGAs," up to 100,000 gates). CPLDs are generally preferred to FPGAs for control logic applications, such as state machines, bus arbitration, encoders and decoders and sequences, and FPGAs are generally preferred to CPLDs for register intensive and data path logic applications, such as interface logic and arithmetic functions. The Company believes that a substantial portion of programmable logic device customers utilize both CPLD and FPGA architectures together to optimize overall system performance and improve time-to-market for new products.

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#### THE MICROPROCESSOR MARKET

IBM introduced its first PC in 1981 containing a microprocessor based upon the x86 instruction set developed by Intel and utilizing the Microsoft MS-DOS(R) operating system. The so-called IBM-compatible computer has evolved over the years with each successive generation of x86 microprocessors. Each new generation of x86 microprocessors has delivered increased performance and functionality while maintaining software, hardware and peripheral compatibility for industry standard operating systems such as Microsoft MS-DOS and Microsoft Windows. The microprocessor market is currently dominated by Intel.

The microprocessor, an IC generally consisting of millions of transistors, serves as the central processing unit, or "brain," of computer systems. The microprocessor is typically the most critical component to the performance and efficiency of a PC. The microprocessor is responsible for controlling data

flowing through the electronic system, manipulating such data as specified by the hardware or software which controls the system. Microprocessors can be divided into two broad categories: reduced instruction set computing ("RISC") and complex instruction set computing ("CISC"). As compared to CISC microprocessors, RISC microprocessors employ an architectural approach that requires a smaller number of simplified instructions to perform the microprocessors' internal operations. Developments in circuit design and very large scale integration process technology have resulted in dramatic advances in microprocessor performance over the past ten years. Today, the greatest demand for microprocessors is from personal computer manufacturers and, in particular, for microprocessors which are Microsoft Windows compatible and are based on the x86 instruction set. Improvements in the performance characteristics of microprocessors, coupled with decreases in production costs resulting from advances in process technology, have broadened the market for PCs and increased the demand for microprocessors.

Embedded processors are also an important segment of the microprocessor market. Embedded processors are general purpose devices used to carry out a single application with limited user interface and programmability. A system designed around an embedded processor cannot usually be programmed by an end user because the system is preprogrammed to execute a specific task. Key markets for embedded processors include telecommunications, networking, office automation, storage, automotive applications and industrial control.

WSTS estimates that in 1995 the microprocessor segment of the worldwide semiconductor market, which includes embedded processors, was \$33 billion, or 30%, of the total digital IC market. According to WSTS, the overall microprocessor market is expected to increase to approximately \$66 billion by 1999, which represents a compound annual growth rate of over 19% over the period. The number of PCs utilizing the Microsoft MS-DOS or Windows operating system sold annually has grown from approximately 300,000 units in 1982 to approximately 58 million units in 1995 as reported by IDC. According to IDC, worldwide PC unit shipments are expected to increase to approximately 104 million units by 1999, which represents a compound annual growth rate in excess of 16% from 1995 through 1999.

The microprocessor business is characterized by short product life cycles, intense price competition and rapid advances in product design and process technology resulting in rapidly occurring product obsolescence. The early stages of the life cycle of each generation of microprocessors is generally characterized by high demand, prices and margins. Historically, as the product life cycle progresses, prices and margins decrease rapidly and production volume rapidly increases. Towards the end of the life cycle, as the life cycles of one or more future generations of microprocessors are beginning, prices and margins decline further and ultimately demand for the product disappears.

The establishment of hardware and software standards for PCs and the emergence of numerous PC suppliers have caused the PC industry to be extremely competitive, with short product life cycles, limited product differentiation and substantial price competition. To compete more effectively, many PC suppliers have evolved from fully integrated manufacturers with proprietary system designs to vendors focused on building brand recognition and distribution capabilities. Many of these suppliers now rely either on Intel or on third-party manufacturers for the major subsystems of their PCs, such as the motherboard, and increasingly are outsourcing

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the design and manufacture of complete systems. The third-party suppliers of these subsystems, based primarily in Asia, are focused on providing PCs and motherboards that incorporate the latest trends in features and performance at low prices. Increasingly, these third-party suppliers are also supplying fully configured PC systems through alternative distribution channels.

#### COMPANY STRATEGY

AMD's strategy is to continue to improve its process technologies used in the production of integrated circuits; to build high volume integrated circuit manufacturing facilities which use these technologies; and to design products that are targeted at high volume markets with the potential to produce high margin revenues for the Company and that can be manufactured at its facilities.

AMD's specific actions to implement the three elements of its strategy include:

- . Improved Process Technology. The Company is directing significant resources to process technology research and development. AMD's Submicron Development Center in Sunnyvale, California, is currently devoted almost exclusively to the development of advanced process technologies for Flash memory devices, programmable logic devices and microprocessors.
- . Advanced Manufacturing Facilities. The Company is making significant

capital investments in advanced integrated circuit manufacturing facilities:

- The Company continues to invest in the Fab 25 Complex, which is currently dedicated to the production of microprocessors. AMD has invested over \$860.0 million in the Fab 25 Complex as of June 30, 1996, and currently expects to have invested over \$1.2 billion by the end of 1997 and \$1.6 billion by the end of 1999, although the Company is not obligated to make such further investments. Fab 25 was qualified for production in the third quarter of 1995.
- The Company intends, through its Dresden, Germany Unrestricted Subsidiary, to construct a new integrated circuit manufacturing facility to be dedicated to microprocessors at an estimated cost of \$1.5 billion over five years. The Company expects that the Dresden facility will begin manufacturing operations in 1999 with full production to begin in 2002, although there can be no assurance that this schedule will be met.
- Through its FASL Unrestricted Subsidiary, the Company and Fujitsu have constructed and are operating an advanced integrated circuit manufacturing facility in Aizu-Wakamatsu, Japan, which is currently dedicated to the production of Flash memory devices. The facility began volume production in the first quarter of 1995. In the third quarter of 1995, FASL approved construction of a second Flash memory device manufacturing facility at a contiguous site.
- . High Volume Products. AMD is concentrating its product design and development resources in four areas: Flash memory devices, communications and networking products, programmable logic devices and microprocessors. The Company believes that each of these areas is a high volume market with significant growth potential.

BUSINESS GROUPS

AMD participates in all three segments of the digital IC market--memory circuits, logic circuits and microprocessors--through, collectively, its Communications and Components Group, its Programmable Logic Division and its Computation Products Group. The following table summarizes the products, typical applications and certain major customers for each of AMD's product groups.

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COMMUNICATIONS AND COMPONENTS GROUP (\$1,220.6 million in net sales in 1995) (/1/)

<TABLE>  
<CAPTION>

PRODUCTS -----	TYPICAL APPLICATIONS -----	MAJOR CUSTOMERS -----
<C> Flash memory devices	<S> Cellular phones and base stations Telecom switching equipment LAN hubs and routers Automotive applications PC hard disk drives and BIOS Printer controllers	<C> AT&T/Lucent Technologies Cisco Systems Hewlett-Packard IBM LM Erickson Motorola Siemens
EPROM devices	Cellular phones and base stations Telecom switching equipment Automotive applications PC hard disk drives and BIOS Printer controllers Industrial machine controls	AT&T/Lucent Technologies Hewlett-Packard Motorola NEC Siemens
Communications products	Telecom switching equipment Set-top boxes Wireless telecom equipment Ethernet hubs Line cards	3Com AT&T/Lucent Technologies Hewlett-Packard LM Erickson Siemens
Embedded processors	Laser printers Fax machines PC hard disk drives LAN hubs and routers	Apple Computer Compaq Hewlett-Packard IBM Lexmark Siemens

PROGRAMMABLE LOGIC DIVISION (\$255.9 million in net sales in 1995) (/1/)

<CAPTION>

PRODUCTS -----	TYPICAL APPLICATIONS -----	MAJOR CUSTOMERS -----
<C>	<S>	<C>

Programmable logic devices	Telecom equipment	AT&T/Lucent Technologies
	LAN hubs and routers	Cisco Systems
	PC hard disk drives	Hewlett-Packard
	PC add-on cards	IBM
	Printers	NEC
	Industrial machine controls	

COMPUTATION PRODUCTS GROUP (\$991.8 million in net sales in 1995) (/1/)

<CAPTION>

PRODUCTS -----	TYPICAL APPLICATIONS -----	MAJOR CUSTOMERS -----
<C> Microsoft Windows compatible microprocessors	<S> Personal computers	<C> Acer
I/O and network products	Network interface cards (NICs) Wireless communications equipment Multimedia integrated circuits PC I/O add-on cards	3Com Apple Computer Cisco Systems Compaq Hewlett-Packard IBM

</TABLE>

(1) For the six months ended June 30, 1996, CCG's net sales were \$638.5 million, PLD's net sales were \$131.1 million, and CPG's net sales were \$229.7 million.

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#### COMMUNICATIONS AND COMPONENTS GROUP

Net sales for CCG have grown at a compound annual growth rate of 12% from 1991 through 1995, driven primarily by increased demand for CCG's Flash memory devices.

Flash Memory. Flash memory devices are used in cellular telephones, networking equipment and other applications which require memory to be rewritten. Their ability to be rewritten electrically provides greater flexibility and ease of use than EPROMs and other similar integrated circuits which cannot be rewritten electrically. Communications companies use Flash memory devices in cellular telephones and related equipment to enable users to program and reprogram frequently called numbers and manufacturers to preprogram other information. In networking applications, Flash memory devices are used in hubs and routers to enable systems to store programmed and reprogrammed Internet addresses and other routing information. The market for Flash memory devices, as reported by Dataquest, was \$1.8 billion in 1995 and is projected by Dataquest to grow at a compound annual rate of 33% (in terms of dollar sales) over the period from 1995 through 1999. In the first quarter of 1996, the Company experienced declines in the selling prices of Flash memory devices, and in the second quarter, both demand for the products and their selling prices declined. See "Risk Factors--Importance of Flash Memory Device Business; Recent Pricing Weakness" and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

AMD, Fujitsu and Intel are the world's largest suppliers of Flash memory devices. Based on 1995 market data reported by Dataquest, the Company believes that it had a 27% global market share for Flash memory devices in 1995, which the Company believes made it the second largest supplier, behind Intel. As a result of the decline experienced by the Company in demand for its Flash memory devices in the second quarter of 1996, the Company's Flash memory device market share may decline in 1996.

The Company's principal customers for Flash memory devices include cellular communications companies, such as Motorola and LM Erickson, and manufacturers of networking equipment, such as Cisco Systems and Hewlett-Packard.

EPROMs. EPROMs represent an older generation of erasable programmable read-only memory technology which is used primarily in the electronic equipment industry. The devices are used in cellular phones and base stations, telecommunication switching equipment, automotive applications, personal computer hard disk drives and BIOS, printer controllers, industrial machine controls and numerous other types of electronic equipment to store software which controls the equipment's operation. The ability of EPROMs to be programmed electrically enables equipment manufacturers to achieve shorter time to market for new products than would be possible if they were required to have specific integrated circuits manufactured containing their final software programs rather than programming the software electronically onto standard EPROM products. EPROMs are generally used in preference to more expensive Flash memory devices where cost is a major issue in applications in which it is not necessary to enable the end user to reprogram the information stored on the integrated circuit.

The market for EPROMs is significantly smaller than the market for Flash memory devices and is declining as EPROMs are replaced in various applications by Flash memory devices. The Company sells its EPROM devices in relatively small quantities to over 300 customers for use by electronic equipment manufacturers. Based on 1995 market data reported by Dataquest, the Company believes that it had a 12% market share in the global market for EPROMs in 1995, which the Company believes made it the third largest supplier.

Communications Products. The Company's communications products are used in public and private communications infrastructure systems which support voice and data communications and internetworking. Specifically, the products are used in such equipment as central office switches, PBX equipment, voice/data terminals, hubs, routers and equipment used to connect workstations and personal computers in local area network infrastructure. Continuing growth in these markets is expected as emerging nations construct their communications infrastructures, developed nations upgrade their existing infrastructures to utilize new technologies such as the Internet and intranets and new forms of communications systems emerge and gain general acceptance.

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Among the Company's more significant products for the communications market are its SLIC and SLAC subscriber line audio-processing circuit products. In modern telephone communications systems, voice communications are generally transmitted between the speaker and the central office switch in analog format, but are switched and transmitted over longer distances in digital format. The SLIC connects the user's telephone wire to the telephone company's digital switching equipment. The SLAC is a coder/decoder which converts analog voice signals to a digital format and back. In data communications, the Company is a supplier of network infrastructure ICs for products including Ethernet hubs and switches.

The Company's major customers for line cards include Siemens, NEC, LM Erickson, Alcatel and other larger producers of voice communications equipment. The Company's networking infrastructure products are sold to major manufacturers in the networking industry, including 3Com, Cisco Systems and Bay Networks. The Company believes that it is a leading manufacturer of ICs in the communications and networking markets.

Embedded Processors. Embedded processors are general purpose devices, consisting of an instruction control unit and an arithmetic and logic unit, used to carry out a single application with limited user interface and programmability. The Company offers a proprietary family of RISC processors, known as its Am29000(R) products, which are used as embedded processors in applications which include high-performance laser printer controllers, high-resolution graphics controllers, communications controllers and accelerator cards. Although the Company has discontinued development of new superscalar versions of its Am29000 products, it continues to produce existing ones. The Company's current product focus for embedded processors utilizes existing x86 microprocessor designs which are customized for specific applications. The Company offers a line of C186 and C188 processors for use as embedded processors in hard disk drives. In the future, the Company expects to offer embedded processors based upon third and fourth generation x86 microprocessor technology, the E86 family of processors, which are designed for use in hand-held computers and voice and data communication devices.

The Company's major customers for embedded processors are Hewlett-Packard, Lexmark, Apple Computer and Compaq, each of which uses the Company's Am29000 products in their laser printers, and IBM, which utilizes AMD's C186 and C188 controllers in its hard disk drives. The Company believes that its share of the market for embedded processors is relatively small.

Other Products. The Company also offers a wide variety of older standard products some of which are nearing the end of their product life cycles, are sold into various different IC markets and require limited ongoing research and development or capital expenditures.

#### PROGRAMMABLE LOGIC DIVISION

PLD's net sales in 1995 were \$255.9 million. Net sales for PLD have grown at a compound annual growth rate of 44% from 1991 through 1995, driven primarily by increased industry demand for programmable logic devices.

The Company offers a full range of simple programmable logic devices and complex programmable logic devices but does not participate in the market for field programmable gate arrays. Programmable logic devices are used in telecommunications equipment, network infrastructure, hard disk drives, printers, industrial machine control and numerous other types of electronic equipment by OEMs which seek to optimize the performance of their products by custom configuring the logic IC while minimizing time-to-market through the use of a standard logic product. The Company's programmable logic devices are sold to a broad range of manufacturers of electronics systems. Based on 1995 market data reported by Pace Technologies, the Company believes that it had a 27% market share in the global market for simple and complex programmable

logic devices in 1995, which the Company believes made it the second largest supplier, behind Altera.

Customers utilizing programmable logic devices must use special software packages, generally provided by the suppliers of the programmable logic devices, to program the programmable logic devices. AMD provides its programmable logic device customers with software which it licenses from a third party and is dependent upon the third party for the software and continuing improvements in the quality of the software. No assurance can be given that the Company will be able to maintain its existing relationship with the third party. See "Risk Factors--Other Risk Factors--Dependence on Third Party for PLD Software; Possible Acquisition of Existing PLD Software Supplier by Competitor."

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The Company is in the process of transferring its operations relating to the design, development and marketing of programmable logic devices to a wholly owned subsidiary dedicated solely to programmable logic devices. The subsidiary will be a Restricted Subsidiary (as defined herein) and will rely upon the Company for manufacturing services. The process of establishing a dedicated programmable logic device sales force is nearly complete, with the members of the sales force being drawn from the Company's existing sales force. It is anticipated that the independent programmable logic device sales force will begin operating as a separate unit in the third quarter of 1996.

#### COMPUTATION PRODUCTS GROUP

The Company's Computation Products Group is focused on Microsoft Windows compatible microprocessors and input/output ("I/O") and network products generally used in computer systems. CPG's net sales in 1995 were \$991.8 million and in the first six months of 1996 were \$229.7 million. Net sales for CPG have grown at a compound annual growth rate of 27% from 1991 through 1995, but decreased by 62% in the first six months of 1996 compared to the first six months of 1995.

Microprocessors. The Company currently participates in the microprocessor market through its fourth and fifth generation Microsoft Windows compatible microprocessors. In recent years, the Company's most significant microprocessor product has been the Am486 microprocessor, a fourth generation CISC x86 microprocessor. AMD expects 1996 to be a transitional year in the development of its next generation of microprocessor products. Am486 microprocessor sales have decreased significantly in 1996 due primarily to decreases in unit sales and secondarily to average selling price declines. Price and unit sales declines are anticipated to continue throughout 1996. The Company, therefore, expects Am486 microprocessor revenues and profits in 1996 to be significantly below those of 1995 as the product life cycle of the fourth generation x86 products declines. The Company's next generation of microprocessor products, known as the K86 microprocessors, is based on Superscalar RISC architecture. The K86 products are designed to be compatible with high volume operating system software such as Windows, UNIX, DOS and WindowsNT. At the end of the first quarter of 1996, the Company began shipments of the AMD-K5 microprocessor, the first member of the K86 family, and recently began shipping a 100 MHz version of the AMD-K5. This microprocessor is a fifth generation, superscalar device that has been certified as being fully compatible with the Microsoft Windows operating system. The Company expects to ship enhanced versions of its AMD-K5 microprocessor in 1996. The AMD-K5 microprocessor was introduced relatively late in the life cycle of fifth generation microprocessor products and is unlikely to result in the levels of revenue for the Company realized from the Am486 microprocessor. See "Risk Factors--Microprocessor Products--Dependence on New AMD Microprocessor Products."

The Company acquired NexGen in January 1996 to accelerate the introduction of AMD's microprocessor products, particularly its sixth generation products. The Company is modifying NexGen's sixth-generation design using AMD's design, verification and manufacturing technologies. With these changes, AMD will develop and produce the AMD-K6 microprocessor, a superscalar device which is intended to be equal in performance to Intel's single chip version of its sixth generation product, the Pentium Pro, which is being designed by Intel specifically for PCs and is expected to be introduced in late 1996 or early 1997. AMD does not expect any sales of the AMD-K6 products in 1996. The Company intends to begin volume shipments of the AMD-K6 products in the first half of 1997, although no assurance can be given that such shipments will occur. AMD is also devoting substantial resources to the development of its seventh generation Microsoft Windows compatible microprocessor.

Based on 1995 market data reported by Dataquest, the Company believes it held a number two market share in the global market for microprocessors in 1995. However, Intel held a substantially larger market share and has long held a dominant position in the market for microprocessors used in PCs. As a result of the Company's relatively late introduction of a fifth generation microprocessor product, the Company's microprocessor market share may decline in 1996. Intel's dominance of this market poses significant risks to AMD. See "Risk Factors--Microprocessor Products--Intel Dominance."

AMD's customers for microprocessors include numerous foreign and domestic manufacturers of PCs and PC motherboards. AMD has, in the past, sold microprocessors to Compaq, IBM and certain other leading PC

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OEMs. These companies do not currently purchase the Company's microprocessors, and there can be no assurance that they will purchase the Company's future microprocessor offerings, such as enhanced versions of the AMD-K5 and the AMD-K6 microprocessors. A failure of the Company's K86 products, particularly the AMD-K6 microprocessor, to achieve market acceptance, would have a material adverse effect on the Company. See "Risk Factors--Microprocessor Products--Dependence on Microprocessor Products" and "--Manufacturing--Process Technology."

I/O and Network Products. The Company's network and I/O products are used within personal computers to manage the connection of the personal computer to local area networks and to manage selected input/output functions.

The Company supplies integrated circuits for business applications utilizing the 10-megabit-per-second Ethernet local area network standard. The Company offers a range of integrated circuits that work with central processing units to manage selected input/output functions such as audio, small computer system interface disk drive controllers and communications and networking devices. The Company also supplies a range of products specially designed to add additional functions, improve performance and reduce costs in computer peripheral, interface or mass storage applications. These are generally special-purpose products which are designed for a specific application. In the case of some large customers, these products are tailored for specific customers' needs.

The Company's primary customers for its Ethernet LAN products are Compaq, Apple Computer and other PC OEMs. The Company's primary customer for I/O products is Apple Computer. The Company's business in this area has recently declined primarily due to a reduction in purchases by Apple Computer.

#### RESEARCH AND DEVELOPMENT; MANUFACTURING TECHNOLOGY

The Company's expenses for research and development in 1993, 1994 and 1995, were \$279.4 million, \$295.3 million and \$416.5 million, respectively. Such expenses represented 17%, 14%, and 17% of net sales in 1993, 1994 and 1995, respectively. The Company's expenses for research and development in the first six months of 1996 were \$187.5 million, which represented 19% of net sales for the period. AMD's research and development expenses are charged to operations as incurred. Most of AMD's research and development personnel are integrated into the engineering staff.

Manufacturing technology is the key determinant in the improvement in semiconductor products. Each new generation of process technology has resulted in products with higher speed and greater performance produced at lower cost. AMD continues to make significant infrastructure investments to enable the Company to continue to achieve high volume, high reliability and low cost production using leading edge process technology.

The Company's efforts concerning process technologies are focused in three major areas: non-volatile memory technology used by Flash memory and EPROM products; programmable logic technology used in the Company's programmable logic products; and logic technology used by AMD's microprocessors, embedded processors, I/O, networking and communications products. The Company's goals are to increase density and improve product performance, to reduce the access time for non-volatile memory products and to increase the clock speed for microprocessor products.

#### COMPETITION

The IC industry is intensely competitive and, historically, has experienced rapid technological advances in product and system technologies together with substantial price reductions in maturing products. After a product is introduced, prices normally decrease over time as production efficiency and competition increase, and as a successive generation of products is developed and introduced for sale. Technological advances in the industry result in frequent product introductions, regular price reductions, short product life cycles and increased product capabilities that may result in significant performance improvements. Competition in the sale of ICs is based upon performance, product quality and reliability, price, adherence to industry standards, software and hardware

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compatibility, marketing and distribution capability, brand recognition, financial strength and ability to deliver in large volumes on a timely basis.

In each particular market in which it participates, the Company faces competition from different groups of companies. AMD, Fujitsu and Intel are the



world's largest producers of Flash memory devices. Sharp and Atmel Corporation are also participants in the market. With respect to CCG's other product lines, the Company's primary competitors are: SGS Thomson and Texas Instruments with respect to EPROMs; Siemens, NEC, LM Erickson, Alcatel and other large producers of voice communications equipment with respect to line cards; National Semiconductor, 3Com and Intel with respect to networking products; and Motorola, Intel, Texas Instruments and SGS Thomson with respect to embedded processors. In PLD's market, the Company's principal competitors are Altera, Lattice Semiconductor and other smaller companies focused on programmable logic device development and production. With respect to microprocessors, Intel holds a dominant position which has to date allowed it to set x86 microprocessor standards and thus dictate the type of product the market requires of Intel's competitors. See "Risk Factors--Microprocessor Products--Intel Dominance." The Company's principal competitors with respect to the network and I/O products include: National Semiconductor, Intel, 3Com, Digital Equipment, Fujitsu and Seeq with respect to Ethernet local area network products; and Western Digital and Hyundai with respect to SCSI disk host controllers.

MANUFACTURING FACILITIES

The Company's integrated circuit manufacturing facilities are listed on the chart set forth below:

<TABLE>  
<CAPTION>

FACILITY LOCATION	WAFER SIZE (DIAMETER IN INCHES)	PRODUCTION TECHNOLOGY (IN MICRONS)	CLEAN ROOM (SQ. FT.)
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Austin, TX			
Fab 25.....	8	0.35	86,700
Fab 15.....	6	0.7	22,000
Fab 14.....	6	0.8	22,000
Fab 10.....	5	0.9	22,000
Aizu-Wakamatsu, Japan			
FASL.....	8	0.5	70,000
Sunnyvale, CA			
SDC.....	6	0.35	42,500

</TABLE>

Fab 25. In the third quarter of 1995, Fab 25, the Company's 950,000 square foot submicron integrated circuit manufacturing facility in Austin, Texas, was qualified for production. Fab 25 was recognized as one of the best integrated circuit manufacturing facilities in the world for 1995 by Semiconductor International magazine. The Company believes that its 86,700 square feet of clean room space make Fab 25 one of the largest integrated circuit manufacturing facilities in the United States. As presently equipped, Fab 25 is capable of producing approximately 2,000 8-inch semiconductor wafers per week. AMD has invested over \$860.0 million in the Fab 25 Complex as of June 30, 1996, and expects to have invested over \$1.2 billion by the end of 1997 and over \$1.6 billion by the end of 1999, although the Company is not obligated to make such further investments. Fab 25 is planned to be capable of producing approximately 6,000 8-inch semiconductor wafers per week when operating at full capacity in 2000, although there can be no assurance that Fab 25 will achieve this capability level. The Fab 25 Complex includes ancillary buildings for ultrapure water production, chemical supply, stock and gowning, and facility support. Fab 25 is dedicated to the production of microprocessors. For additional information on Fab 25, see "Description of Collateral."

Fab 15, Fab 14 and Fab 10. In addition to Fab 25, the Company operates three other integrated circuit manufacturing facilities in Austin, Texas, referred to by the Company as Fab 15, Fab 14 and Fab 10. Each such facility has approximately 22,000 square feet of clean room area. These facilities produce products for each of the Company's product groups.

FASL Joint Venture with Fujitsu. In 1993, AMD and Fujitsu formed a joint venture, FASL, for the development and manufacture of integrated circuits. Through FASL, an Unrestricted Subsidiary, the two

companies have constructed and are operating an advanced integrated circuit manufacturing facility in Aizu-Wakamatsu, Japan, to produce Flash memory devices and EPROMs. The facility began volume production in the first quarter of 1995. FASL produces eight-inch semiconductor wafers and currently utilizes 0.5 micron processing technologies. A conversion to 0.35 micron technologies is underway. The Company believes that, through FASL, it has a leadership position in process technologies related to Flash memory devices. Currently, the facility is dedicated to the production of Flash memory devices. In the third quarter of 1995, FASL approved construction of a second Flash memory integrated circuit manufacturing facility at a site contiguous to the existing facility. Groundbreaking on the new facility occurred in the first quarter of 1996, and volume production is expected in 1998. The \$1.1 billion in capital

expenditures planned for the construction of the second facility is expected to be funded primarily by cash flows generated from FASL operations. There can be no assurance that FASL's cash flows will be sufficient to complete the project. If FASL's cash flows are not sufficient, AMD may be required to contribute cash or guarantee third party loans. See "Certain Material Agreements--FASL."

SDC. The Company's Submicron Development Center in Sunnyvale, California, the SDC, commenced operations in the fourth quarter of 1990. The SDC's primary purpose is to develop advanced manufacturing technologies for Flash memory devices, programmable logic devices and microprocessors. It also engages in limited production activity.

Planned Dresden Facility. The Company is currently planning to construct, through its Dresden, Germany Unrestricted Subsidiary, an 875,000 square foot submicron integrated circuit manufacturing and design facility in Dresden, Germany, at a currently estimated cost of approximately \$1.5 billion over the next five years. See "Certain Material Agreements--Dresden."

Assembly and Testing. Nearly all product assembly and final testing are performed at AMD's manufacturing facilities in Penang, Malaysia; Singapore; and Bangkok, Thailand; or by subcontractors in Asia. The total square footage of the Company's facilities in Penang, Singapore and Bangkok is 426,000 square feet, 147,000 square feet and 157,000 square feet, respectively. In December 1995, AMD entered into an agreement to lease land in Suzhou, China, to be used for the construction and operation of an additional test and assembly facility.

#### MARKETING AND SALES

AMD's products are marketed and sold under the AMD(R) trademark. AMD employs a direct sales force through its principal facilities in Sunnyvale, California, and field sales offices throughout the United States and abroad (primarily Europe and the Pacific Rim). The Company expects that during the third quarter of 1996, a separate sales force dedicated to sales of programmable logic devices will have been established as a part of the Company's process of transferring its operations relating to the design, development and marketing of programmable logic devices to a wholly-owned subsidiary dedicated solely to programmable logic devices. AMD also sells its products through third-party distributors and independent representatives in both domestic and international markets pursuant to nonexclusive agreements. The distributors also sell products manufactured by AMD's competitors, including those products for which AMD is an alternate source. One of the Company's distributors, Arrow Electronics, Inc., accounted for approximately 12% of 1995 net sales. No other distributor or OEM customer accounted for 10% or more of net sales in 1995.

Distributors typically maintain an inventory of AMD's products. Pursuant to the Company's agreements with distributors, AMD protects its distributors' inventory of AMD's products against price reductions as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally contain a provision for the return of AMD's products in the event the agreement with the distributor is terminated. The price protection and return rights AMD offers to its distributors may materially adversely affect the Company.

AMD derives a substantial portion of its revenues from its sales subsidiaries located in Europe and the Pacific Rim. AMD subsidiaries have offices in Australia, Belgium, Canada, China, Finland, France, Germany, Hong Kong, Italy, Japan, Korea, Scotland, Singapore, Sweden, Switzerland, Taiwan, and the United Kingdom. The international sales force also works with independent sales representatives and distributors in approximately

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32 countries, including those where AMD has sales subsidiaries. AMD's international sales operations entail political and economic risks, including expropriation, currency controls, exchange fluctuations, changes in freight rates, and changes in rates and exemptions for taxes and tariffs. See "Risk Factors--Other Risk Factors--International Sales."

#### RAW MATERIALS

Certain of the raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. For example, several types of the integrated circuit packages purchased by AMD, as well as by the majority of other companies in the semiconductor industry, are principally supplied by Japanese companies. Shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. If AMD were unable to procure such materials, it would be required to reduce its manufacturing operations which could have a material adverse effect upon its results of operations. To date, AMD has not experienced significant difficulty in obtaining the necessary raw materials.

#### ENVIRONMENTAL REGULATIONS

The failure to comply with present and future governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in the manufacturing process could result in fines being imposed on the Company, suspension of production, alteration of the Company's manufacturing processes or cessation of operations. Such regulations could require the Company to acquire expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure by the Company to control the use, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject the Company to future liabilities and could have a material adverse effect on the Company. See "Risk Factors--Other Risk Factors--Environmental Regulations."

#### INTELLECTUAL PROPERTY AND LICENSING

AMD and its subsidiaries have been granted over 1,000 United States patents, and over 1,100 patent applications are pending in the United States. In certain cases, the Company has filed corresponding applications in foreign jurisdictions. The Company expects to file future patent applications in both the United States and abroad on significant inventions as it deems appropriate.

On January 11, 1995, the Company and Intel reached an agreement to settle all previously outstanding legal disputes between the two companies. As part of the settlement, in December 1995, the Company signed a five-year, comprehensive patent cross-license agreement with Intel which expires on December 31, 2000. The agreement provides that after December 31, 1999, the parties will negotiate in good faith a patent cross-license agreement to be effective January 1, 2001. Effective January 1, 1996, the new agreement gives the Company and Intel the rights to use each others' patents and certain copyrights, including copyrights to the x86 instruction sets but excluding other microprocessor microcode copyrights. The cross-license is royalty-bearing for the Company's products that use certain Intel technologies. The Company is required to pay Intel minimum non-refundable royalties during the years 1997 through 2000.

In addition, AMD has entered into numerous cross-licensing and technology exchange agreements with other companies under which it both transfers and receives technology and intellectual property rights. Although the Company attempts to protect its intellectual property rights through patents, copyrights, trade secrets and other measures, there can be no assurance that the Company will be able to protect its technology adequately or that competitors will not be able to develop similar technology independently. There can be no assurance that any patent applications that the Company may file will be issued or that foreign intellectual property laws will protect the Company's intellectual property rights. There can be no assurance that any patent licensed by or issued to the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate the Company's products or design around the patents licensed by or issued to the Company.

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From time to time, AMD has been notified that it may be infringing intellectual property rights of others. If any such claims are asserted against the Company, the Company may seek to obtain a license under the third party's intellectual property rights. The Company could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time consuming and could materially adversely affect the Company. No assurance can be given that all necessary licenses can be obtained on satisfactory terms, nor that litigation may always be avoided or successfully concluded. See "Risk Factors--Other Risk Factors--Intellectual Property Rights; Potential Litigation."

#### BACKLOG

AMD manufactures and markets standard lines of products. Consequently, a significant portion of its sales are made from inventory on a current basis. Sales are made primarily pursuant to purchase orders for current delivery, or agreements covering purchases over a period of time, which are frequently subject to revision and cancellation without penalty. Generally, in light of current industry practice and experience, AMD does not believe that such agreements provide meaningful backlog figures or are necessarily indicative of actual sales for any succeeding period.

#### EMPLOYEES

On June 30, 1996, AMD and its subsidiaries employed approximately 12,500 employees, none of whom are represented by collective bargaining arrangements. The Company believes that its relationships with its employees are generally good.

PROPERTIES

AMD's principal engineering, manufacturing, warehouse and administrative facilities comprise approximately 3.1 million square feet and are located in Sunnyvale, California and Austin, Texas. Over 2.5 million square feet of this space is in buildings owned by the Company.

The Company leases property containing two buildings with an aggregate of approximately 360,000 square feet, located on 45.6 acres of land in Sunnyvale, California ("One AMD Place"). These leases provide the Company with the option to purchase One AMD Place for \$40.0 million during the lease term. The lease term ends in 1998. At the end of the lease term, the Company is obligated either to purchase One AMD Place for \$40.0 million or to arrange for its sale to a third party with a guarantee of residual value of \$40.0 million to the seller. In 1993, the Company entered into a lease agreement for approximately 175,000 square feet located adjacent to One AMD Place (known as AMD Square) to be used in connection with One AMD Place.

The Company also owns or leases facilities containing approximately 730,000 square feet for its operations in Malaysia, Singapore and Thailand. Of the entire worldwide facilities owned or leased by the Company, approximately 580,000 square feet are currently vacant. In addition, approximately 180,000 square feet are currently vacant until the construction of Fab 25 is completed. The Company has entered into an agreement to lease approximately 15 acres of land in Suzhou, China. The Company holds 74 undeveloped acres of land in the Republic of Ireland. The Company also has an equity interest in 58 acres of land in Albuquerque, New Mexico.

AMD leases 34 sales offices in North America, six sales offices in Asia and 13 sales offices in Europe for its direct sales force. These offices are located in cities in major electronics markets where concentrations of AMD's customers are located.

Leases covering the Company's facilities expire over terms of generally one to twenty years. The Company currently does not anticipate significant difficulty in either retaining occupancy of any of its facilities through lease renewals prior to expiration or through month-to-month occupancy, or replacing them with equivalent facilities.

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MANAGEMENT

The executive officers, directors and certain other key employees of the Company are as follows:

<TABLE>  
<CAPTION>

NAME	AGE	POSITION
W. J. Sanders III(1).....	59	Chairman of the Board and Chief Executive Officer
Richard Previte.....	61	Director, President and Chief Operating Officer
S. Atiq Raza.....	47	Director, Senior Vice President and Chief Technical Officer
Marvin D. Burkett.....	53	Senior Vice President, Chief Financial and Administrative Officer and Treasurer
Eugene D. Conner.....	52	Senior Vice President, Operations
Stanley Winvick.....	57	Senior Vice President, Human Resources
Stephen J. Zelencik.....	61	Senior Vice President and Chief Marketing Executive
Thomas M. McCoy.....	45	Vice President, General Counsel and Secretary
Dr. Friedrich Baur.....	68	Director
Charles M. Blalack(1) (2) (3).....	69	Director
Dr. R. Gene Brown(1) (2) (3).....	63	Director
Joe L. Roby(1) (2).....	56	Director
Dr. Leonard M. Silverman.....	56	Director

<CAPTION>  
KEY EMPLOYEES

Vinod Dham.....	46	Group Vice President, Computation Products Group
Richard Forte.....	52	Group Vice President, Communications and Components Group, and President, Programmable Logic Division
William T. Siegle.....	57	Chief Scientist and Group Vice President, Technology Development Group

</TABLE>

(1)Member of the Nominating Committee of the Board of Directors.  
(2)Member of the Audit Committee of the Board of Directors.  
(3)Member of the Compensation Committee of the Board of Directors.

W.J. SANDERS III - Mr. Sanders is Chairman of the Board and Chief Executive Officer of AMD. Mr. Sanders co-founded the Company in 1969. He is also a director of Donaldson, Lufkin & Jenrette, Inc., the parent company of

Donaldson, Lufkin & Jenrette Securities Corporation. Mr. Sanders co-founded several prominent industry groups including the Semiconductor Industry Association, the Santa Clara Manufacturing Group, the Semiconductor Research Corporation, Sematech and the Microelectronics and Computer Technology Corporation.

RICHARD PREVITE - Mr. Previte is President and Chief Operating Officer of AMD. Prior to his election as President in 1990, Mr. Previte served as Executive Vice President and Chief Operating Officer from 1989 to 1990, Chief Financial Officer and Treasurer of the Company from shortly after its founding in 1969 until 1989, and Chief Administrative Officer and Secretary of the Company from 1986 to 1989.

S. ATIQ RAZA - Mr. Raza is Senior Vice President and Chief Technical Officer of AMD. Prior to joining the Company, Mr. Raza was the Chairman, Chief Executive Officer, President and Secretary of NexGen and held those positions from 1991 until it was acquired by the Company on January 17, 1996. From September 1988 until January 1991, Mr. Raza served as NexGen's Executive Vice President responsible for engineering, marketing and prototype manufacturing. He was a member of NexGen's Board of Directors since August 1989 and was elected Chairman of the Board in May 1994. In addition, in December 1995, Mr. Raza became a member of the Board of Directors of Paradigm Technology, Inc.

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MARVIN D. BURKETT - Mr. Burkett is the Senior Vice President, Chief Financial and Administrative Officer and Treasurer of AMD. Mr. Burkett was Controller of the Company from 1972 until 1989.

EUGENE D. CONNER - Mr. Conner is Senior Vice President, Operations of AMD. Mr. Conner joined the Company in 1969 and was elected an executive officer in 1981.

STANLEY WINVICK - Mr. Winvick is the Senior Vice President, Human Resources of AMD. Mr. Winvick had been Vice President, Human Resources since 1980.

STEPHEN J. ZELENCIK - Mr. Zelencik is Senior Vice President and Chief Marketing Executive of AMD. Mr. Zelencik joined the Company in 1970.

THOMAS M. MCCOY - Mr. McCoy is Vice President, General Counsel and Secretary of AMD. Prior to joining the Company in 1995, Mr. McCoy was with the law firm of O'Melveny & Myers where he had been a partner since 1985.

DR. FRIEDRICH BAUR - Dr. Baur has been President and Managing Partner of MST Beteiligungs and Unternehmensberatungs GmbH, a German consulting firm, since 1990. Beginning in 1953, Dr. Baur held a variety of positions of increasing responsibility with Siemens AG, retiring in 1982 as Executive Vice President and a Managing Director. He also represented Siemens on the Board of Directors of AMD from 1978 until 1982. From 1982 to 1990, Dr. Baur was Chairman of the Board of Zahnradfabrik Friedrichshafen AG, a publicly traded German company.

CHARLES M. BLALACK - Mr. Blalack is Chairman of the Board and Chief Executive Officer of Blalack and Company, an investment banking firm and a member of the NASD. From 1970 until 1991, Mr. Blalack was Chief Executive Officer of Blalack-Loop, Inc., also an investment banking firm and member of the NASD. Prior to that, he was founder, chairman and chief executive officer of BW & Associates, an investment banking firm and member of the NYSE. Mr. Blalack was a member of the Board of Directors of Monolithic Memories, Inc. until it was acquired by the Company in 1987. Mr. Blalack is currently a member of the Board of Directors of GranCare, Inc.

DR. R. GENE BROWN - Dr. Brown is a private investor and management consultant. Dr. Brown is also a Managing Director of Putnam, Hayes & Bartlett, Inc., an economic consulting firm. From 1961 to 1968, Dr. Brown was a full-time professor in the graduate schools of business at Harvard, then Stanford University. From 1968 to 1974, Dr. Brown was Vice President of Corporate Development for Syntex Corporation, and from 1974 to 1976, President of Berkeley BioEngineering.

JOE L. ROBY - Mr. Roby is the President, Chief Operating Officer and a director of Donaldson, Lufkin & Jenrette, Inc. ("DLJ"), a diversified financial services company and the parent company of Donaldson, Lufkin & Jenrette Securities Corporation. Mr. Roby has been a member of the Board of Directors of DLJ since 1989. He was appointed President of DLJ in February 1996. Prior to his appointment as the Chief Operating Officer of DLJ in November 1995, Mr. Roby was the Chairman of the Banking Group of Donaldson, Lufkin & Jenrette Securities Corporation, a position he had held since 1989. In addition, Mr. Roby is a member of the Board of Directors of Sybron International Corporation.

DR. LEONARD M. SILVERMAN - Dr. Silverman is Dean of the School of Engineering of the University of Southern California, and has held that position since 1984. He was elected to the National Academy of Engineering in 1988, and is a Fellow of the Institute of Electrical and Electronic Engineers. Dr. Silverman also served on the Board of Directors of Tandon Corporation from

1988 to 1993 and is currently a member of the Board of Directors of Diodes, Inc.

VINOD DHAM - Mr. Dham is Group Vice President, Computation Products Group of AMD. Prior to joining the Company, Mr. Dham was Executive Vice President and Chief Operating Officer of NexGen and held those

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positions from May 1995, until it was acquired by the Company on January 17, 1996. Before joining NexGen, Mr. Dham was Vice President of the Microprocessor Products Group and General Manager of the Pentium Processor Division at Intel. Mr. Dham was employed by Intel from July 1979, to April 1995.

RICHARD FORTE - Mr. Forte is Group Vice President, Communications and Components Group and President, Programmable Logic Division of AMD. Mr. Forte joined the Company in 1986. Prior to joining the Company, Mr. Forte was Vice President of Monolithic Memories, Inc., from 1986 until it was acquired by the Company in 1987.

WILLIAM T. SIEGLE - Mr. Siegle is Chief Scientist and Group Vice President, Technology Development Group of AMD. Mr. Siegle joined the Company and was elected Vice President and Chief Scientist in 1990. Prior to joining the Company, Mr. Siegle was Director of the Advanced Technology Center for IBM in East Fishkill, New York.

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#### DESCRIPTION OF COLLATERAL

The Senior Secured Notes and amounts outstanding under the New Credit Agreement will be secured by a first priority security interest, subject to the terms of the Intercreditor Agreement, in substantially all of the Company's real property, plant and equipment at the Fab 25 Complex, subject to Permitted Liens, and excluding, among other things, inventory, accounts receivable and proceeds of inventory and accounts receivable (collectively, the "Collateral"). That portion of the Collateral consisting of interests in real property and improvements thereon to be pledged to the Collateral Agent will be pledged by means of one or more deeds of trust (the "Deeds of Trust"). The remaining Collateral will be pledged pursuant to one or more security agreements, which may be incorporated in the Deeds of Trust (the "Security Agreements," and together with the Deeds of Trust, the "Collateral Documents"). The Collateral will also include insurance and condemnation proceeds from any Event of Loss or Collateral Asset Sale (each as defined herein). Pursuant to the Intercreditor Agreement, the Indenture and the New Credit Agreement, all such proceeds not expended by the Company as provided in the Indenture must be used by the Company to make an offer to repurchase all or a portion of the Senior Secured Notes and to prepay amounts outstanding under the New Credit Agreement, in proportion to the principal amounts outstanding under the Senior Secured Notes and the New Credit Agreement, respectively. Following default and acceleration of the indebtedness outstanding under the Senior Secured Notes and the New Credit Agreement, all such proceeds (net of certain costs of enforcement) must be applied to the payment of indebtedness outstanding under the Senior Secured Notes and the New Credit Agreement in proportion to the principal amounts outstanding thereunder. See "The Intercreditor Agreement" and "The New Credit Agreement." The preceding description of the Collateral Documents does not purport to be complete and is qualified in its entirety by reference to the Collateral Documents. Copies of the Collateral Documents will be filed with the Securities and Exchange Commission as exhibits to a Current Report on Form 8-K and will be available as set forth under "Available Information."

The Fab 25 Complex is located on an approximately 52 acre site in Austin, Texas, and contains an integrated circuit manufacturing facility of over 950,000 square feet, including approximately 86,700 square feet of clean room space as well as common utility facilities and an administration building. The Fab 25 Complex also contains an electrical substation, an industrial waste neutralization facility, an ultrapure water production facility and parking facilities, all of which are owned by AMD. A nitrogen generation facility located within the Fab 25 Complex is owned and operated by Air Products, Inc., an unaffiliated supplier of nitrogen and other gases used in the fabrication processes of AMD at the Fab 25 Complex.

The Deeds of Trust will also initially cover an additional parcel of land consisting of approximately 34.5 acres adjacent to the Fab 25 Complex (the "Adjacent Parcel") but not the buildings (Fab 15, Fab 14 and Fab 10) located on the Adjacent Parcel or the related fixtures and equipment. The Adjacent Parcel will initially be covered by the Deeds of Trust only because it has not been platted as a separate legal parcel. The Company intends to submit an application for replatting the Adjacent Parcel as a separate legal parcel to the City of Austin and anticipates that final action will be taken on this application within six months or less from the date of its submission. If the replatting is approved, the Collateral Agent, on behalf of the holders of the Senior Secured Notes and the Banks, will be obligated by the Deeds of Trust to release the Adjacent Parcel from the lien of the Deeds of Trust upon

completion of the replatting. Upon such release, the Adjacent Parcel will no longer be subject to the Deeds of Trust. Consequently, purchasers of the Senior Secured Notes should not consider the Adjacent Parcel as part of the Collateral securing the Senior Secured Notes.

Prior to the closing of the Offering, AMD will lease the Adjacent Parcel to a wholly owned subsidiary of AMD (the "Leasing Subsidiary") for a period of 99 years for nominal rent. The Leasing Subsidiary will also have an option to buy the Adjacent Parcel for a nominal consideration. The Leasing Subsidiary may sublease the Adjacent Parcel back to AMD, and the lease and any sublease will be recorded in the Travis County Real Property Records immediately prior to the Deeds of Trust, so that the lease will be prior in interest to the Deeds of Trust and will remain in force in the event of a foreclosure under the Deeds of Trust.

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The lease of the Adjacent Parcel is being entered into so that if the Deeds of Trust are foreclosed prior to replatting being completed, or if replatting cannot be accomplished, AMD will retain use of the Adjacent Parcel. Because of the length of the term of the lease and the nominal rent, AMD's (or the Leasing Subsidiary's) retained interest in the Adjacent Parcel will be practically equivalent to outright ownership of the Adjacent Parcel. Under the lease, the Leasing Subsidiary is obligated to pay taxes and all other expenses of the Adjacent Parcel. AMD will indemnify the Collateral Agent, the Banks, the Bank Agent, the Trustee and the holders of the Senior Secured Notes for any losses caused by the Leasing Subsidiary failing to comply with insurance, tax, maintenance and environmental compliance covenants in the lease.

In connection with the lease of the Adjacent Parcel, necessary easements will be created for utilities and services between the Fab 25 Complex and the Adjacent Parcel. Those easements are for the purposes of potable water supply, premises fire water storage and distribution, natural gas distribution, wastewater discharge system, premises drainage and stormwater detention, parking, driveways, electrical services, nitrogen pipelines, transport of industrial wastewater and transport of de-ionized water from the reverse osmosis de-ionized water production facilities, telephone and fiber optic lines and other related easements.

The Deeds of Trust will include customary provisions regarding Events of Default, which may include, among others, the occurrence of an "Event of Default" under either the New Credit Agreement or the Indenture; the abandonment of the property; certain defaults relating to other liens; the granting of any material easement, dedication or restriction affecting the property; certain events affecting the enforceability of the Collateral Documents and various related documents; the destruction of improvements on the property without funds available for reconstruction; and the condemnation of any material portion of the property as described in the Deeds of Trust.

In connection with the closing of the Offering, the Company will be required to provide a mortgagee's title insurance policy (the "Mortgagee Title Policy") in favor of the Collateral Agent, in the amount of at least \$212.0 million, covering the liens on the real estate portions of the Collateral. Because a survey of the Fab 25 Complex may not be completed prior to the closing of the Offering, the Mortgagee Title Policy may contain an exception to coverage for any title defects which would be disclosed by a survey (the "Survey Exception"). The Company does not believe that any such defects of a material nature exist. The New Credit Agreement requires the Company to obtain a survey of the Fab 25 Complex by September 1, 1996, and promptly thereafter, to use reasonable efforts to remove the Survey Exception and to correct any matters disclosed by the survey to which there is reasonable objection.

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#### THE INTERCREDITOR AGREEMENT

Upon the closing of the Offering, United States Trust Company of New York (the "Trustee"), Bank of America NT&SA, as agent for the Banks under the New Credit Agreement (the "Bank Agent"), and IBJ Schroder Bank & Trust Company (the "Collateral Agent"), as collateral agent for the Bank Agent on behalf of the Banks and the Trustee on behalf of the holders of the Senior Secured Notes, will enter into an Intercreditor and Collateral Agency Agreement (the "Intercreditor Agreement"). The following summary of certain provisions of the Intercreditor Agreement does not purport to be complete and is qualified in its entirety by reference to the final Intercreditor Agreement. A copy of the final Intercreditor Agreement will be filed with the Securities and Exchange Commission as an exhibit to a Current Report on Form 8-K and will be available as set forth under "Available Information."

Pursuant to the terms of the Intercreditor Agreement, the Collateral Agent will be appointed as agent for the Bank Agent and the Trustee and will hold the liens and security interests in the Collateral granted pursuant to the Collateral Documents with sole authority to exercise remedies under the Collateral Documents. The Collateral Agent will agree to act as beneficiary under the Deeds of Trust and as secured party under the Security Agreements,

to follow the instructions provided to it under the Intercreditor Agreement, and to carry out certain other duties.

The Intercreditor Agreement will set out the relative rights and responsibilities of the Banks and the Trustee with respect to the Collateral and their respective rights to instruct the Collateral Agent. After payment of certain costs of enforcement, any proceeds of the disposition of Collateral after an Event of Default are to be distributed in proportion to the principal amounts outstanding under the New Credit Agreement and the Senior Secured Notes. Any proceeds resulting from an Event of Loss or Collateral Asset Sale which are not expended by the Company as provided in the Indenture are to be applied to the prepayment of amounts outstanding under the New Credit Agreement and to make an Excess Proceeds Offer (as defined herein) with respect to the Senior Secured Notes in proportion to the respective principal amounts outstanding. See "Description of Senior Secured Notes--Repurchase at the Option of Holders--Asset Sales, Collateral Asset Sales and Events of Loss."

Either the Bank Agent, after receipt of instructions from the Banks, voting as a class, or the Trustee, after receipt of instructions from the holders of the Senior Secured Notes, voting as a class, may, after the obligations outstanding under the New Credit Agreement and the Senior Secured Notes have been accelerated, instruct the Collateral Agent generally to realize upon the Collateral and protect the interests of the Banks and the holders of Senior Secured Notes, all as expeditiously as possible. Upon receipt of notice of acceleration of the Senior Secured Notes, the Banks will be required to accelerate the indebtedness under the New Credit Agreement, and upon receipt of notice of acceleration of the indebtedness under the New Credit Agreement, the holders of the Senior Secured Notes will be required to accelerate the Senior Secured Notes. The Collateral Agent will only exercise remedies under the Collateral Documents after both the Banks and the holders of the Senior Secured Notes have accelerated their indebtedness. Aside from that general instruction and instructions in certain exceptional situations discussed below, all instructions to the Collateral Agent are to be made pursuant to the vote of the holders of a majority of the aggregate indebtedness outstanding under the New Credit Agreement and the Senior Secured Notes voting as a single class; provided that either the Banks or the holders of the Senior Secured Notes may, by vote of their class, delegate to any subset of the class the right to further vote 100% of their class's principal amount. Both the Banks and the holders of the Senior Secured Notes, each voting as a class, must agree to any material amendments to the Collateral Documents, amendment to the Intercreditor Agreement, or release of any Collateral other than as contemplated by the Collateral Documents. So long as the New Credit Agreement is outstanding and no Event of Default has occurred and is continuing under the Indenture, the Bank Agent acting alone may respond in certain specified circumstances to certain ministerial requests of the Company relating to the Collateral.

Prior to the closing of the Offering, the Company will enter into a separate agreement with the Collateral Agent (the "Collateral Agent Agreement") which will obligate the Company to compensate the Collateral Agent for its services under the Intercreditor Agreement and to provide the Collateral Agent with certain indemnities. The Intercreditor Agreement will provide that, if the Company should fail to make any payments due under the Collateral Agent Agreement, the Collateral Agent may apply proceeds of disposition of Collateral to the satisfaction of such obligations. The Collateral Agent may resign or be removed and replaced under certain circumstances set forth in the Intercreditor Agreement.

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#### THE NEW CREDIT AGREEMENT

On July 19, 1996, the Company entered into a credit agreement, which was amended on August 7, 1996 (as amended, the "New Credit Agreement"), with Bank of America NT&SA, as administrative agent (in such capacity, the "Bank Agent") and lender, ABN AMRO Bank N.V., as syndication agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender (such banks, in their capacity as lenders, the "Banks"), pursuant to which the Banks have committed to provide to the Company, subject to the conditions contained therein, \$400.0 million in aggregate principal amount of senior secured credit facilities. Under the terms of the New Credit Agreement, the Banks are permitted to assign or sell participations in their respective commitments and outstandings in respect of the New Credit Agreement to other qualified lenders.

The following is a summary of certain provisions of the New Credit Agreement and is qualified in its entirety by reference to the New Credit Agreement and other definitive agreements and instruments, copies of which will be filed with the Securities and Exchange Commission as exhibits to a Current Report on Form 8-K and will be available as set forth under "Available Information." Capitalized terms used herein that are undefined shall have the meanings assigned to them in the New Credit Agreement.

The New Credit Agreement establishes a three-year revolving credit facility



in an aggregate principal amount of up to \$150.0 million at any one time outstanding (the "Revolver") and a four-year term loan facility available in one drawdown or in multiple draws up to an aggregate principal amount of \$250.0 million (the "Term Loan"). With the approval of each of the Banks, the Company may obtain a one-year extension of the Revolver (for a fourth year of availability) by making a request for the extension during the period which is sixty days prior to the first anniversary of the closing of the Offering. All borrowings in respect of the Revolver will mature and be due and payable on the third or fourth anniversary of the closing of the Offering (in 1999 or 2000), as the case may be. The Company will be required to repay the Term Loan in eight equal quarterly installments, beginning three months after the second anniversary of the closing of the Offering. Prior to January 1, 1997, the Indenture will limit the aggregate amount which the Company can borrow under the Revolver and the Term Loan to \$250.0 million.

Aggregate borrowings outstanding under the Revolver are limited to the lesser of \$150.0 million or 70% of the Company's consolidated net accounts receivable outstanding from time to time (other than receivables of the Company's Dresden, Germany Unrestricted Subsidiary and its FASL Unrestricted Subsidiary). Any portion of the amount committed by the Banks for the Term Loan which is not utilized by the Company within six months of the effective date of the New Credit Agreement (July 19, 1996) shall be canceled and no longer available. The Company intends to utilize the Term Loan fully within such period. The Company expects to use borrowings under the New Credit Agreement for general corporate purposes.

Interest on borrowings under the New Credit Agreement will accrue and be payable at LIBOR (the London Interbank Offered Rate for 1, 2, 3 or 6 month dollar deposits as quoted by Bank of America NT&SA, as the Reference Bank) or at the Base Rate (the higher of Bank of America NT&SA's Reference Rate or 0.5% above the latest Federal Funds Rate), at the option of the Company, plus an Applicable Margin. Pursuant to the New Credit Agreement, the Applicable Margin for LIBOR or the Base Rate will be determined from time to time based on the credit rating assigned to the Senior Secured Notes by Moody's (the "Moody's Rating") and the credit rating assigned to the Company's senior unsecured indebtedness by S&P plus one rating increment (the "S&P Adjusted Rating") as indicated below.

<TABLE>  
<CAPTION>

	DEBT RATINGS ADJUSTED S&P/MOODY'S -----	OFFSHORE RATE MARGIN -----	BASE RATE MARGIN -----
<S>		<C>	<C>
	BBB/Baa2 or above.....	0.625%	0
	BBB-/Baa3.....	1.125%	0
	BB+/Ba1.....	1.500%	.25%
	BB/Ba2.....	1.750%	.50%
	BB-/Ba3.....	2.000%	.75%
	B+/B1 or below.....	2.500%	1.25%

</TABLE>

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If the Moody's Rating and the S&P Adjusted Rating indicate different levels for the Applicable Margin, (i) the lower of the two levels shall be the Applicable Margin if the two levels are consecutive, and (ii) the average of the two levels shall be the Applicable Margin if they are not consecutive. If only the Moody's Rating or the S&P Adjusted Rating, but not both, is available, the Applicable Margin corresponding to such available rating shall apply. Initially, the Applicable Margin is set at 1.75 percent for LIBOR and 0.50 percent for the Base Rate. Interest determined on the basis of LIBOR will be payable at the end of each interest period, but not less often than quarterly in arrears, and at maturity; and interest determined on the basis of the Base Rate will be payable quarterly in arrears and at maturity.

All indebtedness of the Company under the New Credit Agreement will be secured by a first priority lien and security interest in the Fab 25 Complex and, initially, the Adjacent Parcel, pursuant to the Deeds of Trust and Security Agreements. See "Description of Collateral." This first priority position will be shared pro rata with the holders of the Senior Secured Notes and the relative rights and obligations of the holders of the Senior Secured Notes and the Banks with respect to the Collateral will be set forth in the Intercreditor Agreement. See "The Intercreditor Agreement."

The obligations of the Banks to advance funds under the New Credit Agreement will be subject to the satisfaction of various conditions which, with various qualifications and exceptions, include (i) the satisfaction of the Bank Agent and each Bank with the form and substance of the Senior Secured Notes, the Indenture and evidence of funding thereunder; (ii) execution of the Intercreditor Agreement in form and substance satisfactory to the Banks; (iii) execution of the other Collateral Documents; (iv) completion of actions to create and perfect the lien on the Collateral and document the status of the lien as a first priority lien; (v) issuance of a satisfactory title insurance

policy in favor of the Collateral Agent; (vi) acceptance by the Banks and the Bank Agent of an environmental site assessment; (vii) execution by CIBC Inc. and the Company of an amendment to an existing agreement of guarantee in favor of CIBC Inc. conforming certain financial covenants therein to the covenants in the New Credit Agreement and consenting to the New Credit Agreement and the Senior Secured Notes; (viii) payment of the Company's existing \$150.0 million term loan and termination of the related loan commitment and its existing currently unused \$250.0 million revolving line of credit; (ix) opinions of counsel; and (x) payment of various fees related to the New Credit Agreement, as well as other conditions customary in agreements of this type.

The Company is subject to certain affirmative and negative covenants contained in the New Credit Agreement, including, without limitation, covenants that restrict, subject to specified exemptions, (a) the incurrence of additional indebtedness and other obligations, (b) merger or consolidation with any other person, (c) asset sales, (d) loans and investments, (e) granting of liens to secure any other indebtedness, (f) redemption or prepayment of any of the Senior Secured Notes, except in connection with refinancings of the Senior Secured Notes or mandatory redemption of the Senior Secured Notes connected with pro rata prepayment of the indebtedness under the New Credit Agreement, (g) modification of the terms of the Senior Secured Notes, (h) engaging in certain transactions with affiliates, and (i) declaration or payments of dividends or distributions on the Company's capital stock. Certain of these covenants will be more restrictive than those in favor of the holders of the Senior Secured Notes as described herein and as set forth in the Indenture. In addition, the New Credit Agreement requires that the Company maintain certain specified financial covenants, including a modified quick ratio (defined as the ratio of the sum of cash and unencumbered short-term investments plus net trade accounts and certain other receivables to current liabilities), certain levels of tangible net worth, a ratio of total liabilities to tangible net worth, and a minimum fixed charge coverage ratio. Such financial covenants are determined on a consolidated basis but without including either the FASL Unrestricted Subsidiary or the Dresden, Germany Unrestricted Subsidiary in such consolidation except to any extent that the Company or any of its Restricted Subsidiaries may be obligated with respect to the indebtedness or obligations of the Dresden, Germany Unrestricted Subsidiary. The New Credit Agreement requires the Company to deliver to the Bank Agent and each Bank a third party review and valuation of the Fab 25 Complex satisfactory to the Banks and the Bank Agent by September 1, 1996.

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Upon the occurrence of any event or circumstance (including any Event of Loss as defined in the New Credit Agreement) which results in a required prepayment or redemption of Senior Secured Notes, the Company will be required to prepay indebtedness under the New Credit Agreement in an amount proportionate with the amount of the Senior Secured Notes prepaid or redeemed. For the purposes of the New Credit Agreement, the term Event of Loss is defined to mean any of various events relating to the Collateral such as its destruction, damage, condemnation or seizure.

Events of default with respect to the New Credit Agreement include, subject to certain qualifications and exceptions, failure to make any payment of principal or interest due thereunder, breach of any representation or warranty made therein by the Company, failure to perform or observe any covenant of the Company set forth therein or in any related loan document, the unenforceability of any provision of the Collateral Documents, default with respect to other indebtedness or obligations of the Company under certain circumstances, failure of the Company to pay final judgments aggregating \$50.0 million or more, the occurrence of any Material Adverse Effect or Change of Control as those terms are defined therein, certain events of bankruptcy and insolvency with respect to the Company or any of its Restricted Subsidiaries and other customary events of default. The occurrence of an event of default under the Indenture will also be an event of default under the New Credit Agreement. Occurrence of any such events of default could result in termination of the lending commitments of the Banks, acceleration of the Company's obligations under the New Credit Agreement and foreclosure on the Collateral, with material adverse results to the holders of the Senior Secured Notes. See "Description of Senior Secured Notes."

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#### DESCRIPTION OF SENIOR SECURED NOTES

The following description of the particular terms of the Senior Secured Notes offered hereby supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the Debt Securities set forth in the Prospectus, to which reference is hereby made.

#### GENERAL

The Senior Secured Notes will be issued pursuant to an Indenture between the Company and United States Trust Company of New York, as trustee (the

"Trustee"). The terms of the Senior Secured Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The Senior Secured Notes are subject to all such terms, and holders of Senior Secured Notes (the "Holders") are referred to the Indenture and the Trust Indenture Act for a statement thereof. The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, including the definitions therein of certain terms used below. A copy of the final form of the Indenture will be filed with the Securities and Exchange Commission as an exhibit to a Current Report on Form 8-K and will be available as set forth under "--Additional Information." The Senior Secured Notes and the amounts outstanding under the New Credit Agreement will be secured by a first priority lien on the Collateral, subject to the terms of the Intercreditor Agreement. See "Description of Collateral" and "The Intercreditor Agreement." The definitions of certain terms used in the following summary are set forth below under "--Certain Definitions."

#### RANKING

The Senior Secured Notes will rank senior in right of payment to all subordinated indebtedness of the Company. The Senior Secured Notes will rank pari passu in right of payment with all senior borrowings, including borrowings under the New Credit Agreement.

The Senior Secured Notes will be effectively subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Company's Subsidiaries. Any right of the Company to receive assets of any of its Subsidiaries upon the latter's liquidation or reorganization (and the consequent right of the Holders of the Senior Secured Notes to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors, except to the extent that the Company is itself recognized as a creditor of such Subsidiary, in which case the claims of the Company would still be subordinate to any security in the assets of such Subsidiary and any indebtedness of such Subsidiary senior to that held by the Company. As of June 30, 1996, the indebtedness (including trade payables and lease obligations) of the Company's subsidiaries (excluding the FASL Unrestricted Subsidiary) was \$53.8 million.

As of the Issue Date, the Company's Dresden, Germany Unrestricted Subsidiary and the FASL Unrestricted Subsidiary will be designated Unrestricted Subsidiaries. Under certain circumstances, the Company will be able to designate current or future Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to most of the covenants set forth in the Indenture.

#### SECURITY

The Senior Secured Notes and the amounts outstanding under the New Credit Agreement will be secured by a first priority security interest, subject to the terms of the Intercreditor Agreement, in the Collateral. See "Description of Collateral" and "The Intercreditor Agreement."

So long as no Default or Event of Default shall have occurred and be continuing, and subject to certain terms and conditions in the Indenture, the Intercreditor Agreement and the Collateral Documents, the Company will be entitled to use the Collateral in a manner consistent with normal business practices. Upon the occurrence and during the continuance of an Event of Default, the Collateral Agent may sell the Collateral or any part thereof in accordance with the terms of the Collateral Documents and the Intercreditor Agreement. All funds

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distributed under the Collateral Documents and received by the Collateral Agent for the benefit of the Holders of the Senior Secured Notes and the Banks under the New Credit Agreement shall be distributed by the Collateral Agent in accordance with the provisions of the Intercreditor Agreement. See "The Intercreditor Agreement."

Under the terms of the Intercreditor Agreement, the Holders of the Senior Secured Notes and the Banks under the New Credit Agreement will determine the circumstances and manner in which the Collateral shall be disposed of, including, but not limited to, the determination of whether to release all or any portion of the Collateral from the Liens created by the Collateral Documents and whether to foreclose on the Collateral following an Event of Default. Moreover, upon the full and final payment and performance of all Obligations of the Company under the Indenture and the Senior Secured Notes, all Obligations of the Company to the Banks under the New Credit Agreement, and all Obligations of the Company to the Collateral Agent, the Collateral Documents shall terminate and the Collateral shall be released. In addition, in the event that any of the Collateral is sold and the Net Proceeds are applied in accordance with the terms of the covenant entitled "--Repurchase at the Option of Holders--Asset Sales, Collateral Asset Sales and Events of Loss," the Collateral Agent shall release the Liens in favor of the Collateral Agent in the assets sold; provided, that the Collateral Agent shall have

received from the Company an Officers' Certificate that such Net Proceeds have been or will be so applied.

The Collateral Documents and the Indenture will provide that the Net Proceeds of all Collateral Asset Sales shall be promptly and without any commingling deposited with the Collateral Agent subject to a charge in favor of the Collateral Agent for the benefit of the Holders and the Banks under the New Credit Agreement until applied as permitted under the covenant described under "--Repurchase at the Option of Holders--Asset Sales, Collateral Asset Sales and Events of Loss." Amounts so paid to the Collateral Agent shall be invested or released in accordance with the provisions of the Indenture and the Collateral Documents.

No appraisals of any of the Collateral have been prepared by or on behalf of the Company in connection with the sale of the Senior Secured Notes. The value of the Collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers for the Collateral. See "Risk Factors--Risk of Not Realizing Collateral Value; Risk of Shared Collateral."

The release of any Collateral from the terms of the Collateral Documents pursuant to the terms thereof will not be deemed to impair the security under the Indenture in contravention of the provisions thereof and of the Collateral Documents if and to the extent the Collateral is released pursuant to the terms of the Indenture and the Collateral Documents. To the extent applicable, the Company shall comply with Section 314(d) of the Trust Indenture Act.

#### CERTAIN BANKRUPTCY LIMITATIONS

The right of the Collateral Agent to repossess and dispose of the Collateral upon the occurrence of an Event of Default is likely to be impaired by applicable bankruptcy law if a bankruptcy proceeding were to be commenced by or against the Company prior to or possibly even after the Collateral Agent has repossessed and disposed of the Collateral. Under applicable federal bankruptcy laws, secured creditors are prohibited from repossessing their security from a debtor in a bankruptcy case, or from disposing of security repossessed from such a debtor, without bankruptcy court approval. Moreover, applicable federal bankruptcy laws generally permit the debtor to continue to retain and to use collateral even though the debtor is in default under the applicable debt instruments; provided generally that the secured creditor is given "adequate protection." The meaning of the term "adequate protection" may vary according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral and may include cash payments or the granting of additional security, if and at such times as the court in its discretion determines, for any diminution in the value of the collateral as a result of the stay of repossession or disposition or any use of the collateral by the debtor during the pendency of the bankruptcy case. In view of the lack of a precise definition of the term "adequate protection" and the broad discretionary powers of a bankruptcy court, it is impossible to predict if payments under the Senior Secured Notes would be made following commencement of and during a bankruptcy case,

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whether or when the Collateral Agent could repossess or dispose of the Collateral or whether or to what extent Holders of the Senior Secured Notes would be compensated for any delay in payment or loss of value of the Collateral through the requirement of "adequate protection." Furthermore, in the event the bankruptcy court determines the value of the Collateral is not sufficient to repay all amounts due on the Senior Secured Notes, the Holders of the Senior Secured Notes would hold "undersecured claims." Applicable federal bankruptcy laws do not permit the payment and/or accrual of interest, costs and attorneys' fees for "undersecured claims" during the debtor's bankruptcy case.

#### PRINCIPAL, MATURITY AND INTEREST

The Senior Secured Notes will be limited in aggregate principal amount to \$400.0 million and will mature on August 1, 2003. Interest on the Senior Secured Notes will accrue at the rate of 11% per annum, payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1997, to Holders of record on the immediately preceding January 15 and July 15 (whether or not a business day). Interest on the Senior Secured Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Senior Secured Notes will be payable as to principal, premium, if any, and interest at the office or agency of the Company maintained for such purpose in the City and State of New York or, at the option of the Company, such payment may be made by check mailed to the Holders of the Senior Secured Notes at their respective addresses set forth in the register of Holders of Senior Secured Notes; provided, however, that all payments with respect to the Global Note and definitive Senior Secured Notes the Holders of which have given wire transfer instructions to the Company at least 10 business days

prior to the applicable payment date will be required to be made by wire transfer of immediately available funds to the accounts specified by the Holders thereof. Until otherwise designated by the Company, the Company's office or agency in New York will be the office of the Trustee maintained for such purpose. The Senior Secured Notes will be issued in minimum denominations of \$1,000 and integral multiples thereof.

#### OPTIONAL REDEMPTION

The Senior Secured Notes will not be redeemable at the Company's option prior to August 1, 2001. Thereafter, the Senior Secured Notes will be subject to redemption at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on August 1 of the years indicated below:

<TABLE>  
<CAPTION>

YEAR	PERCENTAGE
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<S>	<C>
2001.....	105.500%
2002.....	102.750%

</TABLE>

#### SELECTION AND NOTICE

If less than all of the Senior Secured Notes are to be redeemed at any time, selection of Senior Secured Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the Senior Secured Notes are listed, or, if the Senior Secured Notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate; provided that no Senior Secured Notes of \$1,000 or less shall be redeemed in part. Notices of redemption shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Senior Secured Notes to be redeemed at its registered address. If any Senior Secured Note is to be redeemed in part only, the notice of redemption that relates to such Senior Secured Note shall state the portion of the principal amount thereof to be redeemed. A new Senior Secured Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original Senior Secured Note. On and after the redemption date, interest ceases to accrue on Senior Secured Notes or portions of them called for redemption.

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#### MANDATORY REDEMPTION

Except as set forth below under "--Repurchase at the Option of Holders," the Company is not required to make mandatory redemption or sinking fund payments with respect to the Senior Secured Notes.

#### REPURCHASE AT THE OPTION OF HOLDERS

##### Change of Control

Upon the occurrence of a Change of Control, each Holder of Senior Secured Notes will have the right to require the Company to repurchase all or any part (equal to \$1,000 or an integral multiple thereof) of such Holder's Senior Secured Notes pursuant to the offer described below (the "Change of Control Offer") at an offer price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest thereon to the date of purchase (the "Change of Control Payment"). Within ten days following any Change of Control, the Company will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Senior Secured Notes pursuant to the procedures required by the Indenture and described in such notice. The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the Senior Secured Notes as a result of a Change of Control.

On the Change of Control Payment Date, the Company will, to the extent lawful, (1) accept for payment all Senior Secured Notes or portions thereof properly tendered pursuant to the Change of Control Offer, (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Senior Secured Notes or portions thereof so tendered and (3) deliver or cause to be delivered to the Trustee the Senior Secured Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Senior Secured Notes or portions thereof being purchased by the Company. The Paying Agent will promptly mail to each Holder of Senior Secured Notes so tendered the Change of Control Payment for such Senior Secured Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by

book entry) to each Holder a new Senior Secured Note equal in principal amount to any unpurchased portion of the Senior Secured Notes surrendered, if any; provided that each such new Senior Secured Note will be in a principal amount of \$1,000 or an integral multiple thereof. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders of the Senior Secured Notes to require that the Company repurchase or redeem the Senior Secured Notes in the event of a takeover, recapitalization or similar transaction.

The exercise by the Holders of Senior Secured Notes of their right to require the Company to repurchase the Senior Secured Notes would cause a default under other senior indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchases on the Company. Certain events which would constitute a Change of Control under the provisions described above would constitute an event of default under the New Credit Agreement. In addition, the Company's ability to pay cash to the Holders of Senior Secured Notes upon a repurchase may be limited by the Company's then existing financial resources.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Senior Secured Notes validly tendered and not withdrawn under such Change of Control Offer.

"Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole to any "person" (as such term is used in Section 13(d)(3) of the Exchange Act); (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, or (iii) the consummation of any transaction (including, without limitation, any

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merger or consolidation) the result of which is that any "person" becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of more than 35% of the voting stock of the Company, or (iv) the first day on which a majority of the members of the Board of Directors of the Company are not Continuing Directors.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of the Company and its Subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Senior Secured Notes to require the Company to repurchase such Senior Secured Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of the Company who (i) was a member of such Board of Directors on the date of the Indenture or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

#### Asset Sales, Collateral Asset Sales and Events of Loss

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, make any Asset Sale unless (i) the Company or the Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets, Equity Interests or other property issued or sold or otherwise disposed of (evidenced by an Officers' Certificate delivered to the Trustee certifying as to (x) such value, (y) the consideration received (including the value of any non-cash consideration) and (z) if the assets, Equity Interests or other property disposed of equals or exceeds \$25.0 million in fair market value, a resolution of the Board of Directors approving such Asset Sale and acknowledging the values set forth in (x) and (y) above) and (ii) at least 75% of the consideration therefor received by the Company or such Restricted Subsidiary is in the form of cash or Cash Equivalents; provided that the amount of (x) any liabilities (as shown on the Company's or such Restricted Subsidiary's most recent balance sheet), of the Company or any Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Senior Secured Notes) that are assumed by the

transferee of any such assets pursuant to a customary novation agreement that releases the Company or such Restricted Subsidiary from further liability and (y) any notes or other obligations received by the Company or any such Restricted Subsidiary from such transferee that are immediately converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents (to the extent of the cash or Cash Equivalents received), shall be deemed to be cash for purposes of this provision.

Within 24 months after the receipt of any Net Proceeds from an Asset Sale, the Company may apply, or may cause the applicable Restricted Subsidiary to apply, such Net Proceeds to (i) the acquisition by the Company of all of the Capital Stock of any Person in the same or a substantially similar line of business as that conducted by the Company or any of its Subsidiaries as of the Issue Date, (ii) the making of a capital expenditure, (iii) the acquisition of other long-term Tangible Assets, (iv) the permanent reduction of amounts outstanding under the New Credit Agreement (and to correspondingly reduce commitments with respect thereto) and (v) the making of a Restricted Strategic Investment which is a Permitted Investment. Pending the final application of any such Net Proceeds, the Company shall hold such Net Proceeds in the form of cash or Cash Equivalents. Any Net Proceeds from Asset Sales that are not applied or invested as provided in the first sentence of this paragraph will be deemed to constitute "Excess Proceeds" and shall be applied to make an Excess Proceeds Offer in accordance with the terms described below.

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, engage in a Collateral Asset Sale unless (a) such Collateral Asset Sale involves the Collateral in its entirety, or, if such Collateral Asset Sale involves less than all of the Collateral (a "Partial Collateral Asset Sale"), such Partial Collateral Asset Sale involves a single Collateral Asset Sale with a fair market value at the time of consummation of such Collateral Asset Sale not exceeding \$2.0 million and is not part of a series of Collateral

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Asset Sales in any twelve month period with an aggregate value (measured as of the time of consummation of such sales) exceeding \$10.0 million in the aggregate; (b) the Company receives consideration in respect of and concurrently with such Collateral Asset Sale at least equal to the fair market value of such Collateral; (c) with respect to each such Collateral Asset Sale, the Company delivers an Officers' Certificate to the Trustee dated no more than 15 days prior to the date of consummation of the relevant Collateral Asset Sale, certifying that (i) such sale complies with clauses (a) and (b) above and (ii) if the fair market value of the Collateral being sold exceeds \$25.0 million, the fair market value of such Collateral was determined in good faith by the Board of Directors of the Company (whose determination, if the Collateral Asset Sale involves the Collateral in its entirety, was based on the opinion of a nationally recognized qualified independent appraiser prepared contemporaneously with such Collateral Asset Sale and which opinion, in such case, will be attached to the Officers' Certificate) as evidenced by copies of a resolution of the Board of Directors of the Company adopted in respect of and concurrently with such Collateral Asset Sale; (d) 100% of such consideration is in cash or Cash Equivalents; and (e) the Net Proceeds therefrom shall be paid directly by the purchaser thereof to the Collateral Agent, pursuant to the applicable security document, as additional Collateral. In the case of a Partial Collateral Asset Sale, the Company, within ninety (90) days from the date of consummation of a Partial Collateral Asset Sale, may apply all of the Net Proceeds therefrom to purchase or otherwise invest in Replacement Collateral. Any such Net Proceeds not so applied shall constitute "Excess Proceeds" and shall be applied (a) to make an Excess Proceeds Offer, in accordance with the terms of the last paragraph of this covenant, and (b) to repay and permanently reduce the obligations under the New Credit Agreement, in each case, in proportion to the respective principal amounts outstanding thereunder. In the case of a Collateral Asset Sale other than a Partial Collateral Asset Sale all of the Net Proceeds therefrom shall constitute "Excess Proceeds" and shall be applied to make an Excess Proceeds Offer in accordance with the terms described below, and to repay and permanently reduce the obligations under the New Credit Agreement in proportion to the respective principal amounts outstanding thereunder.

The Indenture will provide that if the Company suffers an Event of Loss, (a) the Net Proceeds therefrom shall be paid directly by the party providing such Net Proceeds to the Collateral Agent, pursuant to the applicable Collateral Document, as additional Collateral and (b) the Company shall take such actions, at its sole expense, as may be required to ensure that the Collateral Agent, pursuant to the applicable security document, has from the date of such deposit a first ranking Lien (subject to Permitted Liens) on such Net Proceeds pursuant to the terms of the applicable Collateral Document. As any portion or all of the Net Proceeds from any such Event of Loss are received by the Collateral Agent, the Company may apply all of such amount or amounts, as received, together with all interest earned thereon, individually or in combination, (i) to purchase or otherwise invest in Replacement Collateral or (ii) to restore the relevant Collateral. In the event that the Company elects to restore the relevant Collateral pursuant to the foregoing clause (ii), within six months of receipt of such Net Proceeds from an Event of Loss, the

Company shall (x) give the Trustee irrevocable written notice of such election and (y) enter into a binding commitment to restore such Collateral, a copy of which shall be supplied to the Trustee, and shall have 24 months from the date of such binding commitment to complete such restoration, which shall be carried out with due diligence. Any such Net Proceeds not so applied shall constitute "Excess Proceeds" and shall be applied (a) to make an Excess Proceeds Offer in accordance with the terms of the last paragraph of this covenant, and (b) to prepay and permanently reduce the obligations under the New Credit Agreement, in each case, in proportion to the principal amounts outstanding thereunder.

Under the terms of the Indenture, in the event that the Company decides pursuant to the foregoing provisions to apply any portion of the Net Proceeds from a Collateral Asset Sale or an Event of Loss to purchase or otherwise invest in Replacement Collateral, (i) the Company shall deliver an Officers' Certificate to the Trustee dated no more than 30 days prior to the date of consummation of the relevant investment in Replacement Collateral, certifying that the purchase price for the amount of the investment in Replacement Collateral does not exceed the fair market value of such Replacement Collateral and, if the fair market value of such Replacement Collateral exceeds \$25.0 million, certifying that the fair market value of such Replacement Collateral was determined in good faith by the Board of Directors of the Company and was based on the opinion of a nationally recognized qualified independent appraiser attached to the Officers' Certificate, adopted in respect

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of and concurrently with the investment in such Replacement Collateral; (ii) the Trustee will instruct the Collateral Agent to release such certified purchase price to the Company, free of the Lien of the Collateral Documents; and (iii) the Company shall take such actions, at its sole expense, as shall be required to permit the Collateral Agent, pursuant to the applicable Collateral Document, to release such Net Proceeds, together with any interest thereon, from the Lien of the applicable Collateral Document and to ensure that the Collateral Agent has, from the date of such purchase or investment, a first ranking Lien (subject to Permitted Liens on such Collateral) on such Replacement Collateral under the applicable Collateral Document.

When the aggregate amount of Excess Proceeds exceeds \$25.0 million, the Company will be required to make an offer to all Holders of Senior Secured Notes (an "Excess Proceeds Offer") to purchase Senior Secured Notes at an offer price in cash in an amount equal to 101% of the principal amount thereof plus accrued and unpaid interest thereon to the date of purchase. Excess Proceeds will be applied (a) to make an Excess Proceeds Offer and (b) to repay and permanently reduce amounts outstanding under the New Credit Agreement, in each case, in proportion to the respective principal amounts outstanding thereunder. To the extent that the aggregate amount of Senior Secured Notes tendered pursuant to an Excess Proceeds Offer is less than the Excess Proceeds, the Company may use any remaining Excess Proceeds for general corporate purposes pursuant to the Asset Sale covenant contained in the Indenture. If the aggregate principal amount of Senior Secured Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Trustee shall select the Senior Secured Notes to be purchased on a pro rata basis. Upon completion of such offer to purchase, the amount of Excess Proceeds shall be reset at zero.

#### CERTAIN COVENANTS

The Indenture will contain, among other things, the following covenants:

##### Restricted Payments

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly: (i) declare or pay any dividend or make any other payment or distribution on account of the Company's Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Company) or to the direct or indirect holders of the Company's Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company or dividends or distributions payable to the Company or any Wholly Owned Restricted Subsidiary of the Company); (ii) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Company or such Restricted Subsidiary (except for (a) up to an aggregate of \$2.0 million used to make fractional payments in the event of a merger or reverse stock split involving the Equity Interests of the Company or its Restricted Subsidiaries and (b) the cashless exercise of stock options or warrants issued by the Company); (iii) make any principal payment on, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the Senior Secured Notes, except (a) at final maturity or (b) retirement of existing issues of debt securities by application of the proceeds from the sale of the Senior Secured Notes, (iv) make any Restricted Investment (provided that (a) an Investment (other than any direct or indirect loan or Guarantee referred to in clause (b) or (c)) by the Company or a Restricted Subsidiary of up to \$350.0 million in the Dresden,



Germany Unrestricted Subsidiary; (b) a direct or indirect loan by the Company or a Restricted Subsidiary to its Dresden, Germany Unrestricted Subsidiary (including a Guarantee and any payment of such Guarantee) in an amount not to exceed \$150.0 million and (c) any Guarantee arising from the Company's or any Restricted Subsidiary's commitments or obligations with respect to the Dresden, Germany Unrestricted Subsidiary or any guarantee of any obligation (other than Indebtedness) of the Dresden, Germany Unrestricted Subsidiary (but, in each case, not the payment thereof), shall not be deemed to be a Restricted Investment; provided that no more than \$225.0 million shall be invested or loaned by the Company pursuant to subclauses (a) and (b) above in any four consecutive quarters) or (v) designate any Restricted Subsidiary to be an Unrestricted Subsidiary (all such payments and other actions set forth in clauses (i) through (v) above being collectively referred to as "Restricted Payments"), unless, at the time of and after giving effect to such Restricted Payment:

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(a) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof; and

(b) the Company would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "--Incurrence of Indebtedness and Issuance of Preferred Stock;" and

(c) such Restricted Payment, together with the aggregate of all other Restricted Payments made by the Company and its Restricted Subsidiaries after the Issue Date (excluding Restricted Payments permitted pursuant to subclauses (i) and (ii) of the next succeeding paragraph), is less than the sum of (i) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the Issue Date to the end of the Company's most recently ended fiscal quarter for which financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), plus (ii) 100% of the aggregate net cash proceeds received by the Company from the issue or sale since the Issue Date of Equity Interests of the Company or of debt securities of the Company that have been converted into such Equity Interests (other than Equity Interests (or convertible debt securities) sold to a Subsidiary of the Company and other than Disqualified Stock or debt securities that have been converted into Disqualified Stock), plus (iii) to the extent that any Restricted Investment that was made after the Issue Date is sold for cash or otherwise liquidated or repaid for cash, the lesser of (A) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (B) the initial amount of such Restricted Investment, plus (iv) 50% of any cash dividends received by the Company or a Wholly Owned Restricted Subsidiary after the date of the Indenture from an Unrestricted Subsidiary of the Company (excluding any cash dividends from the Dresden, Germany Unrestricted Subsidiary in an amount equal to the sum of (a) any Investment by the Company in the Dresden, Germany Unrestricted Subsidiary provided for in clause (iv) (a) of the first paragraph of this section and (b) any loan by the Company in the Dresden, Germany Unrestricted Subsidiary provided for in clause (iv) (b) of the first paragraph of this section).

Provided that no Event of Default shall have occurred and be continuing, the foregoing provisions will not prohibit (i) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture; (ii) the redemption, repurchase, retirement or other acquisition of any Equity Interests of the Company in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Company) of other Equity Interests of the Company (other than any Disqualified Stock) or the substantially concurrent conversion of such Equity Interests for other Equity Interests of the Company (other than Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement or other acquisition shall be excluded from clause (c) (ii) of the preceding paragraph; (iii) the making of any principal payment on, or the purchase, redemption, defeasance or other acquisition or retirement for value of any subordinated Indebtedness with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness or the substantially concurrent sale (other than to a Subsidiary of the Company) of Equity Interests of the Company (other than Disqualified Stock) or the substantially concurrent conversion of such Indebtedness into Equity Interests of the Company (other than Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement or other acquisition shall be excluded from clause (c) (ii) of the preceding paragraph; (iv) an Investment by the Company of up to \$50.0 million in the Company's FASL Unrestricted Subsidiary and the making of a Guarantee (but not the payment of such Guarantee) by the Company of up to

\$175.0 million of the FASL Unrestricted Subsidiary's Indebtedness; (v) any payments by the Company required pursuant to the terms of the CIBC Guarantee; and (vi) Restricted Payments in an aggregate amount not to exceed \$10.0 million.

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The Company may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if such designation would not cause a Default and if, immediately after giving effect to such designation on a pro forma basis, the Company would be in compliance with this covenant. For purposes of making such determination, all outstanding Investments by the Company and its Restricted Subsidiaries (except to the extent repaid in cash) in the Subsidiary so designated will be deemed to be Restricted Payments at the time of such designation and will reduce the amount available for Restricted Payments under the first paragraph of this covenant. All such outstanding Investments will be deemed to constitute Investments in an amount equal to the greatest of (x) the net book value of the Investments at the time of such designation, (y) the fair market value of such Investments at the time of such designation and (z) the original fair market value of such Investments at the time they were made. Such designation will only be permitted if such Restricted Payment would be permitted at such time and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

The amount of all Restricted Payments (other than cash) shall be the fair market value (evidenced, in the case of Restricted Payments (other than cash) with a fair market value in excess of \$25.0 million, by a resolution of the Board of Directors set forth in an Officers' Certificate delivered to the Trustee) on the date of the Restricted Payment of the asset(s) proposed to be transferred by the Company or such Subsidiary, as the case may be, pursuant to the Restricted Payment. Not later than the date of making any Restricted Payment, the Company shall deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by the covenant "Restricted Payments" were computed, which calculations may be based upon the Company's latest available financial statements.

#### Incurrence of Indebtedness and Issuance of Preferred Stock

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume, guaranty or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt) and that the Company will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however, that the Company or any of its Restricted Subsidiaries may incur Indebtedness (including Acquired Debt) or issue shares of Disqualified Stock if the Fixed Charge Coverage Ratio for the Company's most recently ended four full fiscal quarters for which financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.5 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred, or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The foregoing provisions will not apply to:

(i) the incurrence by the Company of the Indebtedness represented by the Senior Secured Notes;

(ii) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness, provided such Indebtedness does not exceed, as of the date of determination, 50% of Company Book Value less (a) the principal amount outstanding under the Senior Secured Notes, less (b) the Obligations outstanding under the New Credit Agreement and less (c) the aggregate amount of outstanding Indebtedness of the Company or any Restricted Subsidiary previously incurred pursuant to this clause (ii); provided, however, under no circumstances shall the aggregate amount of Indebtedness outstanding (x) under the Senior Secured Notes, (y) incurred and outstanding under the New Credit Agreement and (z) pursuant to outstanding Capital Lease Obligations relating to property or equipment at the Fab 25 Complex exceed, in the aggregate, (A) \$650.0 million on or before January 1, 1997 and (B) \$800.0 million thereafter, in each case, less any permanent reduction in the obligations and commitments of the Company under the New Credit Agreement as provided under "Repurchase at the Option of Holders-- Asset Sales, Collateral Asset Sales and Events of Loss;"

(iii) the incurrence by the Company and its Restricted Subsidiaries of the Existing Indebtedness;

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(iv) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations (other than Capital Lease Obligations relating to property or equipment at the Fab 25 Complex covered by subclause (ii) above), mortgage financings or purchase money obligations, in each case incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of the Company or such Restricted Subsidiary, in an aggregate principal amount not to exceed \$100.0 million at any time outstanding;

(v) the incurrence by the Company or any of its Restricted Subsidiaries of Permitted Refinancing Debt in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund, Indebtedness that was permitted by the Indenture to be incurred;

(vi) the incurrence by the Company or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Company and any of its Wholly Owned Restricted Subsidiaries; provided, however, that (i) if the Company is the obligor on such Indebtedness, such Indebtedness is expressly subordinate to the payment in full of all Obligations with respect to the Senior Secured Notes and (ii) (A) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Wholly Owned Restricted Subsidiary and (B) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Wholly Owned Restricted Subsidiary shall be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be;

(vii) the incurrence by the Company or any of its Restricted Subsidiaries of Hedging Obligations that are incurred for the purpose of fixing or managing (a) foreign currency risk or (b) interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the Indenture to be outstanding;

(viii) the incurrence by the Company's Unrestricted Subsidiaries of Non-Recourse Debt, provided, however, that if any such Indebtedness ceases to be Non-Recourse Debt of an Unrestricted Subsidiary, such event shall be deemed to constitute an incurrence of Indebtedness by a Restricted Subsidiary of the Company;

(ix) a Guarantee by the Company of up to \$175.0 million of the FASL Unrestricted Subsidiary's Indebtedness;

(x) a Guarantee by the Company pursuant to clause (iv)(b) of the first paragraph of the covenant described above under "Certain Covenants--Restricted Payments;" or

(xi) any Lien on Equity Interests of the Dresden, Germany Unrestricted Subsidiary permitted pursuant to clause (xvi) of the definition of "Permitted Liens."

#### Liens

The Indenture will provide that the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien on any asset now owned or hereafter acquired, or any income or profits therefrom or assign or convey any right to receive income therefrom, except Permitted Liens.

#### Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or consensual restriction on the ability of any Restricted Subsidiary to (i) (a) pay dividends or make any other distributions to the Company or any of its Restricted Subsidiaries (1) on its Capital Stock or (2) with respect to any other interest or participation in, or measured by, its profits, or (b) pay any indebtedness owed to the Company or any of its Restricted Subsidiaries, (ii) make loans or advances to the Company or any of its Restricted Subsidiaries or (iii) sell, lease or transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries, except (in each case) for such encumbrances or restrictions existing under or by reason of (a) Existing Indebtedness as in effect on the Issue Date, (b) the Indenture, the Senior Secured Notes and the

Collateral Documents, (c) the New Credit Agreement, (d) applicable law, (e) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any Restricted Subsidiary as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or than the property or assets of the

Person, so acquired, provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred, (f) by reason of customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices, (g) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (iii) above on the property so acquired, or (h) Permitted Refinancing Indebtedness, provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are in the good faith judgment of the Board of Directors of the Company (as evidenced by a resolution thereof set forth in an Officers' Certificate delivered to the Trustee) no more restrictive with respect to such dividend and other payment restrictions than those contained in the agreements governing the Indebtedness being refinanced.

#### Consolidation, Merger or Sale of Assets

The Indenture will provide that the Company may not consolidate or merge with or into or wind-up into (whether or not the Company is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to any Person unless (i) the Company is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia; (ii) the Person formed by or surviving any such consolidation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of the Company under the Senior Secured Notes, the Indenture and the Collateral Documents pursuant to a supplemental indenture or other documents or instruments in form reasonably satisfactory to the Trustee under the Senior Secured Notes and the Indenture; (iii) immediately after such transaction, no Default or Event of Default exists under the Indenture or the Collateral Documents; and (iv) except in the case of a merger of the Company with or into a Wholly Owned Subsidiary of the Company, the Company or the entity or Person formed by or surviving any such consolidation or merger (if other than the Company), or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made (A) will have Consolidated Net Worth immediately after the transaction (but prior to any purchase accounting adjustments resulting from such transaction) equal to or greater than the Consolidated Net Worth of the Company immediately preceding the transaction and (B) will, at the time of such transaction and after giving pro forma effect thereto as if such transaction had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "--Incurrence of Indebtedness and Issuance of Preferred Stock."

#### Limitation on Issuances and Sales of Capital Stock of Wholly Owned Restricted Subsidiaries

The Indenture will provide that the Company (i) will not, and will not permit any Wholly Owned Restricted Subsidiary of the Company to, transfer, convey, sell, lease or otherwise dispose of any Capital Stock of any Wholly Owned Restricted Subsidiary of the Company to any Person (other than the Company or a Wholly Owned Restricted Subsidiary of the Company), unless (a) such transfer, conveyance, sale, lease or other disposition is of all the Capital Stock of such Wholly Owned Restricted Subsidiary and (b) the cash Net Proceeds from such transfer, conveyance, sale, lease or other disposition are applied in accordance with the covenant described above under the caption "Redemption at the Option of Holders--Asset Sales, Collateral Asset Sales and Events of Loss" and (ii) will not permit any Wholly Owned Restricted Subsidiary of the Company to issue any of its Equity Interests (other than, if necessary, shares of its Capital Stock constituting directors' qualifying shares) to any Person other than to the Company or a Wholly Owned Restricted Subsidiary of the Company. Notwithstanding the foregoing, nothing in this covenant shall prohibit (x) the Company from selling more than

35% of its Equity Interest in any Wholly Owned Restricted Subsidiary in connection with the Initial Public Offering of such Wholly Owned Restricted Subsidiary, provided 100% of the net proceeds from such Initial Public Offering received by the Company are in the form of cash and all such proceeds are applied in accordance with the covenant described above under the caption "Redemption at the Option of Holders--Asset Sales, Collateral Asset Sales and Events of Loss" or (y) the issuance and exchange of Equity Interests (other than Disqualified Stock) of the Company's PLD Subsidiary (as defined herein) in connection with the merger of the PLD Subsidiary with or into any Person, provided (a) at the time of such merger, the Consolidated Cash Flow of the PLD Subsidiary for the Company's most recently ended four full fiscal quarters for which financial statements are available represents less than 10% of the Consolidated Cash Flow of the Company for the same period, (b) the Company and the PLD Subsidiary shall enter into a written agreement providing that the

product transfer pricing in effect following such merger shall be no less favorable to the Company than the product transfer pricing in effect during the period set forth in (a) above, and (c) the Fixed Charge Coverage Ratio for the period set forth in (a) above would have been 2.5 to 1, determined on a pro forma basis, as if such merger had occurred at the beginning of such period.

#### Transactions with Affiliates

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each of the foregoing, an "Affiliate Transaction"), unless (i) such Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person and (ii) the Company delivers to the Trustee (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$5.0 million, a resolution adopted by the majority of the disinterested non-employee directors of the Board of Directors approving such Affiliate Transaction or series of related Affiliate Transactions and set forth in an Officers' Certificate certifying that such Affiliate Transaction or series of related Affiliate Transactions comply with clause (i) above and (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate payments of or loans in the principal amount of \$25.0 million or more, an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction or series of related Affiliate Transactions from a financial point of view issued by an independent financial advisor of national standing. Notwithstanding the foregoing, the following transactions shall not be deemed Affiliate Transactions: (1) any purchases of products by the Company from the FASL Unrestricted Subsidiary on terms no less favorable to the Company than those determined pursuant to transfer pricing in effect on the Issue Date; (2) any purchases of wafers from the Dresden, Germany Unrestricted Subsidiary such that the sale of the products produced from such wafers have a Contribution Margin (as defined herein) of no less than 50%; (3) any employee compensation arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of the Company or such Restricted Subsidiary; (4) transactions between or among the Company and/or any of its Restricted Subsidiaries or (5) purchases of Equity Interests (other than Disqualified Stock) by any stockholder of the Company (or an Affiliate of a stockholder of the Company) from the Company or any Restricted Subsidiary; provided that such Equity Interests do not bear cash dividends. For purposes of this covenant, "Contribution Margin" shall mean the margin determined by dividing (a) the net cash revenue realized by the Company from the sale of such products less the cash cost to the Company of the wafer utilized in the production of such products divided by (b) the net cash revenue realized by the Company from the sale of such products.

#### New Credit Agreement

The Indenture will provide that, for so long as any Senior Secured Notes are outstanding, the Company will not amend, modify or change in any manner the terms of the New Credit Agreement as in effect on the Issue Date, if any such amendment, modification or change (i) changes (to earlier dates) the dates upon which principal and interest are due thereon; (ii) alters the redemption or prepayment provisions thereof; (iii) alters the provisions thereof relating to dispositions of Collateral; or (iv) alters the provisions thereof to the extent the Trustee is an express third party beneficiary.

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#### Insurance

The Indenture will provide that the Company shall at all times provide, maintain, and keep in full force, or cause to be provided, maintained and kept in full force, at no expense to the Collateral Agent, the Trustee or the Holders of the Senior Secured Notes, policies of insurance for the Collateral in an amount of not less than 100% of the full insurable value of the Collateral with a deductible of not more than \$1.0 million per occurrence, and, if issued by companies, associations or organizations licensed to do business in the state of California, having a rating in Best's Key Rating Guide of not less than B+:VII, and otherwise consistent with the Company's then existing generally applicable risk management policies, covering such casualties, risks, perils, liabilities and other hazards as are customary for improvements similar to the improvements in the general geographic area in which the improvements are located. All such policies of insurance required by the terms of the Indenture shall contain an endorsement or agreement by the insurer that any loss shall be payable in accordance with the terms of such policy notwithstanding any act or negligence of the Company or any party holding under the Company which might otherwise result in forfeiture of said insurance and the further agreement of the insurer waiving all rights of

setoff, counterclaim or deductions against the Company.

#### Reports

The Indenture will provide that, whether or not required by the rules and regulations of the Securities and Exchange Commission (the "Commission"), so long as any Senior Secured Notes are outstanding, the Company will furnish to the Holders of Senior Secured Notes all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Results of Operations and Financial Condition" and, with respect to the annual information only, a report thereon by the Company's certified independent accountants. In addition, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request.

#### EVENTS OF DEFAULT AND REMEDIES

The Indenture will provide that each of the following constitutes an Event of Default: (i) default for 30 days in the payment when due of interest on the Senior Secured Notes; (ii) default in payment when due of the principal of or premium, if any, on the Senior Secured Notes; (iii) failure by the Company to comply with the provisions described under the captions "--Repurchase at the Option of Holders--Change of Control," "--Repurchase at the Option of Holders--Asset Sales, Collateral Asset Sales and Events of Loss," "--Restricted Payments" or "--Incurrence of Indebtedness and Issuance of Preferred Stock;" (iv) failure by the Company for 60 days after notice to comply with any of its other agreements in the Indenture or the Senior Secured Notes; (v) default or event of default under the New Credit Agreement or any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, which default (a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default") or (b) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$10.0 million or more; (vi) failure by the Company or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of \$50.0 million, which judgments are not paid, discharged or stayed for a period of 30 days; (vii) material breach by the Company of any representation or warranty set forth in the Collateral Documents, or a material default by the Company in the performance of any covenant set forth in the Collateral Documents, or repudiation by the Company of its obligations under the

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Collateral Documents or the unenforceability of the Collateral Documents against the Company for any reason; and (viii) certain events of bankruptcy or insolvency with respect to the Company, the FASL Unrestricted Subsidiary or any Significant Subsidiary or group of Subsidiaries (not including the Dresden, Germany Unrestricted Subsidiary).

If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Senior Secured Notes may declare all the Senior Secured Notes to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Company, the FASL Unrestricted Subsidiary or any Significant Subsidiary or group of Subsidiaries (not including the Dresden, Germany Unrestricted Subsidiary) that, taken together, would constitute a Significant Subsidiary, all outstanding Senior Secured Notes will become due and payable without further action or notice. Holders of the Senior Secured Notes may not enforce the Indenture or the Senior Secured Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Senior Secured Notes may direct the Trustee in its exercise of any trust or power. Pursuant to the Intercreditor Agreement, the Holders of a majority of the Senior Secured Notes may delegate to a committee of such Holders the rights to vote with respect to instructions to be given to the Collateral Agent. The Trustee may withhold from Holders of the Senior Secured Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the premium that the Company would have

had to pay if the Company then had elected to redeem the Senior Secured Notes pursuant to the optional redemption provisions of the Indenture, an equivalent premium shall also become and be immediately due and payable to the extent permitted by the Indenture and law upon the acceleration of the Senior Secured Notes.

The Holders of a majority in aggregate principal amount of the Senior Secured Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Senior Secured Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the Senior Secured Notes.

The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Company is required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

#### LEGAL DEFEASANCE AND COVENANT DEFEASANCE

The Company may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Senior Secured Notes ("Legal Defeasance") except for (i) the rights of Holders of outstanding Senior Secured Notes to receive payments in respect of the principal of, premium, if any, and interest on such Senior Secured Notes when such payments are due from the trust referred to below, (ii) the Company's obligations with respect to the Senior Secured Notes concerning issuing temporary Senior Secured Notes, registration of Senior Secured Notes, mutilated, destroyed, lost or stolen Senior Secured Notes and the maintenance of an office or agency for payment and money for security payments held in trust, (iii) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's obligations in connection therewith and (iv) the Legal Defeasance provisions of the Indenture. In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Senior Secured Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "Events of Default" will no longer constitute an Event of Default with respect to the Senior Secured Notes.

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In order to exercise either Legal Defeasance or Covenant Defeasance, (i) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Senior Secured Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding Senior Secured Notes on the stated maturity or on the applicable redemption date, as the case may be, and the Company must specify whether the Senior Secured Notes are being defeased to maturity or to a particular redemption date; (ii) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the Holders of the outstanding Senior Secured Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; (iii) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders of the outstanding Senior Secured Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; (iv) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit; (v) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound; (vi) the Company must have delivered to the Trustee an opinion of counsel to the effect that after the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; (vii) the Company must deliver to the Trustee an Officers' Certificate stating that the deposit was

not made by the Company with the intent of preferring the Holders of Senior Secured Notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others; and (viii) the Company must deliver to the Trustee an Officers' Certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

#### TRANSFER AND EXCHANGE

A Holder may transfer or exchange Senior Secured Notes in accordance with the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company is not required to transfer or exchange any Senior Secured Note selected for redemption. Also, the Company is not required to transfer or exchange any Senior Secured Note for a period of 15 days before a selection of Senior Secured Notes to be redeemed.

The registered Holder of a Senior Secured Note will be treated as the owner of it for all purposes.

#### BOOK-ENTRY, DELIVERY AND FORM

The Senior Secured Notes will be represented by one or more fully registered global notes (collectively, the "Global Note"). The Global Note will be deposited upon issuance with, or on behalf of, The Depository Trust Company, as Depository (the "Depository") and registered in the name of the Depository or a nominee of the Depository (the "Global Note Registered Owner"). Except as set forth below, the Global Note may be transferred, in whole and not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

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The Depository has advised the Company that the Depository is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the "Participants") and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations and certain other organizations. Access to the Depository's systems is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of the Depository only through the Participants or the Indirect Participants. The ownership interest and transfer of ownership interest of each actual purchaser of each security held by or on behalf of the Depository are recorded on the records of the Participants and Indirect Participants.

The Depository has also advised the Company that, pursuant to procedures established by it (i) upon deposit of the Global Note, the Depository will credit the accounts of Participants designated by the Underwriters with portions of the principal amount of the Global Note, and (ii) ownership of such interests in the Global Note will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by the Depository (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Note). The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer the Senior Secured Notes will be limited to that extent.

Except as provided below, owners of interests in the Global Note will not have Senior Secured Notes registered in their names, will not receive physical delivery of the Senior Secured Notes in definitive form and will not be considered the registered owners or holders thereof under the Indenture for any purpose.

Payments in respect of the principal of and premium, if any, and interest on any Senior Secured Notes registered in the name of the Global Note Registered Owner will be payable by the Trustee to the Global Note Registered Owner in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Company and the Trustee will treat the persons in whose names the Senior Secured Notes, including the Global Note, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the Company, the Trustee nor any agent of the Company or the Trustee has or will have any responsibility or liability for (i) any aspect of the Depository's records or any Participant's records relating to or payments made on account of beneficial ownership interests in the Global Note, or for maintaining, supervising or reviewing any of the Depository's records or any Participant's



records relating to the beneficial ownership interests in the Global Note, or (ii) any other matter relating to the actions and practices of the Depository or any of its Participants. The Depository has advised the Company that its current practice, upon receipt of any payment in respect of securities such as the Senior Secured Notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date, in amounts proportionate to their respective holdings in principal amount of beneficial interests in the relevant security as shown on the records of the Depository. Payments by the Participants and the Indirect Participants to the beneficial owners of the Senior Secured Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of the Depository, the Trustee or the Company. Neither the Company nor the Trustee will be liable for any delay by the Depository or any of its Participants in identifying the beneficial owners of the Senior Secured Notes, and the Company and Trustee may conclusively rely on and will be protected in relying on instructions from the Global Note Registered Owner for all purposes.

The Global Note is exchangeable for definitive Senior Secured Notes (i) if the Depository notifies the Company that it is unwilling or unable to continue as Depository of the Global Note and the Company thereupon fails to appoint a successor Depository, (ii) if the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Senior Secured Notes in definitive registered form, or (iii) if there shall have occurred and be continuing an Event of Default or any event which after notice or lapse of time or both would

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be an Event of Default with respect to the Senior Secured Notes. Such definitive Senior Secured Notes shall be registered in the names of the owners of the beneficial interests in the Global Note as provided by the Participants. Upon issuance of the Senior Secured Notes in definitive form, the Trustee is required to register the Senior Secured Notes in the name of, and cause the Senior Secured Notes to be delivered to, the person or persons (or the nominee thereof) identified as the beneficial owners as the Depository shall direct.

Settlement for purchases of beneficial interests in the Global Note upon the original issuance thereof will be required to be made by wire transfer in immediately available funds. Payments in respect of the Senior Secured Notes represented by the Global Note (including principal, premium, if any, and interest) will be made by wire transfer in immediately available funds to the accounts specified by the Global Note Registered Owner. With respect to the definitive Senior Secured Notes, the Company will make all payments of principal, premium, if any, and interest by wire transfer in immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to such Holder's registered address. Secondary trading in long-term notes of corporate issuers is generally settled in clearing-house or next-day funds. In contrast, the beneficial interests in the Global Note are expected to trade in the Depository's Same-Day Funds Settlement System, in which secondary market trading activity in those beneficial interests would be required by the Depository to settle in immediately available funds. There is no assurance as to the effect, if any, that settlement in immediately available funds would have on trading activity on such beneficial interests.

#### AMENDMENT, SUPPLEMENT AND WAIVER

Except as provided in the next two succeeding paragraphs, the Indenture or the Senior Secured Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Senior Secured Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes), and any existing default or compliance with any provision of the Indenture or the Senior Secured Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Senior Secured Notes (including consents obtained in connection with a tender offer or exchange offer for Senior Secured Notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Senior Secured Notes held by a non-consenting Holder): (i) reduce the principal amount of Senior Secured Notes whose Holders must consent to an amendment, supplement or waiver, (ii) reduce the principal of or change the fixed maturity of any Senior Secured Note or alter the provisions with respect to the redemption of the Senior Secured Notes (other than provisions relating to the covenants described above under the caption "--Repurchase at the Option of Holders"), (iii) reduce the rate of or change the time for payment of interest on any Senior Secured Note, (iv) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Senior Secured Notes (except a rescission of acceleration of the Senior Secured Notes by the Holders of at least a majority in aggregate principal amount of the Senior Secured Notes and a waiver of the payment default that resulted from such acceleration), (v) make any Senior Secured

Note payable in money other than that stated in the Senior Secured Notes, (vi) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of Senior Secured Notes to receive payments of principal of or premium, if any, or interest on the Senior Secured Notes, (vii) waive a redemption payment with respect to any Senior Secured Note (other than a payment required by one of the covenants described above under the caption "--Repurchase at the Option of Holders"), (viii) release the Lien of the Collateral Agent in any of the Collateral other than pursuant to the terms of the Indenture or the Collateral Documents, or (ix) make any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any Holder of Senior Secured Notes, the Company and the Trustee may amend or supplement the Indenture or the Senior Secured Notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated Senior Secured Notes in addition to or in place of certificated Senior Secured Notes, to provide for the assumption of the Company's obligations to Holders of Senior Secured Notes in the case of a merger or consolidation, to make any change that would provide any

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additional rights or benefits to the Holders of Senior Secured Notes or that does not adversely affect the legal rights under the Indenture or the Collateral Documents of any such Holder, or to comply with requirements of the Commission in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act.

#### CONCERNING THE TRUSTEE

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the Commission for permission to continue or resign.

The Holders of a majority in principal amount of the then outstanding Senior Secured Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default shall occur (which shall not be cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Senior Secured Notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

#### ADDITIONAL INFORMATION

Anyone who receives this Prospectus Supplement and Prospectus may obtain a copy of the Indenture without charge by writing to Advanced Micro Devices, Inc., One AMD Place, Sunnyvale, California 94088-3453, Attention: Assistant Corporate Secretary.

#### CERTAIN DEFINITIONS

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Acquired Debt" means, with respect to any specified Person, (i) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, including, without limitation, Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person, and (ii) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the voting securities of a Person shall be deemed to be control.

"Asset Sale" means (i) the sale, lease, conveyance or other disposition of any assets (including, without limitation, by way of a sale and leaseback) other than sales of inventory in the ordinary course of business

consistent with past practices (provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "--Change of Control" and/or "--Consolidation, Merger or Sale of Assets" and not by the provisions of the Asset Sale covenant), and (ii) the issue or sale by the Company or any of its Restricted Subsidiaries of Equity Interests of any of the Company's Restricted

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Subsidiaries, in the case of either clause (i) or (ii), whether in a single transaction or a series of related transactions, (a) that have a fair market value in excess of \$5.0 million or (b) for net proceeds in excess of \$5.0 million. Notwithstanding the foregoing: (i) a transfer of assets by the Company to a Wholly Owned Restricted Subsidiary or by a Wholly Owned Restricted Subsidiary to the Company or to another Wholly Owned Restricted Subsidiary, (ii) an issuance of Equity Interests by a Wholly Owned Restricted Subsidiary to the Company or to another Wholly Owned Restricted Subsidiary, (iii) a Collateral Asset Sale, (iv) a Restricted Payment that is permitted by the covenant described above under the caption "--Restricted Payments," (v) the sale or exchange of equipment with an aggregate value not to exceed \$50.0 million at any one time provided such equipment has been replaced by equipment of equal or greater value within 45 days of such sale or exchange, (vi) the transfer of assets by the Company or a Restricted Subsidiary to the Dresden, Germany Unrestricted Subsidiary provided such transfer is not a Restricted Payment described above under the caption "--Restricted Payments;" (vii) the transfer of assets from the Company or a Restricted Subsidiary to the FASL Unrestricted Subsidiary provided such transfer would be permitted pursuant to the covenant described above under the caption "--Restricted Payments," (viii) any sale and leaseback transaction with respect to equipment so long as the equipment which is the subject of such transaction is acquired for the purpose of effecting such transaction and the sale and leaseback of such equipment occurs no later than 120 days following the original acquisition of such equipment and the lease is a Capital Lease Obligation and (ix) any transfer of the Equity Interests of the Dresden, Germany Unrestricted Subsidiary pursuant to the Lien described in item (xvi) of the definition of "Permitted Liens" will not be deemed to be Asset Sales.

"Banks" means the Bank of America NT&SA, ABN AMRO Bank N.V. and Canadian Imperial Bank of Commerce, as lenders under the New Credit Agreement, and any other lenders from time to time under the New Credit Agreement.

"Capital Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized on a balance sheet in accordance with GAAP.

"Capital Stock" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Cash Equivalents" means, (i) securities issued or fully guaranteed or insured by the United States Government or any agency thereof having maturities of not more than 12 months from the date of acquisition; (ii) certificates of deposit, time deposits, Eurodollar time deposits, repurchase agreements, reverse repurchase agreements, or bankers' acceptances, having in each case a tenor of not more than 12 months, issued by any Bank, or by any U.S. commercial bank or any branch or agency of a non-U.S. bank licensed to conduct business in the U.S. having combined capital and surplus of not less than \$100,000,000 and whose short-term securities are rated at least A-1 by S&P or at least P-1 by Moody's; (iii) taxable and tax-exempt commercial paper of an issuer rated at least A-1 by S&P or at least P-1 by Moody's and in either case having a tenor of not more than 270 days; (iv) medium term notes of an issuer rated at least AA by S&P or at least Aa2 by Moody's and having a remaining term of not more than 12 months after the date of acquisition by the Company or its Subsidiaries; (v) municipal notes and bonds which are rated at least SP-1 or AA by S&P or at least MIG-2 or Aa by Moody's with tenors of not more than 12 months; (vi) investments in taxable or tax-exempt money market funds with assets greater than \$500,000,000 and whose assets have average maturities less than or equal to 180 days and are rated at least A-1 by S&P or at least P-1 by Moody's; or (vii) money market preferred instruments of an issuer rated at least A-1 by S&P or at least P-1 by Moody's with tenors of not more than 12 months.

"CIBC Guarantee" means the Third Amended and Restated Guaranty, dated as of August 21, 1995, by the Company in favor of CIBC, Inc. relating to the Land Lease, dated as of September 22, 1992, and the Building Lease, dated as of September 22, 1992, between CIBC, Inc., as lessor, and a Wholly Owned Restricted Subsidiary of the Company, as lessee, for the Company's headquarters, in each case as amended as of the Issue Date.

"Collateral" means the real and other property at Fab 25 described in the Deeds of Trust and all other property and assets that from time to time secure the Senior Secured Notes pursuant to the applicable Collateral Documents, including any Replacement Collateral.

"Collateral Asset Sale" means any direct or indirect sale, conveyance, lease, transfer or other disposition, including, without limitation, by means of an amalgamation, merger, consolidation or similar transaction (each, a "Disposition"), or a series of related Dispositions by the Company or any of its Restricted Subsidiaries involving the Collateral, other than (i) the sale of machinery, equipment, furniture, apparatus, tools or implements or other similar property that may be defective or may have become worn out or obsolete or no longer used or useful in the operation of Fab 25, the aggregate fair market value of which does not exceed \$10.0 million in any year or (ii) the sale or exchange of equipment in an alteration or improvement at Fab 25 with an aggregate value not to exceed \$25.0 million at any one time provided such equipment has been replaced by equipment of equal or greater value within 45 days of such sale or exchange. A Collateral Asset Sale shall not include the requisition of title to or the seizure, condemnation, forfeiture or casualty of any Collateral.

"Company Book Value" means, as of the date of determination, (i) the Company's total assets less (ii) the Company's Intangible Assets less (iii) all of the Company's liabilities, in each case determined on a consolidated basis in accordance with GAAP; provided, however, in calculating Company Book Value the assets, Intangible Assets and liabilities of the Dresden, Germany Unrestricted Subsidiary shall be excluded.

"Collateral Documents" means, collectively, the Deeds of Trust, the Security Agreements and the Intercreditor Agreement or any other agreements, instruments, financing statements or other documents that evidence, set forth or limit the Lien of the Collateral Agent in the Collateral.

"Consolidated Cash Flow" means, with respect to any Person for any period, the Consolidated Net Income of such Person for such period plus (i) an amount equal to any extraordinary loss plus any net loss realized in connection with an Asset Sale (to the extent such losses were deducted in computing such Consolidated Net Income), plus (ii) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was included in computing such Consolidated Net Income, plus (iii) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income, plus (iv) depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash charges in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash charges were deducted in computing such Consolidated Net Income, in each case, on a consolidated basis and determined in accordance with GAAP.

"Consolidated Net Income" means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that (i) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid in cash to the referent Person or a Wholly Owned Restricted Subsidiary thereof, (ii) the Net Income of any Restricted Subsidiary shall be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, (iii) the Net Income

of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded, (iv) the cumulative effect of a change in accounting principles shall be excluded and (v) the Net Income of any Unrestricted Subsidiary shall be excluded, whether or not

distributed to the Company or any of its Restricted Subsidiaries.

"Consolidated Net Worth" means, with respect to any Person as of any date, the sum of (i) the consolidated equity of the common stockholders of such Person and its consolidated Subsidiaries as of such date plus (ii) the respective amounts reported on such Person's balance sheet as of such date with respect to any series of preferred stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by such Person upon issuance of such preferred stock, less (x) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of tangible assets of a going concern business made within 12 months after the acquisition of such business) subsequent to the Issue Date in the book value of any asset owned by such Person or a consolidated Subsidiary of such Person, (y) all investments as of such date in unconsolidated Subsidiaries and in Persons that are not Subsidiaries (except, in each case, Permitted Investments), and (z) all unamortized debt discount and expense and unamortized deferred charges as of such date, all of the foregoing determined in accordance with GAAP.

"Default" means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

"Disqualified Stock" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the Holder thereof, in whole or in part, on or prior to the date that is 91 days after the date on which the Senior Secured Notes mature.

"Dresden, Germany Unrestricted Subsidiary" means, together, AMD Saxony Manufacturing GmbH and any corporation wholly owned by the Company (other than directors' qualifying shares) and formed under the laws of a jurisdiction other than one of the United States of America which holds 100% of the equity in AMD Saxony Manufacturing GmbH.

"Equity Interests" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Event of Loss" means (i) the loss or destruction of or damage to any Collateral, (ii) the condemnation, seizure, confiscation, requisition of the use or taking by exercise of the power of eminent domain or otherwise of any Collateral or (iii) any consensual settlement in lieu of any event listed in clause (ii), in each case whether in a single event or a series of related events, that results in Net Proceeds from all sources in excess of \$10.0 million.

"Existing Indebtedness" means Indebtedness of the Company and its Restricted Subsidiaries (other than Indebtedness under the New Credit Agreement) in existence on the Issue Date, until such amounts are repaid.

"FASL Unrestricted Subsidiary" means Fujitsu AMD Semiconductor Limited, a joint venture between the Company and Fujitsu.

"Fixed Charges" means, with respect to any Person for any period, the sum of (i) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations) and (ii) the consolidated

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interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period, and (iii) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, other than the Lien described under clause (xvi) of the definition of "Permitted Liens," whether or not such Guarantee or Lien is called upon, and (iv) the product of (a) all cash dividend payments (and non-cash dividend payments in the case of a Person that is a Restricted Subsidiary) on any series of preferred stock of such Person, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"Fixed Charge Coverage Ratio" means with respect to any Person for any period, the ratio of the Consolidated Cash Flow of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person

and its Restricted Subsidiaries for such period. In the event that the Company or any of its Restricted Subsidiaries incurs, assumes, Guarantees or redeems any Indebtedness (other than revolving credit borrowings) or issues preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated but prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, Guarantee or redemption of Indebtedness, or such issuance or redemption of preferred stock, as if the same had occurred at the beginning of the applicable four-quarter reference period. In addition, for purposes of making the computation referred to above, (i) acquisitions that have been made by the Company or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date shall be deemed to have occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period shall be calculated without giving effect to clause (iii) of the proviso set forth in the definition of Consolidated Net Income, and (ii) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded, and (iii) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the referent Person or any of its Restricted Subsidiaries following the Calculation Date.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time.

"Guarantee" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness. Notwithstanding the foregoing, a Guarantee shall not include any commitments or obligations by the Company or its Restricted Subsidiaries relating to its Dresden, Germany Unrestricted Subsidiary until such time as such commitments or obligations relate to Indebtedness of the Dresden, Germany Unrestricted Subsidiary.

"Hedging Obligations" means, with respect to any Person, the obligations of such Person under (i) interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and other agreements or arrangements designed to protect such Person or any Subsidiary of such Person against fluctuations in interest rates, and (ii) foreign exchange forward contracts, foreign currency options and other agreements or arrangements entered into by such Person in the ordinary course of business for the purpose of managing risks associated with receivables on the balance sheet of such Person or any Subsidiary of such Person denominated in foreign currencies.

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"Indebtedness" means, with respect to any Person, any indebtedness of such Person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof) or banker's acceptances or representing Capital Lease Obligations or the balance deferred and unpaid of the purchase price of any property or representing any Hedging Obligations, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing indebtedness (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, as well as all indebtedness of others secured by a Lien on any asset of such Person (whether or not such indebtedness is assumed by such Person) and, to the extent not otherwise included, the Guarantee by such Person of any Indebtedness of any other Person.

"Initial Public Offering" means the first sale of securities of a Person to an underwriter for reoffering to the public.

"Intangible Asset" means (to the extent included in the Company's assets) (i) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of tangible assets of a going concern business made within 12 months after the acquisition of such business) subsequent to the Issue Date in the book value of any assets owned by the Company or a consolidated Subsidiary of the Company, (ii) all investments as of such date in unconsolidated Subsidiaries of the Company and in Persons which are not Subsidiaries of the Company (except, in each case, Permitted Investments) and (iii) all unamortized debt discounts and expense, unamortized deferred

charges, goodwill, patents, trademarks, service marks, trade names, copyrights, organization and developmental expenses and other intangible items, all of the foregoing as determined in accordance with GAAP.

"Investments" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the forms of direct or indirect loans (including guarantees of Indebtedness or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP; provided that (a) an acquisition of assets, Equity Interests or other securities by the Company for consideration consisting of common equity securities of the Company and (b) any loan or loans by the Company or its Subsidiaries to any employee in an aggregate amount less than \$1.0 million shall not be deemed to be an Investment. If the Company or any Subsidiary of the Company sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of.

"Issue Date" means the date on which the Senior Secured Notes are originally issued.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction); provided, however, that the express subordination by the Company or any Restricted Subsidiary of any direct or indirect loan to the Dresden, Germany Unrestricted Subsidiary permitted pursuant to the covenant described above under the caption "Restricted Payments" shall not be deemed a Lien.

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however, (i) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with (a) any Asset Sale or Collateral Asset Sale (including, without limitation, dispositions pursuant to sale and leaseback transactions) or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries and

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(ii) any extraordinary or nonrecurring gain (but not loss), together with any related provision for taxes on such extraordinary or nonrecurring gain (but not loss).

"Net Proceeds" means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries in respect of any Asset Sale or Collateral Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale or Collateral Asset Sale), net of the direct costs relating to such Asset Sale or Collateral Asset Sale (including, without limitation, legal, accounting and investment banking fees, and sales commissions) and any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), amounts required to be applied to the repayment of Indebtedness (other than the Senior Secured Notes) secured by a Lien on the asset or assets that were the subject of such Asset Sale or Collateral Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"New Credit Agreement" means that certain Credit Agreement, dated as of July 19, 1996, among the Banks and the Company providing for a \$150.0 million secured revolving line of credit and a \$250.0 million secured term loan, as amended or modified from time to time.

"Non-Recourse Debt" means Indebtedness (i) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable (as a guarantor or otherwise), or (c) constitutes the lender; and (ii) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness (other than the Senior Secured Notes being offered hereby) of the Company or any of

its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and (iii) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Company or any of its Restricted Subsidiaries (other than a Lien on Equity Interests of the Dresden, Germany Unrestricted Subsidiary permitted pursuant to clause (xvi) of the definition of "Permitted Liens"). Notwithstanding the foregoing, (a) a commitment or obligation of the Company or any Restricted Subsidiary to support the Dresden, Germany Unrestricted Subsidiary shall be Non-Recourse Debt unless such commitment or obligation constitutes a Guarantee; (b) any direct or indirect loan by the Company or any Restricted Subsidiary to the Dresden, Germany Unrestricted Subsidiary permitted pursuant to the covenant described above under the caption "Restricted Payments" shall be deemed Non-Recourse Debt of the Dresden, Germany Unrestricted Subsidiary; and (c) any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of the Dresden, Germany Unrestricted Subsidiary permitted pursuant to subclause (iv) (b) of the first paragraph of the covenant described above under the caption "Restricted Payments" shall not, alone, cause any such Indebtedness of the Dresden, Germany Unrestricted Subsidiary to cease to be Non-Recourse Debt of the Dresden, Germany Unrestricted Subsidiary.

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Permitted Investments" means (i) any Investment in the Company or in a Wholly Owned Restricted Subsidiary of the Company; (ii) any Investment in Cash Equivalents; (iii) any Investment by the Company or any Subsidiary of the Company in a Person, if as a result of such Investment (a) such Person becomes a Wholly Owned Restricted Subsidiary of the Company or (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Company or a Wholly Owned Restricted Subsidiary of the Company; (iv) any Restricted Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "--Repurchase at the Option of Holders-- Asset Sales, Collateral Asset Sales and Events of Loss;" and (v) any Restricted Strategic Investment; provided the aggregate amount of such Restricted Strategic Investment and all other outstanding Restricted Strategic Investments at such time does not exceed the sum of (a) \$50.0 million, plus (b) the amount of any cash gain (after taking into effect disposition costs) on any Restricted Strategic Investments sold for cash or otherwise liquidated or repaid for cash, less (c) the amount of any loss (after taking into effect disposition costs) on any Restricted Strategic Investments sold or otherwise liquidated or repaid.

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"Permitted Liens" means (i) Liens on Collateral securing the Senior Secured Notes and amounts outstanding under the New Credit Agreement that are permitted by the terms of the Indenture to be incurred; (ii) Liens in favor of the Company; (iii) Liens on property of a Person existing at the time such Person is merged into or consolidated with the Company or any Restricted Subsidiary of the Company; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with the Company; (iv) Liens on property existing at the time of acquisition thereof by the Company or any Restricted Subsidiary of the Company, provided that such Liens were in existence prior to the contemplation of such acquisition; (v) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business; (vi) Liens to secure Indebtedness permitted by clause (iv) of the second paragraph of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock" covering only the assets acquired with such Indebtedness; (vii) Liens existing on the Issue Date; (viii) the renewal, extension or replacement of Liens securing Indebtedness extended, refinanced, renewed, replaced, defeased or refunded with Permitted Refinancing Debt pursuant to clause (v) of the second paragraph of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock;" (ix) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded, provided that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor; (x) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the businesses of the Company and its Subsidiaries; (xi) Liens incurred in the ordinary course of business of the Company or any Restricted Subsidiary of the Company with respect to obligations that do not exceed \$5.0 million at any one time outstanding and that (a) are not incurred in connection with the borrowing of money or the obtaining of advances or credit (other than trade credit in the ordinary course of business) and (b) do not in the aggregate materially detract from the value of the property or materially impair the use thereof in



the operation of business by the Company or such Restricted Subsidiary; (xii) Liens on assets of Unrestricted Subsidiaries that secure Non-Recourse Debt of Unrestricted Subsidiaries; (xiii) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; provided that (a) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Company in excess of those set forth by regulations promulgated by the Board of Governors of the Federal Reserve System, or any authority succeeding to any of its principal functions, and (b) such deposit account is not intended by the Company or any Restricted Subsidiary to provide collateral to the depository institution; (xiv) Liens on any assets, Equity Interests or other property of the Company or any Restricted Subsidiary (other than Collateral) securing Indebtedness of the Company or any Restricted Subsidiary permitted pursuant to clause (ii) of the second paragraph of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock," provided that (a) such Indebtedness ranks *pari passu* in right of payment with the Senior Secured Notes and (b) with respect to any such Lien securing Indebtedness pursuant to the New Credit Agreement, all payments due under the Indenture and the Senior Secured Notes are secured on an equal and ratable basis with the Indebtedness so secured until such time as such Indebtedness is no longer secured by a Lien; (xv) Liens securing Permitted Refinancing Debt used to pay the Obligations of the Company under the CIBC Guarantee; and (xvi) any Lien on Equity Interests of the Dresden, Germany Unrestricted Subsidiary.

"Permitted Refinancing Debt" means any Indebtedness of the Company or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness (including the CIBC Guarantee but excluding all other Guarantees) of the Company or any of its Restricted Subsidiaries; provided that: (i) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus the amount of reasonable expenses incurred in connection therewith); (ii) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced,

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renewed, replaced, defeased or refunded; (iii) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Senior Secured Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Senior Secured Notes on terms at least as favorable to the Holders of Senior Secured Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (iv) such Indebtedness is incurred either by the Company or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"PLD Subsidiary" means any Restricted Subsidiary, whether formed before or after the Issue Date, to operate the business currently operated by the Company's Programmable Logic Division.

"Replacement Collateral" means, at any relevant date in connection with a Collateral Asset Sale or Event of Loss, assets used in the Company's business other than the Collateral, which on such date (i) constitute similar assets to Collateral disposed of or destroyed and do not constitute Capital Stock of any Person, (ii) are acquired by the Company at a purchase price which does not exceed the fair market value of such Replacement Collateral (as determined in the case of each of (i) and (ii), in good faith by the Board of Directors of the Company, on the basis of the written opinion of a qualified independent appraiser or financial advisor prepared contemporaneously with such purchase) and made available to the Collateral Agent, (iii) are free and clear of all Liens other than Permitted Liens, and (iv) are subject to the Collateral Documents.

"Restricted Investment" means an Investment other than a Permitted Investment.

"Restricted Strategic Investments" means one or more investments by the Company or a Restricted Subsidiary after the Issue Date in the same or a substantially related industry or line of business as that conducted by the Company or any Subsidiary, or as that conducted by any customer or supplier of the Company or any Subsidiary that would provide vertical integration with such industry or line of business, as of the Issue Date, provided (a) such

investment is identified as such in a resolution of the Board of Directors set forth in an Officer's Certificate delivered to the Trustee.

"Restricted Subsidiary" of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

"Significant Subsidiary" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Act, as such Regulation is in effect on the date hereof. Notwithstanding the foregoing, the Dresden, Germany Unrestricted Subsidiary shall not be deemed a Significant Subsidiary for purposes of the Indenture.

"Subsidiary" means, with respect to any Person, (i) the FASL Unrestricted Subsidiary, (ii) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (iii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"Tangible Assets" means any asset of the Company which is not an Intangible Asset.

"Unrestricted Subsidiary" means (i) the Dresden, Germany Unrestricted Subsidiary, (ii) the FASL Unrestricted Subsidiary, and (iii) any other Subsidiary that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution; but only to the extent that such Subsidiary: (a) has no Indebtedness other than Non-Recourse Debt; (b) is not party to any agreement, contract, arrangement or

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understanding with the Company or any Restricted Subsidiary of the Company unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company; (c) is a Person with respect to which neither the Company nor any of its Restricted Subsidiaries has any direct or indirect obligation (x) to subscribe for additional Equity Interests or (y) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; (d) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Company or any of its Restricted Subsidiaries; and (e) has at least one director on its board of directors that is not a director or executive officer of the Company or any of its Restricted Subsidiaries and has at least one executive officer that is not a director or executive officer of the Company or any of its Restricted Subsidiaries. Any such designation by the Board of Directors shall be evidenced to the Trustee by filing with the Trustee a certified copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions and was permitted by the covenant described above under the caption "Certain Covenants--Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the foregoing requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of the Company as of such date (and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "Incurrence of Indebtedness and Issuance of Preferred Stock," the Company shall be in default of such covenant). The Board of Directors of the Company may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that such designation shall be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Company of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation shall only be permitted if (i) such Indebtedness is permitted under the covenant described under the caption "Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock," (ii) no Default or Event of Default would be in existence following such designation and (iii) such Obligation would be allowed under the Restricted Payment covenant described above.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by (ii) the then outstanding principal amount of such Indebtedness.

"Wholly Owned Restricted Subsidiary" of any Person means a Restricted Subsidiary of such Person all of the outstanding Capital Stock or other

ownership interests of which (other than directors' qualifying shares) shall at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person.

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#### CERTAIN MATERIAL AGREEMENTS

Set forth below are descriptions of certain material contractual relationships of the Company relating to its FASL Unrestricted Subsidiary and its Dresden, Germany Unrestricted Subsidiary.

##### FASL

In 1993, the Company and Fujitsu formed a joint venture, FASL, for the development and manufacture of integrated circuits. Through FASL, the two companies have constructed and are operating an advanced integrated circuit manufacturing facility in Aizu-Wakamatsu, Japan, to produce Flash memory devices and EPROMs. The facility began volume production in the first quarter of 1995, and utilizes eight-inch wafer processing technologies capable of producing products with geometries of 0.5 micron or smaller. Pursuant to the terms of the joint venture, the Company and Fujitsu have each agreed not to produce independently Flash memory devices and EPROM products with geometries of 0.5 micron or smaller outside of the joint venture.

In the third quarter of 1995, FASL approved construction of a second Flash memory integrated circuit manufacturing facility (FASL II) at a site contiguous to the existing facility. Groundbreaking for FASL II occurred in the first quarter of 1996. The \$1.1 billion in capital expenditures planned for the construction of FASL II are expected to be funded by cash anticipated to be generated from FASL operations and, if necessary, bank borrowings by FASL. However, in the event that FASL is unable to secure the necessary funds for FASL II, the Company would be required to contribute cash or guarantee third party loans in proportion to its 49.95% interest in FASL. The planned FASL II costs are denominated in yen and, therefore, are subject to change due to foreign exchange rate fluctuations. Certain terms in the Indenture limit the amount and timing of the Company's investments in the FASL Unrestricted Subsidiary. See "Description of Senior Secured Notes--Certain Covenants."

The Company purchases Flash memory devices produced by FASL at transfer prices established by negotiation between the parties. The terms of the Indenture provide that the purchase of products by the Company from FASL shall be on terms no less favorable to the Company than those determined pursuant to the transfer pricing in effect on the Issue Date. See "Description of Senior Secured Notes--Transactions with Affiliates."

In connection with FASL, the Company and Fujitsu have entered into various joint development, cross-license and investment arrangements. Accordingly, the Company and Fujitsu are providing their product designs and process and manufacturing technologies to FASL. In addition, both companies are collaborating in developing manufacturing processes and designing integrated circuits for FASL. The right of each company to use the licensed intellectual property of the other with respect to certain products is limited to certain geographic areas. Consequently, the Company's ability to sell Flash memory products incorporating Fujitsu intellectual property, whether or not produced by FASL, is also limited in certain territories, including the United Kingdom and Japan. Fujitsu is likewise limited in its ability to sell Flash memory devices incorporating the Company's intellectual property, whether or not produced by FASL, in certain territories including the United States and Europe, other than the United Kingdom and Ireland.

##### Dresden

AMD is currently planning to construct an 875,000 square foot submicron integrated circuit manufacturing and design facility in Dresden, in the State of Saxony, Germany (the "Dresden Facility") over the next five years at a presently estimated cost in Deutsche marks equivalent to approximately \$1.5 billion (under current exchange rates). It is presently intended that the Dresden Facility will be dedicated to the production of microprocessors and other advanced logic products. The governments of the Federal Republic of Germany and the State of Saxony have agreed to provide financing assistance for the Dresden Facility through grants and allowances in Deutsche marks in an aggregate amount equivalent to approximately \$350.0 million at current exchange rates, interest subsidies in Deutsche marks in an aggregate amount equivalent to approximately \$200.0 million at current exchange rates, and loan guarantees. Between 1996 and 1999, AMD currently intends to invest in the Dresden, Germany Unrestricted Subsidiary (either directly or through a wholly owned intermediate holding

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company, as appropriate) an aggregate amount in Deutsche marks which is equivalent to approximately \$350.0 million at current exchange rates; of this amount, the Deutsche mark equivalent of approximately \$150.0 million would be invested in the form of equity and approximately \$200.0 million would be

invested in the form of equity or subordinated loans. The Dresden, Germany Unrestricted Subsidiary will construct, own and operate the Dresden Facility, but AMD, as sole shareholder of the Dresden, Germany Unrestricted Subsidiary, will control the Dresden, Germany Unrestricted Subsidiary. The Dresden, Germany Unrestricted Subsidiary has signed an agreement to acquire the land necessary to commence construction of the Dresden Facility for a purchase price in Deutsche marks in an amount equivalent to approximately \$10.0 million at current exchange rates. The parcel consists of approximately 120 acres.

The Dresden, Germany Unrestricted Subsidiary is expected to incur substantial project-related debt in the form of a syndicated Deutsche mark bank loan in an aggregate amount up to approximately \$1.1 billion at current exchange rates, the terms of which loan are currently under discussion with Dresdner Bank AG, as agent for the prospective lenders. No commitment has been issued by Dresdner Bank AG regarding the syndicated loan. This loan will be secured by the Dresden Facility and substantially all of the Dresden, Germany Unrestricted Subsidiary's other assets, will be guaranteed as to payment of 65 percent of the principal and interest by the Federal Republic of Germany and the State of Saxony and will be nonrecourse to the Company. The Company will pledge all of the shares of the Dresden, Germany Unrestricted Subsidiary to Dresdner Bank AG in connection with the syndicated loan. The Company will commit to provide the Dresden, Germany Unrestricted Subsidiary an additional \$100.0 million to \$150.0 million, depending on the outcome of negotiations with Dresdner Bank AG, for the Dresden, Germany Unrestricted Subsidiary's use with respect to the Dresden, Germany Unrestricted Subsidiary's syndicated loan obligations. This obligation will expire once the Dresden Facility is completed, after which time the Company has been requested by Dresdner Bank AG to make available up to \$100.0 million for the Dresden, Germany Unrestricted Subsidiary to draw upon should it fail to meet certain financial covenants. Assuming successful completion of negotiations, it is currently expected that the initial draw down on the loan will be made in 1997. Construction of the Dresden Facility is expected to commence in the first half of 1997 and initial volume production is planned to begin in 1999.

AMD is currently negotiating substantially all of the agreements relating to the construction, operation and financing of the Dresden Facility. It is presently expected that such agreements will be finalized during the fourth quarter of 1996. The negotiations presently contemplate that, in addition to the obligations discussed above, AMD (directly or indirectly) may be required to agree to (1) return all federal and state government grants, allowances and interest subsidies, or replace all such subsidies that are not made available, if the Company or the Dresden, Germany Unrestricted Subsidiary fails to meet certain material obligations to the Federal Republic of Germany or the State of Saxony; (2) purchase the output of the Dresden Facility at transfer prices to be set pursuant to specific formulas, except where the Dresden Facility is operating at less than 75% capacity because of a lack of market demand for the products being fabricated there (AMD's product purchase obligation can be terminated once the syndicated loan has been repaid or under circumstances relating to a change of control of the Dresden, Germany Unrestricted Subsidiary or the destruction or abandonment of the Dresden Facility); (3) cause the Dresden, Germany Unrestricted Subsidiary to undertake bona fide research and development activities at the design center of the Dresden Facility; (4) grant a non-exclusive license to the Dresden, Germany Unrestricted Subsidiary to use, at the Dresden Facility and in products manufactured at the Dresden Facility, intellectual property developed at the Dresden design center; and (5) make equity contributions or subordinated loans to the Dresden, Germany Unrestricted Subsidiary to fund cost overruns, exceeding certain amounts, in constructing the Dresden Facility.

In the event AMD agrees to purchase products from the Dresden, Germany Unrestricted Subsidiary, the Indenture provides that such purchases must occur at prices that would provide AMD with a minimum contribution margin. See "Description of Senior Secured Notes--Transactions with Affiliates."

No assurance can be given that AMD will be able to negotiate final agreements relating to the construction, operation and financing of the Dresden Facility on terms satisfactory to it, that the terms of any such agreements will not be materially different from those described, or that the financial exposure of AMD in connection with the Dresden Facility will not materially exceed the proposed terms described herein. Certain terms in the Indenture limit the amount and timing of the Company's investments in the Dresden, Germany Unrestricted Subsidiary. See "Description of Senior Secured Notes--Certain Covenants."

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#### CERTAIN TAX CONSIDERATIONS

The following summary describes the material United States federal income tax consequences of the purchase, ownership and disposition of the Senior Secured Notes to beneficial owners purchasing Senior Secured Notes at their original issuance ("holders"). The following discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), legislative history, administrative pronouncements, judicial decisions and Treasury Regulations. Changes to any of these sources following the date of this Prospectus

Supplement may alter the tax consequences described below. This summary does not address all of the tax consequences that might be relevant to a holder based upon that holder's particular circumstances or based upon special rules applicable to a particular holder. Nor does this summary address (i) tax consequences to holders treated as non-resident aliens, foreign corporations, foreign partnerships or foreign estates or trusts for United States federal income tax purposes or (ii) tax consequences to holders under the laws of any state, local or foreign government or taxing authority. The following discussion assumes that the Senior Secured Notes will be capital assets within the meaning of Section 1221 of the Code in the hands of the holders.

Potential purchasers of the Senior Secured Notes should consult their own tax advisors about the application of United States federal income tax laws to their particular circumstances in addition to any tax consequences arising under the laws of any state, local or foreign government or taxing authority.

RECOGNITION OF INTEREST INCOME

As a general matter, holders who report their income using the cash method of accounting would take interest on the Senior Secured Notes into income when actually or constructively received, and holders who use the accrual method of accounting would take such interest into income when the right to receive it is fixed and the amount is determinable with reasonable accuracy.

SALE OR EXCHANGE OF SENIOR SECURED NOTES

A holder will generally recognize gain or loss upon the sale or exchange (including retirement) of a Senior Secured Note equal to the difference between the amount realized in the transaction (excluding any amount constituting accrued but unpaid interest) and the holder's adjusted basis in the Senior Secured Note. As a general matter, a holder's tax basis will be equal to the holder's cost for the Senior Secured Note less any principal payments received. To the extent attributable to accrued but unpaid interest, the amount realized by the holder will be treated as a payment of interest. Any other gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the Senior Secured Notes have been held for more than one year at the time of such sale or exchange.

BACKUP WITHHOLDING AND INFORMATION REPORTING

Certain requirements with respect to information reporting to the Internal Revenue Service apply to payments of interest (including original issue discount, if any) and principal to certain non-corporate holders. Similar requirements apply with respect to the proceeds of sales by non-corporate holders of the Senior Secured Notes prior to their maturity. In addition, a backup withholding tax of 31% applies if a non-corporate holder fails to provide certain information, including a taxpayer identification number. Backup withholding does not apply to payments made to certain exempt recipients, including corporations and tax-exempt organizations. Amounts withheld pursuant to the backup withholding rules are allowed as a refund or a credit against United States federal income tax, provided that certain required information is provided to the Internal Revenue Service.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement (the "Underwriting Agreement") between the Company and Donaldson, Lufkin & Jenrette Securities Corporation and BA Securities, Inc. (the "Underwriters"), the Underwriters have agreed, severally and not jointly, to purchase from the Company, and the Company has agreed to sell to the Underwriters, the principal amounts of Senior Secured Notes set forth opposite their names below:

<TABLE>  
<CAPTION>

UNDERWRITER -----	PRINCIPAL AMOUNT OF SENIOR SECURED NOTES -----
<S>	<C>
Donaldson, Lufkin & Jenrette Securities Corporation.....	\$360,000,000
BA Securities, Inc.....	40,000,000
	-----
Total.....	\$400,000,000 =====

</TABLE>

The Underwriting Agreement provides that the obligations of the Underwriters thereunder are subject to certain conditions precedent. The Underwriting Agreement also provides that the Company will indemnify the Underwriters and their controlling persons against certain liabilities and expenses in connection with the offer and sale of the Senior Secured Notes, including liabilities under the Securities Act, and to contribute to payments that the

Underwriters may be required to make in respect thereof. The nature of the Underwriters' obligations is such that they are committed to purchase all of the Senior Secured Notes if any of the Senior Secured Notes are purchased.

The Underwriters propose initially to offer the Senior Secured Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and to certain dealers at such price less a concession not to exceed 0.4% of the principal amount of the Senior Secured Notes. The Underwriters may allow, and such dealers may reallow, discounts not in excess of 0.25% of the principal amount of the Senior Secured Notes to certain other dealers. After the initial public offering of the Senior Secured Notes, the offering price, the concession and reallowance and other selling terms may be changed by the Underwriters.

There is currently no public market for the Senior Secured Notes offered hereby. The Company does not plan to apply for the listing of the Senior Secured Notes on a national securities exchange or seek the admission thereof to trading in the National Association of Securities Dealers Automated Quotation System. The Company has been advised by the Underwriters that, following completion of the initial offering of the Senior Secured Notes, the Underwriters presently intend to make a market in the Senior Secured Notes; however, the Underwriters are not obligated to do so, and any market-making activities with respect to the Senior Secured Notes may be discontinued at any time without notice. In addition, such market-making activities will be subject to the limits imposed by the Securities Act and the Exchange Act. Therefore, there can be no assurance as to the liquidity of, or the trading market for, the Senior Secured Notes or that an active public market for the Senior Secured Notes will develop.

Bank of America NT&SA, an affiliate of BA Securities, Inc., will be the agent and a lender under the New Credit Agreement. BA Securities, Inc. will receive an arrangement fee pursuant to the New Credit Agreement. Approximately \$150.0 million of the net proceeds of the Offering will be used to repay the Company's existing four-year term bank loan, under which Bank of America NT&SA is a lender. Bank of America NT&SA has from time to time extended credit to the Company and certain of its subsidiaries and may do so in the future. In connection with such credit facilities, Bank of America NT&SA may also act as agent, and Bank of America NT&SA or BA Securities, Inc. may act as arranger.

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#### LEGAL MATTERS

Certain legal matters with respect to the Senior Secured Notes will be passed upon by Bronson, Bronson & McKinnon LLP, San Francisco, California, counsel for the Company, Fulbright & Jaworski, L.L.P., Houston, Texas, counsel for the Company as to certain matters of Texas law, Dewey Ballantine, New York, New York, counsel for the Company as to certain matters of New York law and for the Underwriters by Latham & Watkins, San Francisco, California.

#### EXPERTS

The consolidated financial statements of AMD at December 31, 1995 and December 25, 1994 and for each of the three years in the period ended December 31, 1995 incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report incorporated by reference therein, and are incorporated by reference herein in reliance upon such report upon the authority of such firm as experts in accounting and auditing.

The supplemental consolidated financial statements of AMD at December 31, 1995 and December 25, 1994 and for each of the three years in the period ended December 31, 1995, included in this Prospectus Supplement, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included herein. Such financial statements are included herein in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

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#### PROSPECTUS

[LOGO OF ADVANCED MICRO DEVICES, INC]

Advanced Micro Devices, Inc.

\$400,000,000  
Debt Securities  
Preferred Stock  
Depositary Shares  
Common Stock  
Warrants to Purchase Stock

Advanced Micro Devices, Inc. (the "Company"), directly or through agents, dealers or underwriters designated from time to time, may offer, issue and

sell, together or separately, up to \$400,000,000 in the aggregate of (a) secured or unsecured debt securities (the "Debt Securities") of the Company, which may be either senior debt securities (the "Senior Debt Securities"), senior subordinated debt securities (the "Senior Subordinated Debt Securities") or subordinated debt securities (the "Subordinated Debt Securities"), (b) shares of preferred stock, par value \$0.10 per share (the "Preferred Stock"), of the Company in one or more series, (c) depository shares of the Company (the "Depository Shares") evidencing fractions of shares of Preferred Stock, (d) shares of common stock, par value \$0.01 per share (the "Common Stock"), of the Company, and (e) warrants to purchase Common Stock (the "Warrants"), or any combination of the foregoing, either individually or as units consisting of one or more of the foregoing, each on terms to be determined at the time of sale. The Debt Securities may be issued as exchangeable and/or convertible Debt Securities exchangeable for or convertible into shares of Common Stock, Preferred Stock or any other Security. The Preferred Stock may also be exchangeable for and/or convertible into shares of Common Stock, Preferred Stock or any other Security. The Debt Securities, the Preferred Stock, the Depository Shares, the Common Stock and the Warrants are collectively referred to herein as the "Securities."

When a particular series of Securities is offered (the "Offered Securities"), a supplement to this Prospectus (each a "Prospectus Supplement") will be delivered with this Prospectus. For Debt Securities, the Prospectus Supplement will set forth with respect to such series (the "Offered Debt Securities"): the designation (including whether senior, senior subordinated or subordinated and whether convertible or exchangeable); the nature and terms of the security for any secured Offered Debt Securities; aggregate principal amount; authorized denominations; maturity; rate or rates (or method of determining the same) and the time or times of payment of any interest; the purchase price; any optional or mandatory redemption provisions; any sinking fund provisions; provisions relating to any conversion or exchange feature of the Offered Debt Securities; and any other specific terms of the Offered Debt Securities. For Preferred Stock and Depository Shares, the Prospectus Supplement will set forth with respect to such series (the "Offered Preferred Stock" or the "Offered Depository Shares"): aggregate number of shares offered; the public offering price; designation, rights, preferences and limitations, including rate or rates (or method of determining the same) and the time or times of payment of dividends; voting rights, if any; liquidation preference; any conversion, exchange, redemption or sinking fund provisions; and any other specific terms of the Offered Preferred Stock or the Offered Depository Shares. In addition, with respect to the Offered Depository Shares, the Prospectus Supplement will set forth the fraction of a share of Preferred Stock represented by each of the Offered Depository Shares. For Common Stock, the Prospectus Supplement will set forth the terms of the offering and sale. For Warrants, the Prospectus Supplement will set forth with respect to such series (the "Offered Warrants"): offering price, exercise price, duration, detachability, call provisions and any other specific terms of the Offered Warrants.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Securities may be sold directly by the Company, through agents designated from time to time or to or through underwriters or dealers. The Company reserves the sole right to accept, and together with its agents, from time to time, to reject in whole or in part any proposed purchase of Securities to be made directly or through agents. See "Plan of Distribution." If any such agents or underwriters are involved in the sale of any Securities, the names of such agents or underwriters and any applicable fees, commissions or discounts will be set forth in the applicable Prospectus Supplement.

This Prospectus may not be used to consummate sales of Securities unless accompanied by the applicable Prospectus Supplement.

The date of this Prospectus is July 19, 1996.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET, OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

#### AVAILABLE INFORMATION

Advanced Micro Devices, Inc. (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference room of the Commission at Judiciary Plaza, 450

Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and the public reference facilities in the New York Regional Office, Seven World Trade Center, 13th Floor, New York, New York 10048, and Chicago Regional Office, Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained at prescribed rates by writing to the Securities and Exchange Commission, Public Reference Section, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Such material can also be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This Prospectus constitutes a part of a registration statement on Form S-3 (herein, together with all amendments and exhibits, referred to as the "Registration Statement") filed by the Company under the Securities Act of 1933, as amended, with respect to the Securities offered hereby. This Prospectus does not contain all the information included in such Registration Statement, certain items of which are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Securities offered hereby, reference is made to the Registration Statement and the exhibits thereto.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents heretofore filed by the Company with the Commission are incorporated herein by reference: (a) Annual Report on Form 10-K for the fiscal year ended December 31, 1995, filed pursuant to Section 13 of the Exchange Act; (b) Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, filed pursuant to Section 13 of the Exchange Act; (c) Current Reports on Form 8-K dated January 5, 1996, January 10, 1996, January 12, 1996, January 17, 1996, April 1, 1996, April 9, 1996, June 19, 1996, and June 20, 1996, filed pursuant to Section 13 of the Exchange Act; and (d) the description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A filed September 14, 1979.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of the offering covered by this Prospectus shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Prospectus, shall be deemed to be modified or superseded for purposes of the Registration Statement or this Prospectus to the extent that a statement contained herein or in any other document subsequently filed with the Commission which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Registration Statement or this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, upon the written or oral request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference other than exhibits to such documents (unless such exhibits are specifically incorporated by

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reference in such documents). Requests should be directed to: Assistant Corporate Secretary, Advanced Micro Devices, Inc., One AMD Place, Sunnyvale, California 94086 (telephone: (408) 732-2400). The information relating to the Company contained in this Prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference herein.

#### THE COMPANY

Advanced Micro Devices, Inc. ("AMD" or the "Company"), a Delaware corporation, was founded in 1969, became a publicly held company in 1972 and since 1979 has been listed on the New York Stock Exchange ("NYSE") with the trading symbol of AMD. The Company designs, develops, manufactures and markets complex monolithic integrated circuits for use by manufacturers of a broad range of electronic equipment and systems.

The Company has sales offices worldwide, and has manufacturing or testing facilities in Sunnyvale, California; Austin, Texas; Bangkok, Thailand; Penang, Malaysia; and Singapore. Its executive offices and corporate headquarters are located at One AMD Place, Sunnyvale, California 94086, and its telephone number is (408) 732-2400.

#### USE OF PROCEEDS

Except as otherwise provided in the Prospectus Supplement, the net proceeds from the sale of Securities offered hereby will be used for general corporate purposes, which may include the reduction of outstanding indebtedness, working capital increases and capital expenditures.

#### RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO



COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

RATIO OF EARNINGS TO FIXED CHARGES:

The following table sets forth the ratios of earnings to fixed charges for the Company for the periods indicated.

<TABLE>  
<CAPTION>

FISCAL YEAR ENDED					QUARTER ENDED	
DECEMBER 29, 1991	DECEMBER 27, 1992	DECEMBER 26, 1993	DECEMBER 25, 1994	DECEMBER 31, 1995	APRIL 2, 1995	MARCH 31, 1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
4.7x	8.9x	15.8x	22.7x	9.4x	17.9x	1.4x

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS:

The following table sets forth the ratios of earnings to combined fixed charges and preferred stock dividends for the periods indicated.

<TABLE>  
<CAPTION>

FISCAL YEAR ENDED					QUARTER ENDED	
DECEMBER 29, 1991	DECEMBER 27, 1992	DECEMBER 26, 1993	DECEMBER 25, 1994	DECEMBER 31, 1995	APRIL 2, 1995	MARCH 31, 1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
3.6x	6.6x	9.1x	12.6x	9.4x	17.8x	1.4x

The ratio of earnings to fixed charges has been computed by dividing earnings by fixed charges. The ratio of earnings to fixed charges and preferred stock dividends has been computed by dividing earnings by the sum of fixed charges and preferred stock dividend requirements. Earnings consist of income before income taxes, amortization of capitalized interest plus fixed charges other than capitalized interest. Fixed charges consist of interest on all indebtedness, amortization of debt issuance costs and the portion of rental expense representative of interest.

On a pro forma basis, assuming \$150.0 million of Offering proceeds at an assumed interest rate of 9 3/4% were used to extinguish existing debt of the Company in a refinancing, the ratio of earnings to fixed charges would have been 8.5x and 1.2x for the year ended December 31, 1995 and the three months ended March 31, 1996, respectively, and the ratio of earnings to combined fixed charges and preferred stock dividends would have been 8.5x and 1.9x for the respective periods.

GENERAL DESCRIPTION OF SECURITIES

The Company, directly or through agents, dealers or underwriters designated from time to time, may offer, issue and sell, together or separately, up to \$400,000,000 in the aggregate of (a) secured or unsecured debt securities (the "Debt Securities") of the Company, which may be senior debt securities (the "Senior Debt Securities"), senior subordinated debt securities (the "Senior Subordinated Debt Securities") or subordinated debt securities (the "Subordinated Debt Securities"), (b) shares of preferred stock, par value \$0.10 per share (the "Preferred Stock"), of the Company in one or more series, (c) depository shares of the Company (the "Depository Shares") evidencing fractions of shares of Preferred Stock, (d) shares of common stock, par value \$0.01 per share (the "Common Stock") of the Company, and (e) warrants to purchase Common Stock (the "Warrants"), or any combination of the foregoing, either individually or as units consisting of one or more of the foregoing, each on terms to be determined at the time of sale. The Debt Securities may be issued as exchangeable and/or convertible Debt Securities exchangeable for or convertible into shares of Common Stock, Preferred Stock or any other Security. The Preferred Stock may also be exchangeable for and/or convertible into shares of Common Stock, Preferred Stock or any other Security. The Debt Securities, the Preferred Stock, the Depository Shares, the Common Stock and the Warrants are collectively referred to herein as the "Securities."

DESCRIPTION OF DEBT SECURITIES

The following description sets forth certain general terms and provisions of the Debt Securities to which any Prospectus Supplement may relate. The particular terms of the Debt Securities offered by any Prospectus Supplement and the extent, if any, to which such general provisions do not apply to the Debt Securities so offered will be described in the Prospectus Supplement relating to such Debt Securities.

Debt Securities may be issued from time to time in series under an indenture, and one or more indentures supplemental thereto (collectively, the "Indenture"), between the Company and a trustee to be identified in the applicable Prospectus Supplement (the "Trustee"). The terms of the Debt Securities will include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (the "TIA") as in effect on the date of the Indenture. The Debt Securities will be subject to all such terms, and potential investors in the Debt Securities are referred to the Indenture and the TIA for a statement thereof. The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, including the definitions therein of certain terms used below. A copy of the proposed form of Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. As used under this caption, unless the context otherwise requires, Offered Debt Securities shall mean the Debt Securities offered by this Prospectus and the accompanying Prospectus Supplement.

#### GENERAL

The Indenture will provide for the issuance of Debt Securities in series and will not limit the principal amount of Debt Securities which may be issued thereunder.

The applicable Prospectus Supplement or Prospectus Supplements will describe the following terms of the series of Offered Debt Securities in respect of which this Prospectus is being delivered: (1) the title of the Offered Debt Securities; (2) whether the Offered Debt Securities are Senior Debt Securities, Senior Subordinated Debt Securities or Subordinated Debt Securities or any combination thereof; (3) any limit upon the aggregate principal amount of the Offered Debt Securities; (4) the date or dates on which the principal of the Offered Debt Securities is payable; (5) the rate or rates at which the Offered Debt Securities will bear interest, if any, or the manner in which such rate or rates are determined; (6) the date or dates from which any such interest will accrue, the interest payment dates on which any such interest on the Offered Debt Securities will be payable and the record dates for the determination of holders to whom interest is payable; (7) the obligation of the Company, if any, to redeem, purchase or repay the Offered Debt Securities, in whole or in part, pursuant to any sinking fund or

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analogous provisions or at the option of the holders and the price or prices at which and the period and periods within which and the terms and conditions upon which the Offered Debt Securities shall be redeemed, purchased or repaid pursuant to such obligation; (8) the right of the Company, if any, to redeem, purchase or repay the Offered Debt Securities, in whole or in part, and the price or prices at which and the period or periods within which and the terms and conditions upon which the Offered Debt Securities may be redeemed, purchased or repaid; (9) the place or places where the principal of and any interest on the Offered Debt Securities will be payable; (10) the denominations in which any Offered Debt Securities will be issuable, if other than denominations of U.S. \$1,000 and any integral multiple thereof; (11) if other than the principal amount thereof, the portion of the principal amount of the Offered Debt Securities of the series which will be payable upon declaration of the acceleration of the maturity thereof; (12) any addition to or change in the covenants which apply to the Offered Debt Securities; (13) any Events of Default with respect to the Offered Debt Securities, if not otherwise set forth under "Events of Default;" (14) whether the Offered Debt Securities will be issued in whole or in part in global form; the terms and conditions, if any, upon which such global Offered Debt Securities may be exchanged in whole or in part for other individual securities, and the depository for such Offered Debt Securities; (15) the terms and conditions, if any, upon which the Offered Debt Securities may be exchanged for or converted into other securities or property; (16) the nature and terms of the security for any secured Offered Debt Securities; and (17) any other terms of the Offered Debt Securities, which terms shall not be inconsistent with the provisions of the Indenture.

Debt Securities may be issued at a discount from their principal amount ("Original Issue Discount Securities"). Federal income tax considerations and other special considerations applicable to any such Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

Debt Securities may be issued in bearer form, with or without coupons. Federal income tax considerations and other special considerations applicable to bearer securities will be described in the applicable Prospectus Supplement.

Unless otherwise indicated in this Prospectus or a Prospectus Supplement, the Debt Securities will be unsecured and will not have the benefit of any covenants that limit or restrict the Company's business or operations, the pledging of the Company's assets or the incurrence of indebtedness by the Company.

STATUS OF DEBT SECURITIES

The Senior Debt Securities will be unsubordinated obligations of the Company and will rank on a parity with all other unsecured and unsubordinated indebtedness of the Company.

The obligations of the Company pursuant to Senior Subordinated Debt Securities will be subordinate and junior in right of payment, to the extent and in the manner set forth in the Indenture, to all Senior Indebtedness of the Company. Except to the extent set forth in the Prospectus Supplement, "Senior Indebtedness" of the Company is defined to mean the principal of, and premium, if any, and any interest (including interest accruing subsequent to the commencement of any proceeding for the bankruptcy or reorganization of the Company under any applicable bankruptcy, insolvency or similar law now or hereafter in effect) on (a) all indebtedness of the Company whether heretofore or hereafter incurred (i) for borrowed money or (ii) incurred in connection with the acquisition by the Company or a subsidiary of assets other than in the ordinary course of business, for the payment of which the Company is liable directly or indirectly by guarantee, letter of credit, obligation to purchase or acquire or otherwise, or the payment of which is secured by a lien, charge or encumbrance on assets acquired by the Company, (b) amendments, modifications, renewals, extensions and deferrals of any such indebtedness, and (c) any indebtedness issued in exchange for any such indebtedness (clauses (a) through (c) hereof being collectively referred to herein as "Debt"); provided, however, that the following will not constitute Senior Indebtedness with respect to Senior Subordinated Debt Securities: (1) any Debt as to which, in the instrument evidencing such Debt or pursuant to which such Debt was issued, it is expressly provided that such Debt is subordinate in right of payment to all Debt of the Company not expressly subordinated to such Debt; (2) any Debt which by its terms refers explicitly to the Senior Subordinated Debt Securities and states that such

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Debt shall not be senior in right of payment; and (3) any Debt of the Company in respect of the Senior Subordinated Debt Securities or any Subordinated Debt Securities. The Company will not issue Debt which is subordinated in right of payment to any other Debt of the Company and which is not expressly made pari passu with, or subordinate and junior in right of payment to, the Senior Subordinated Debt Securities.

The obligations of the Company pursuant to Subordinated Debt Securities will be subordinate in right of payment to all Senior Indebtedness of the Company and to any Senior Subordinated Debt Securities; provided, however, that the following will not constitute Senior Indebtedness with respect to Subordinated Debt Securities: (1) any Debt as to which, in the instrument evidencing such Debt or pursuant to which such Debt was issued, it is expressly provided that such Debt is subordinate in right of payment to all Debt of the Company not expressly subordinated to such Debt; and (2) any Debt of the Company in respect of Subordinated Debt Securities and any Debt which by its terms refers explicitly to the Subordinated Debt Securities and states that such Debt shall not be senior in right of payment.

No payment pursuant to the Senior Subordinated Debt Securities or the Subordinated Debt Securities, as the case may be, may be made unless all amounts of principal, premium, if any, and interest then due on all applicable Senior Indebtedness of the Company shall have been paid in full or if there shall have occurred and be continuing beyond any applicable grace period a default in any payment with respect to any such Senior Indebtedness, or if there shall have occurred any event of default with respect to any such Senior Indebtedness permitting the holders thereof to accelerate the maturity thereof, or if any judicial proceeding shall be pending with respect to any such default. However, the Company may make payments pursuant to the Senior Subordinated Debt Securities or the Subordinated Debt Securities, as the case may be, if a default in payment or an event of default with respect to the Senior Indebtedness permitting the holder thereof to accelerate the maturity thereof has occurred and is continuing and judicial proceedings with respect thereto have not been commenced within a certain number of days of such default in payment or event of default. Upon any distribution of the assets of the Company upon dissolution, winding-up, liquidation or reorganization, the holders of Senior Indebtedness of the Company will be entitled to receive payment in full of principal, premium, if any, and interest (including interest accruing subsequent to the commencement of any proceeding for the bankruptcy or reorganization of the Company under any applicable bankruptcy, insolvency or similar law now or hereafter in effect) before any payment is made on the Senior Subordinated Debt Securities or Subordinated Debt Securities, as applicable. By reason of such subordination, in the event of insolvency of the Company, holders of Senior Indebtedness of the Company may receive more, ratably, and holders of the Senior Subordinated Debt Securities or Subordinated Debt Securities, as applicable, having a claim pursuant to the Senior Subordinated Debt Securities or Subordinated Debt Securities, as applicable, may receive less, ratably, than the other creditors of the Company. Such subordination will not prevent the occurrence of any Event of Default in respect of the Senior Subordinated Debt Securities or the Subordinated Debt Securities.

## CONVERSION RIGHTS

The terms, if any, on which Debt Securities of a series may be exchanged for or converted into shares of Common Stock, Preferred Stock or any other Security will be set forth in the Prospectus Supplement relating thereto.

## EXCHANGE, REGISTRATION, TRANSFER AND PAYMENT

Unless otherwise specified in the applicable Prospectus Supplement, payment of principal, premium, if any, and any interest on the Debt Securities will be payable, and the exchange of and the transfer of Debt Securities will be registrable, at the office of the Trustee or at any other office or agency maintained by the Company for such purpose subject to the limitations of the Indenture. Unless otherwise indicated in the applicable Prospectus Supplement, the Debt Securities will be issued in denominations of U.S. \$1,000 or integral multiples thereof. No service charge will be made for any registration of transfer or exchange of the Debt Securities, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge imposed in connection therewith.

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## SECURED DEBT SECURITIES

The terms, if any, on which Debt Securities of a series may be secured will be set forth in the Prospectus Supplement relating thereto. The terms of the Company's current credit agreements generally prohibit the Company from encumbering its assets. With certain limited exceptions, so long as these provisions are in effect, the Company may not issue secured Debt Securities without having first obtained modifications or waivers of these provisions.

## BOOK-ENTRY DEBT SECURITIES

The Debt Securities of a series may be issued in the form of one or more Global Securities that will be deposited with a depository or its nominee identified in the applicable Prospectus Supplement. In such a case, one or more Global Securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal amount of Outstanding Debt Securities of the series to be represented by such Global Security or Securities. Each Global Security will be deposited with such depository or nominee or a custodian therefor and will bear a legend regarding the restrictions on exchanges and registration of transfer thereof referred to below and any such other matters as may be provided for pursuant to the applicable Indenture.

Notwithstanding any provision of the Indenture or any Debt Security described herein, no Global Security may be transferred to, or registered or exchanged for Debt Securities registered in the name of, any Person other than the depository for such Global Security or any nominee of such depository, and no such transfer may be registered, unless (i) the depository has notified the Company that it is unwilling or unable to continue as depository for such Global Security or has ceased to be qualified to act as such as required by the applicable Indenture, (ii) the Company executes and delivers to the Trustee an order that such Global Security shall be so transferable, registrable and exchangeable, and such transfers shall be registrable, or (iii) there shall exist such circumstances, if any, as may be described in the applicable Prospectus Supplement. All Debt Securities issued in exchange for a Global Security or any portion thereof will be registered in such names as the depository may direct.

The specific terms of the depository arrangement with respect to any portion of a series of Debt Securities to be represented by a Global Security will be described in the applicable Prospectus Supplement. The Company expects that the following provisions will apply to depository arrangements.

Unless otherwise specified in the applicable Prospectus Supplement, Debt Securities which are to be represented by a Global Security to be deposited with or on behalf of a depository will be represented by a Global Security registered in the name of such depository or its nominee. Upon the issuance of such Global Security, and the deposit of such Global Security with or on behalf of the depository for such Global Security, the depository will credit, on its book-entry registration and transfer system, the respective principal amounts of the Debt Securities represented by such Global Security to the accounts of institutions that have accounts with such depository or its nominee ("participants"). The accounts to be credited will be designated by the underwriters or agents of such Debt Securities or by the Company, if such Debt Securities are offered and sold directly by the Company. Ownership of beneficial interests in such Global Security will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests by participants in such Global Security will be shown on, and the transfer of that ownership interest will be effected only through, records maintained by the depository or its nominee for such Global Security. Ownership of beneficial interests in such Global Security by persons that hold through participants will be shown on, and the transfer of that ownership

interest within such participant will be effected only through, records maintained by such participant. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. The foregoing limitations and such laws may impair the ability to transfer beneficial interests in such Global Securities.

So long as the depository for a Global Security, or its nominee, is the registered owner of such Global Security, such depository or such nominee, as the case may be, will be considered the sole owner or holder of the Debt Securities represented by such Global Security for all purposes under the Indenture. Unless otherwise

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specified in the applicable Prospectus Supplement, owners of beneficial interests in such Global Security will not be entitled to have Debt Securities of the series represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of Debt Securities of such series in certificated form and will not be considered the holders thereof for any purposes under the Indenture. Accordingly, each person owning a beneficial interest in such Global Security must rely on the procedures of the depository and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. The Company understands that under existing industry practices, if the Company requests any action of holders or an owner of a beneficial interest in such Global Security desires to give any notice or take any action a holder is entitled to give or take under the Indenture, the depository would authorize the participants to give such notice or take such action, and participants would authorize beneficial owners owning through such participants to give such notice or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Notwithstanding any other provisions to the contrary in the Indenture, the rights of the beneficial owners of the Debt Securities to receive payment of the principal and premium, if any, of and interest on such Debt Securities, on or after the respective due dates expressed in such Debt Securities, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the beneficial owners.

Principal of and any interest on a Global Security will be payable in the manner described in the applicable Prospectus Supplement.

#### CONSOLIDATION, MERGER AND SALE OF ASSETS

The Company, without the consent of a percentage of the holders of outstanding Debt Securities, may not consolidate with or merge into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its property or assets to any person unless (a) the Company is the surviving corporation or the entity or the person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia; (b) the entity or person formed by or surviving any such consolidation or merger (if other than the Company) or the entity or person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of the Company under the Debt Securities and the Indenture; and (c) immediately prior to and after the transaction no Default or Event of Default exists.

#### COVENANTS OF THE COMPANY

The applicable Prospectus Supplement will describe any material covenants in respect of a series of Offered Debt Securities. Other than the covenants of the Company included in the Indenture as described above or as described in the applicable Prospectus Supplement, there are no covenants or provisions in the Indenture that may afford holders protection in the event of a highly leveraged transaction or leveraged buyout involving the Company.

#### EVENTS OF DEFAULT

Unless otherwise specified in the applicable Prospectus Supplement, the following will constitute Events of Default under the Indenture with respect to Debt Securities of any series: (a) failure to pay any interest on any Debt Security of that series when due, and the Default continues for 30 days; (b) failure to pay principal of any Debt Security of that series when due and payable at maturity, upon redemption or otherwise; (c) an Event of Default, as defined in the Debt Securities of that series, occurs and is continuing, or the Company fails to comply with any of its other agreements in the Debt Securities of that series or in the Indenture with respect to that series and the Default continues for the period and after the notice provided therein; and (d) certain events of bankruptcy, insolvency or reorganization. If an Event of Default with respect to outstanding Debt Securities of

any series (other than an Event or Default relating to certain events of bankruptcy, insolvency or reorganization) shall occur and be continuing, either the Trustee or the holders of at least 25% in principal amount of the outstanding Debt Securities of that series by notice to the Company and the Trustee, as provided in the Indenture, may declare the unpaid principal amount (or, if the Debt Securities of that series are Original Issue Discount Securities, such lesser amount as may be specified in the terms of that series) of and any accrued interest on all Debt Securities of that series to be due and payable immediately. However, at any time after a declaration of acceleration with respect to Debt Securities of any series has been made, but before a judgment or decree based on such acceleration has been obtained, the holders of a majority in principal amount of the outstanding Debt Securities of that series may, under certain circumstances, rescind and annul such acceleration. For information as to waiver of defaults, see "Modification and Waiver" below.

The Indenture will provide that, subject to the duty of the Trustee during an Event of Default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the applicable Indenture at the request or direction of any of the holders, unless such holders shall have offered to the Trustee reasonable security or indemnity. Subject to certain provisions, including those requiring security or indemnification of the Trustee, the holders of a majority in principal amount of the outstanding Debt Securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Debt Securities of that series.

The Company will be required to furnish to the Trustee under the Indenture annually a statement as to the performance by the Company of its obligations under that Indenture and as to any default in such performance.

#### MODIFICATION AND WAIVER

Subject to certain exceptions, the Company and the Trustee may supplement or amend the Indenture or the Debt Securities with the written consent of the holders of a majority in principal amount of the then outstanding Debt Securities of each series affected by the amendment with each series voting as a separate class. The holders of a majority in principal amount of the then outstanding Debt Securities of any series may also waive compliance in a particular instance by the Company with any provision of the Indenture with respect to the Debt Securities of that series; provided, however, that without the consent of each holder of Debt Securities affected, an amendment or waiver may not (i) reduce the percentage of the principal amount of Debt Securities whose holders must consent to an amendment or waiver; (ii) reduce the rate or change the time for payment of interest on any Debt Security; (iii) reduce the principal of or change the fixed maturity of any Debt Security, or alter the redemption provisions with respect thereto; (iv) make any Debt Security payable in money other than that stated in the Debt Security; (v) make any change in the provisions concerning waivers of Default or Events of Default by holders or the rights of holders to recover the principal of or interest on any Debt Security; or (vi) waive a default in the payment of the principal of, or interest on, any Debt Security, except as otherwise provided in the Indenture. The Company and the Trustee may amend the Indenture or the Debt Securities without notice to or the consent of any holder of a Debt Security: (i) to cure any ambiguity, defect or inconsistency; (ii) to comply with the Indenture's provisions with respect to successor corporations; (iii) to comply with any requirements of the Commission in connection with the qualification of the Indenture under the TIA; (iv) to provide for Debt Securities in addition to or in place of certificated Debt Securities; (v) to add to, change or eliminate any of the provisions of the Indenture in respect of one or more series of Debt Securities, provided, however, that any such addition, change or elimination (A) shall neither (1) apply to any Debt Security of any series created prior to the execution of such amendment and entitled to the benefit of such provision, nor (2) modify the rights of a holder of any such Debt Security with respect to such provision, or (B) shall become effective only when there is no outstanding Debt Security of any series created prior to such amendment and entitled to the benefit of such provision; (vi) to make any change that does not adversely affect in any material respect the interests of the holders of any series of Debt Securities; or (vii) to establish additional series of Debt Securities as permitted by the Indenture.

Subject to certain exceptions, the holders of a majority in principal amount of the then outstanding Debt Securities of any series, by notice to the Trustee, may waive an existing Default or Event of Default and its consequences with respect to the Debt Securities of that series except a Default or Event of Default in the payment of the principal of or interest on any Debt Security.

#### TERMINATION OF THE COMPANY'S OBLIGATIONS UNDER THE DEBT SECURITIES AND THE

Except as otherwise described below, the Company may terminate its obligations under the Debt Securities of any series and the Indenture with respect to that series if:

(a) all Debt Securities of that series previously authenticated and delivered (other than destroyed, lost or stolen Debt Securities which have been replaced or Debt Securities of that series which are paid or Debt Securities of that series for whose payment money or securities has theretofore been held in trust and thereafter repaid to the Company) have been delivered to the Trustee for cancellation and the Company has paid all sums payable by it under the Indenture with respect to such series; or

(b) (1) the Debt Securities of that series mature within one year or all of them are to be called for redemption within one year after arrangements satisfactory to the Trustee for giving notice of redemption; and

(2) the Company irrevocably deposits in trust with the Trustee during such one-year period, under the terms of an irrevocable trust agreement in form and substance satisfactory to the Trustee, as trust funds solely for the benefit of the holders of Debt Securities of that series for that purpose, money or U.S. Government Obligations, or a combination thereof, with the U.S. Government Obligations maturing as to principal and interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay principal of and interest on the Debt Securities of that series to maturity or redemption, as the case may be, and to pay all other sums payable by it under the Indenture; or

(c) (1) the Company irrevocably deposits in trust with the Trustee under the terms of an irrevocable trust agreement in form and substance satisfactory to the Trustee, as trust funds solely for the benefit of the holders of Debt Securities of that series for that purpose, money or U.S. Government Obligations, or a combination thereof, with the U.S. Government Obligations maturing as to principal and interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay principal of and interest on the Debt Securities of that series to maturity or redemption, as the case may be;

(2) The Company shall have delivered to the Trustee either (A) a ruling directed to the Trustee received from the Internal Revenue Service to the effect that the holders of the Debt Securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of its option under this clause (c) and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised, or (B) an opinion of counsel to the same effect as the ruling described in subclause (A) above accompanied by a ruling to that effect published by the Internal Revenue Service, unless there has been a change in the applicable federal income tax law since the date of the Indenture such that a ruling from the Internal Revenue Service is no longer required;

(3) The Company has paid or caused to be paid all sums then payable by the Company under the Indenture; and

(4) the Company has delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent provided for in this clause (c) relating to termination of obligations of the Company have been complied with.

The Company's obligations under sections of the Indenture relating to the registrar and the paying agent, their obligations, the maintenance of a list of holders, transfers of Debt Securities, replacement of securities, payment (together with payment obligations under the Debt Securities of that series), compensation and indemnity of the Trustee (Section 7.07), replacement of the Trustee and repayment to the Company of excess

money held by the Trustee or the paying agent (Section 8.03), shall survive until the Debt Securities of that series are no longer outstanding. Thereafter, and after any discharge pursuant to clause (a) above, only the Company's obligations in Sections 7.07 and 8.03 of the Indenture shall survive. If the ruling from the Internal Revenue Service or opinion of counsel referred to in clause (c)(2) above is based on or assumes that the Company's payment obligations under the Indenture or its payment obligations under the Debt Securities will continue (or is silent with respect thereto), then such discharge shall constitute only a "covenant defeasance" and, consequently, the Company shall remain liable for the payment of the Debt Securities of that series. However, if and when a ruling from the Internal Revenue Service or opinion of counsel referred to in clause (c)(2) above is able to be provided specifically without regard to, and not in reliance upon, the continuance of the Company's payment obligations under the Indenture and its payment obligations under the Debt Securities of that series, then the Company's payment obligations under the Indenture and the Debt Securities of that series

shall cease upon delivery to the Trustee of such ruling or opinion of counsel and compliance with the other conditions precedent provided for in clause (c) above relating to the satisfaction and discharge of the Indenture. In such a case (a "legal defeasance") holders would be able to look only to the trust fund for payment of principal or interest on the Debt Securities.

#### REGARDING THE TRUSTEE

The Company intends that the Trustee with respect to the first series of Debt Securities will be United States Trust Company of New York, and its address is 114 West 47th Street, New York, New York 10036. Other Trustees may be designated for any subsequent series of Debt Securities. The Indenture and provisions of the TIA incorporated by reference therein contain certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim, as security or otherwise. The Trustee and its affiliates engage in, and will be permitted to continue to engage in, other transactions with the Company and its affiliates; provided, however, that if it acquires any conflicting interest (as defined), it must eliminate such conflict or resign.

The holders of a majority in principal amount of the then outstanding Debt Securities of any series will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee. The TIA and the Indenture provide that in case an Event of Default shall occur (and be continuing), the Trustee will be required, in the exercise of its rights and powers, to use the degree of care and skill of a prudent man in the conduct of his own affairs. Subject to such provision, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any of the holders of the Debt Securities of any series issued thereunder, unless they have offered to the Trustee indemnity satisfactory to it.

#### DESCRIPTION OF PREFERRED STOCK

The following description of the terms of the Preferred Stock sets forth certain general terms and provisions of the Preferred Stock to which any Prospectus Supplement may relate. Certain other terms of any series of the Preferred Stock offered by any Prospectus Supplement will be described in such Prospectus Supplement. The description of certain provisions of the Preferred Stock set forth below and in any Prospectus Supplement does not purport to be complete and is subject to and qualified in its entirety by reference to the Company's Certificate of Incorporation (the "Certificate of Incorporation"), and the certificate of designations (a "Certificate of Designations") relating to each series of the Preferred Stock which will be filed with the Commission and incorporated by reference in the Registration Statement of which this Prospectus is a part at or prior to the time of the issuance of such series of the Preferred Stock.

#### GENERAL

The authorized capital stock of the Company consists of 250,000,000 shares of Common Stock, \$0.01 par value per share, and 1,000,000 shares of preferred stock, \$0.10 par value per share ("preferred stock of the

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Company," which term, as used herein, includes the Preferred Stock offered hereby). As of July 11, 1996, the Company had 135,371,034 shares of Common Stock outstanding, of which 340,694 shares were owned by the Company as treasury stock. See "Description of Common Stock." As of July 15, 1996, the Company had no shares of preferred stock outstanding.

Under the Certificate of Incorporation, the Board of Directors of the Company is authorized without further stockholder action to provide for the issuance of up to 1,000,000 shares of preferred stock of the Company, in one or more series, with such voting powers, full or limited, and with such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions providing for the issue of a series of such stock adopted, at any time or from time to time, by the Board of Directors of the Company (as used herein the term "Board of Directors of the Company" includes any duly authorized committee thereof).

As described under "Description of Depositary Shares," the Company may, at its option, elect to offer Depositary Shares evidenced by depositary receipts (the "Depositary Receipts"), each representing a fraction (to be specified in the Prospectus Supplement relating to the particular series of the Preferred Stock) of a share of the particular series of the Preferred Stock issued and deposited with a depositary, in lieu of offering full shares of such series of the Preferred Stock.

The Preferred Stock shall have the dividend, liquidation, redemption and voting rights set forth below unless otherwise provided in a Prospectus Supplement relating to a particular series of the Preferred Stock. Reference



is made to the Prospectus Supplement relating to the particular series of the Preferred Stock offered thereby for specific terms, including: (i) the designation and stated value per share of such Preferred Stock and the number of shares offered; (ii) the amount of liquidation preference per share; (iii) the initial public offering price at which such Preferred Stock will be issued; (iv) the dividend rate (or method of calculation), the dates on which dividends shall be payable and the dates from which dividends shall commence to cumulate, if any; (v) any redemption or sinking fund provisions; (vi) any conversion or exchange rights; (vii) whether the Company has elected to offer Depositary Shares as described below under "Description of Depositary Shares;" and (viii) any additional voting, dividend, liquidation, redemption, sinking fund and other rights, preferences, privileges, limitations and restrictions.

The Preferred Stock will, when issued, be fully paid and nonassessable and will have no preemptive rights. The rights of the holders of each series of the Preferred Stock will be subordinate to those of the Company's general creditors.

#### DIVIDEND RIGHTS

Holders of the Preferred Stock of each series will be entitled to receive, when, as and if declared by the Board of Directors of the Company, out of funds of the Company legally available therefor, cash dividends on such dates and at such rates as set forth in, or as are determined by the method described in, the Prospectus Supplement relating to such series of the Preferred Stock. Such rate may be fixed or variable or both. Each such dividend will be payable to the holders of record as they appear on the stock books of the Company (or, if applicable, the records of the Depositary (as hereinafter defined) referred to under "Description of Depositary Shares") on such record dates, fixed by the Board of Directors of the Company, as specified in the Prospectus Supplement relating to such series of Preferred Stock.

Such dividends may be cumulative or noncumulative, as provided in the Prospectus Supplement relating to such series of Preferred Stock. If the Board of Directors of the Company fails to declare a dividend payable on a dividend payment date on any series of Preferred Stock for which dividends are noncumulative, then the right to receive a dividend in respect of the dividend period ending on such dividend payment date will be lost, and the Company will have no obligation to pay any dividend for such period, whether or not dividends on such series are declared payable on any future dividend payment dates. Dividends on the shares of each series of Preferred Stock for which dividends are cumulative will accrue from the date on which the Company initially issues shares of such series.

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The terms of the Company's current credit agreement prohibit the Company from paying cash dividends on its capital stock, other than mandatory current dividend payments to the holders of the shares of Preferred Stock which are currently outstanding. So long as the provision is in effect, the Company may not offer Preferred Stock with dividend rights without having first obtained a modification or waiver of this provision.

Unless otherwise specified in the applicable Prospectus Supplement, so long as the shares of any series of the Preferred Stock are outstanding, unless (i) full dividends (including if such Preferred Stock is cumulative, dividends for prior dividend periods) have been paid or declared and set apart for payment on all outstanding shares of the Preferred Stock of such series and all other classes and series of preferred stock of the Company (other than Junior Stock, as defined below) and (ii) the Company is not in default or in arrears with respect to the mandatory or optional redemption or mandatory repurchase or other mandatory retirement of, or with respect to any sinking or other analogous funds for, any shares of Preferred Stock of such series or any shares of any other preferred stock of the Company of any class or series (other than Junior Stock, as defined below), the Company may not declare any dividends on any shares of Common Stock of the Company or any other stock of the Company ranking as to dividends or distributions of assets junior to such series of Preferred Stock (the Common Stock and any such other stock being herein referred to as "Junior Stock"), or make any payment on account of, or set apart money for, the purchase, redemption or other retirement of, or for a sinking or other analogous fund for, any shares of Junior Stock or make any distribution in respect thereof, whether in cash or property or in obligations of stock of the Company, other than in Junior Stock which is neither convertible into, nor exchangeable or exercisable for, any securities of the Company other than Junior Stock.

#### LIQUIDATION PREFERENCES

Unless otherwise specified in the applicable Prospectus Supplement, in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of each series of the Preferred Stock will be entitled to receive out of the assets of the Company available for distribution to stockholders, before any distribution of assets is made to the

holders of Common Stock or any other shares of stock of the Company ranking junior as to such distribution to such series of the Preferred Stock, the amount set forth in the Prospectus Supplement relating to such series of the Preferred Stock. If, upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Preferred Stock of any series and any other shares of preferred stock of the Company (including any other series of the Preferred Stock) ranking as to any such distribution on a parity with such series of the Preferred Stock are not paid in full, the holders of the Preferred Stock of such series and of such other shares of preferred stock of the Company will share ratably in any such distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment to the holders of the Preferred Stock of each series of the full preferential amounts of the liquidating distribution to which they are entitled, unless otherwise provided in the applicable Prospectus Supplement, the holders of each such series of the Preferred Stock will be entitled to no further participation in any distribution of assets by the Company.

#### REDEMPTION

A series of the Preferred Stock may be redeemable, in whole or from time to time in part, at the option of the Company, and may be subject to mandatory redemption pursuant to a sinking fund or otherwise, in each case upon terms, at the times and at the redemption prices set forth in the Prospectus Supplement relating to such series. Shares of the Preferred Stock redeemed by the Company will be restored to the status of authorized but unissued shares of preferred stock of the Company.

In the event that fewer than all of the outstanding shares of a series of the Preferred Stock are to be redeemed, whether by mandatory or optional redemption, the number of shares to be redeemed will be determined by lot or pro rata (subject to rounding to avoid fractional shares) as may be determined by the Company or by any other method as may be determined by the Company in its sole discretion to be equitable. From and after the redemption date (unless default is made by the Company in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any) dividends will cease to accumulate on the

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shares of the Preferred Stock called for redemption and all rights of the holders thereof (except the right to receive the redemption price plus accumulated and unpaid dividends, if any) will cease.

Unless otherwise specified in the applicable Prospectus Supplement, so long as any dividends on shares of any series of the Preferred Stock or any other series of preferred stock of the Company ranking on a parity as to dividends and distribution of assets with such series of the Preferred Stock are in arrears, no shares of any such series of the Preferred Stock or such other series of preferred stock of the Company will be redeemed (whether by mandatory or optional redemption) unless all such shares are simultaneously redeemed, and the Company will not purchase or otherwise acquire any such shares; provided, however, that the foregoing will not prevent the purchase or acquisition of such shares pursuant to a purchase or exchange offer made on the same terms to holders of all such shares outstanding.

#### CONVERSION AND EXCHANGE RIGHTS

The terms, if any, on which shares of Preferred Stock of any series may be exchanged for or converted into shares of Common Stock, or another series of Preferred Stock, or any other Security will be set forth in the Prospectus Supplement relating thereto. Such terms may include provisions for conversion, either mandatory, at the option of the holder, or at the option of the Company, in which case the number of shares of Common Stock, the shares of another series of Preferred Stock or the amount of any other securities to be received by the holders of Preferred Stock would be calculated as of a time and in the manner stated in the Prospectus Supplement.

#### VOTING RIGHTS

Except as indicated in a Prospectus Supplement relating to a particular series of the Preferred Stock, or except as required by applicable law, the holders of the Preferred Stock will not be entitled to vote for any purpose.

#### DESCRIPTION OF DEPOSITARY SHARES

The following description sets forth certain general terms and provisions of the Depositary Shares to which any Prospectus Supplement may relate. The particular terms of the Depositary Shares offered by any Prospectus Supplement and the extent, if any, to which such general provisions do not apply to the Depositary Shares so offered will be described in the Prospectus Supplement relating to such Depositary Shares.

Depositary Shares may be issued from time to time under a Deposit Agreement (the "Deposit Agreement") between the Company and a depositary (the

"Depository") to be identified in the applicable Prospectus Supplement. The terms of the Depository Shares will be stated in the Deposit Agreement. A copy of the proposed form of Deposit Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

#### GENERAL

The Company may, at its option, elect to offer fractional shares of Preferred Stock rather than full shares of Preferred Stock. In the event such option is exercised, the Company will issue to the public receipts for Depository Shares ("Depository Receipts"), each of which will represent a fraction (to be set forth in the Prospectus Supplement relating to a particular series of the Preferred Stock) of a share of a particular series of the Preferred Stock as described below.

The shares of any series of the Preferred Stock represented by Depository Shares will be deposited under the Deposit Agreement which will be a separate agreement among the Company, a bank or trust company selected by the Company to act as the Depository and the holders from time to time of the Depository Receipts. Subject to the terms of the Deposit Agreement, each owner of a Depository Share will in general be entitled to all the rights and preferences of the Preferred Stock represented thereby (including dividend, voting, redemption

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and liquidation rights), in proportion to the applicable fraction of a share of Preferred Stock represented by such Depository Share.

The Depository Shares relating to any series of the Preferred Stock will be evidenced by Depository Receipts issued pursuant to the related Deposit Agreement. Depository Receipts will be distributed to those persons purchasing such Depository Shares in accordance with the terms of the offering made by the related Prospectus Supplement.

Upon surrender of Depository Receipts at the office of the Depository and upon payment of the charges provided in the Deposit Agreement and subject to the terms thereof, a holder of Depository Receipts is entitled to have the Depository deliver to such holder the whole shares of Preferred Stock and any money or other property represented by the Depository Shares evidenced by the surrendered Depository Receipts. Owners of Depository Shares will be entitled to receive only whole shares of Preferred Stock. In no event will fractional shares of Preferred Stock be distributed by the Depository.

#### DIVIDENDS AND OTHER DISTRIBUTIONS

The Depository will distribute all cash dividends or other cash distributions received in respect of the Preferred Stock to the record holders of Depository Receipts relating to such Preferred Stock in proportion, insofar as practicable, to the respective numbers of Depository Shares evidenced by such Depository Receipts held by such holders on the relevant record date. The Depository will distribute only such amount, however, as can be distributed without attributing to any holder of Depository Receipts a fraction of one cent, and any balance not so distributed will be added to and treated as part of the next sum received by the Depository for distribution to record holders of Depository Receipts then outstanding.

In the event of a distribution other than in cash, the Depository will distribute such amounts of the securities or property received by it as are, as nearly as practicable, in proportion to the respective numbers of Depository Shares evidenced by the Depository Receipts held by such holders on the relevant record date, unless the Depository determines that it is not feasible to make such distribution, in which case the Depository may, with the approval of the Company, adopt such method as it deems equitable and practicable for the purpose of effecting such distribution, including the sale of such securities or property and distribution of the net proceeds from such sale to such holders.

The Deposit Agreement will also contain provisions relating to the manner in which any subscription or similar rights offered by the Company to holders of the Preferred Stock shall be made available to holders of Depository Receipts.

The amount distributed in all of the foregoing cases will be reduced by any amounts required to be withheld by the Company or the Depository on account of taxes and governmental charges.

#### REDEMPTION OF DEPOSITARY SHARES

If a series of the Preferred Stock represented by Depository Shares is subject to redemption, the Depository Shares will be redeemed from the proceeds received by the Depository resulting from the redemption, in whole or in part, of such series of the Preferred Stock held by the Depository. The Depository will mail notice of redemption within a specified period prior to the date fixed for redemption to the record holders of the Depository Receipts evidencing the Depository Shares to be so redeemed at their respective

addresses appearing in the Depositary's books. The redemption price per Depositary Share will be equal to the applicable fraction of the redemption price per share payable with respect to such series of the Preferred Stock plus all money and other property, if any, payable with respect to such Depositary Share, including all amounts payable by the Company in respect of any accumulated but unpaid dividends. Whenever the Company redeems shares of Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Depositary Shares representing the shares of Preferred Stock so redeemed. If less than all the Depositary Shares are to be redeemed, the Depositary Shares to be redeemed will be selected by lot or pro rata as may be determined by the Depositary.

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After the date fixed for redemption, the Depositary Shares so called for redemption will no longer be deemed to be outstanding and all rights of the holders of Depositary Receipts evidencing such Depositary Shares will cease, except the right to receive the moneys payable upon such redemption and any money or other property to which such holders were entitled upon such redemption upon surrender to the Depositary of the Depositary Receipts evidencing such Depositary Shares.

#### VOTING THE PREFERRED STOCK

Upon receipt of notice of any meeting at which the holders of the Preferred Stock are entitled to vote, the Depositary will mail the information contained in such notice of meeting to the record holders of the Depositary Receipts evidencing the Depositary Shares relating to such Preferred Stock. Each record holder of such Depositary Receipts on the record date (which will be the same date as the record date for the Preferred Stock) will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the number of shares of the Preferred Stock represented by the Depositary Shares evidenced by such holder's Depositary Receipts. The Depositary will endeavor, insofar as practicable, to vote the number of shares of the Preferred Stock represented by all Depositary Shares as to which any particular voting instructions are received, and the Company will agree to take all action which may be deemed necessary by the Depositary in order to enable the Depositary to do so. The Depositary will abstain from voting shares of the Preferred Stock to the extent it does not receive specific instructions from the holders of Depositary Receipts evidencing Depositary Shares representing such Preferred Stock.

#### AMENDMENT AND TERMINATION OF THE DEPOSIT AGREEMENT

The form of Depositary Receipt evidencing the Depositary Shares relating to any series of Preferred Stock and any provision of the related Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary. However, any amendment which imposes or increases any fees, taxes or charges upon holders of Depositary Shares or Depositary Receipts relating to any series of Preferred Stock (other than taxes and other governmental charges, fees and other expenses payable by such holders as stated in the relevant Prospectus Supplement) or which otherwise prejudices any substantial existing right to such holders will not take effect as to outstanding Depositary Shares until the expiration of 90 days after notice of such amendment has been mailed to the record holders of outstanding Depositary Shares.

Whenever directed by the Company, the Depositary will terminate the Deposit Agreement by mailing notice of such termination to the owners of all outstanding Depositary Shares at least 60 days prior to the date of termination. The Depositary may likewise terminate the Deposit Agreement at any time 60 days after the Depositary shall have delivered to the Company a written notice of its election to resign and if a successor depositary shall not theretofore have been appointed and accepted its appointment. If any Depositary Shares remain outstanding after the date of termination, the Depositary thereafter will discontinue the transfer of Depositary Receipts, will suspend the distribution of dividends to the owners thereof, and will not give any further notices (other than notice of such termination) or perform any further acts under the Deposit Agreement except that the Depositary will continue (i) to collect dividends on the Preferred Shares and any other distributions with respect thereto and (ii) to deliver Preferred Shares together with such dividends and distributions, and the net proceeds of any sales of rights, preferences, privileges or other property, without liability for interest, in exchange for Depositary Shares surrendered. At any time after the expiration of two years from the date of termination, the Depositary may sell the Preferred Shares then held by it, at public or private sales, at such place or places and upon such terms as it deems proper and may thereafter hold the net proceeds of any sale, together with any money and other property then held by it, without liability for interest, for the pro rata benefit of the owners of Depositary Shares which shall not theretofore have been surrendered. The Company does not intend to terminate the Deposit Agreement or to permit the resignation of the Depositary without appointing a successor depositary.

#### GENERAL

The Depositary will make available for inspection by holders of Depositary Shares all reports and communications from the Company which are delivered to the Depositary and made generally available to the holders of Preferred Stock.

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The Company will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. The Company will pay charges of the Depositary in connection with the initial deposit of the Preferred Stock and the initial issuance of the Depositary Receipts evidencing the Depositary Shares, any redemption of the Preferred Stock and any withdrawals of Preferred Stock by the holders of Depositary Shares. Holders of Depositary Shares will pay transfer and other taxes and governmental charges and such other charges as are expressly provided in the Deposit Agreement to be for their accounts.

The Deposit Agreement will contain provisions relating to adjustments in the fraction of a share of Preferred Stock represented by a Depositary Share in the event of a change in stated value, split-up, combination or other reclassification of the Preferred Stock or upon any recapitalization, merger or sale of substantially all of the assets of the Company.

Neither the Depositary nor the Company will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the Deposit Agreement. The obligations of the Company and the Depositary under the Deposit Agreement are limited to performance in good faith of their duties thereunder and they are not obligated to prosecute or defend any legal proceeding in respect of any Depositary Shares or Preferred Stock unless satisfactory indemnity is furnished. They may rely upon advice of or information from counsel, accountants or other persons believed to be competent and on documents believed to be genuine.

The Depositary and the Depositary's agents may own and deal in any class of securities of the Company and its affiliates and in Depositary Shares. The Depositary may also act as transfer agent or registrar of any of the securities of the Company and its affiliates, may loan money to the Company and its affiliates and may engage in any other business with or for the Company and its affiliates.

The Depositary may at any time resign or be removed by the Company, effective upon the acceptance by its successor of its appointment.

#### DESCRIPTION OF COMMON STOCK

The Company has authority to issue 250,000,000 shares of Common Stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, \$0.10 par value per share. As of July 11, 1996, the Company had 135,371,034 shares of Common Stock outstanding, of which 340,694 shares were owned by the Company as treasury stock. As of July 15, 1996, the Company had no shares of preferred stock outstanding. The holders of Common Stock are entitled to one vote per share on all matters to be voted on by stockholders, including the election of directors. Stockholders are not entitled to cumulative voting rights, and, accordingly, the holders of a majority of the shares voting for the election of directors can elect the entire Board if they choose to do so and, in that event, the holders of the remaining shares will not be able to elect any person to the Board of Directors.

The holders of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors, in its discretion, from funds legally available therefor and subject to prior dividend rights of holders of any shares of preferred stock which may be outstanding. However, the terms of the Company's current credit agreement prohibit the Company from paying cash dividends on its Common Stock. Upon liquidation or dissolution of the Company subject to prior liquidation rights of the holders of preferred stock, the holders of Common Stock are entitled to receive on a pro rata basis the remaining assets of the Company available for distribution. Holders of Common Stock have no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares. All outstanding shares of Common Stock are, and all shares being offered by this Prospectus will be, fully paid and not liable to further calls or assessment by the Company.

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#### DESCRIPTION OF WARRANTS

The following description sets forth certain general terms and provisions of the Warrants to which any Prospectus Supplement may relate. The particular terms of the Warrants offered by any Prospectus Supplement and the extent, if any, to which such general provisions do not apply to the Warrants so offered will be described in the Prospectus Supplement relating to such Warrants.

Any Warrants offered pursuant to this Prospectus will be warrants to purchase shares of Common Stock. The following statements with respect to the Warrants are summaries of, and subject to, the detailed provisions of a

warrant agent agreement ("Warrant Agent Agreement") to be entered into by the Company and a warrant agent to be selected at the time of issue (the "Warrant Agent") which Warrant Agent Agreement may include or incorporate by reference standard warrant provisions substantially in the form of the Standard Common Stock Warrant Agent Provisions filed as an exhibit to the Registration Statement.

#### GENERAL

The Warrants, evidenced by warrant certificates (the "Warrant Certificates"), may be issued under the Warrant Agent Agreement independently or together with any other Securities offered by any Prospectus Supplement and may be attached to or separate from such other Securities. If Warrants are offered, the related Prospectus Supplement will describe the terms of the Warrants, including the following: (1) the offering price, if any; (2) the number of shares of Common Stock purchasable upon exercise of one Warrant and the initial price at which such shares may be purchased upon exercise; (3) the date on which the right to exercise the Warrants shall commence and the date on which such right shall expire; (4) federal income tax consequences; (5) call provisions, if any; (6) the antidilution provisions of the Warrants; and (7) any other terms of the Warrants. The shares of Common Stock issuable upon exercise of the Warrants will, when issued in accordance with the Warrant Agent Agreement, be fully paid and nonassessable.

#### EXERCISE OF WARRANTS

Warrants may be exercised by surrendering to the Warrant Agent the Warrant Certificate signed by the warrant holder, or its duly authorized agent, indicating the warrant holder's election to exercise all or a portion of the Warrants evidenced by the Warrant Certificate. Surrendered Warrant Certificates shall be accompanied by payment of the aggregate exercise price of the Warrants to be exercised, as set forth in the related Prospectus Supplement, which payment may be made in the form of cash or a check equal to the exercise price. A certificate or certificates evidencing duly exercised Warrants will be delivered by the Warrant Agent to the transfer agent for the Common Stock. Upon receipt thereof, the transfer agent shall deliver or cause to be delivered to, or upon the written order of, the exercising warrant holder, a certificate representing the number of shares of Common Stock purchased. If fewer than all of the Warrants evidenced by any Warrant Certificate are exercised, the Warrant Agent shall deliver to the exercising warrant holder a new Warrant Certificate or Warrant Certificates representing the unexercised Warrants.

#### ANTIDILUTION PROVISIONS

The exercise price payable and the number of shares of Common Stock purchasable upon the exercise of each Warrant will be subject to adjustment in certain events, including the issuance of a stock dividend to holders of Common Stock or a split, reverse stock split, combination, subdivision or reclassification of Common Stock. In lieu of adjusting the number of shares of Common Stock purchasable upon exercise of each Warrant, the Company may elect to adjust the number of Warrants. No adjustments in the number of shares purchasable upon exercise of the Warrants will be required until cumulative adjustments require an adjustment of at least 1% thereof. The Company may, at its option, reduce the exercise price at any time. No fractional shares will be issued upon exercise of Warrants, but the Company will pay the cash value of any fractional shares otherwise issuable. Notwithstanding the foregoing, in case of any consolidation, merger, or sale or conveyance of the property of the Company as an entirety or substantially as an entirety, the holder of each outstanding Warrant

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shall have the right to the kind and amount of shares of stock and other securities and property (including cash) receivable by a holder of the number of shares of Common Stock into which such Warrants were exercisable immediately prior thereto.

#### NO RIGHTS AS STOCKHOLDERS

Holders of Warrants will not be entitled, by virtue of being such holders, to vote, to consent, to receive dividends, to receive notice as stockholders with respect to any meeting of stockholders for the election of directors of the Company or any other matter, or to exercise any rights whatsoever as stockholders of the Company.

#### PLAN OF DISTRIBUTION

The Company may sell the Securities to one or more underwriters for public offering and sale by them or may sell the Securities to investors directly or through agents. Any such underwriter or agent involved in the offer and sale of Securities will be named in the applicable Prospectus Supplement. The Company has reserved the right to sell Securities directly to investors on its own behalf in those jurisdictions where and in such manner as it is authorized to do so.

Underwriters may offer and sell Securities at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The Company or underwriters also may offer and sell Securities in exchange for one or more of its outstanding issues of the Securities or other securities. The Company also may, from time to time, authorize dealers, acting as the Company's agents, to offer and sell Securities upon the terms and conditions as are set forth in the applicable Prospectus Supplement. In connection with the sale of Securities, underwriters may receive compensation from the Company in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the Securities for whom they may act as agent. Underwriters may sell Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent.

Any underwriting compensation paid by the Company to underwriters or agents in connection with the offering of Securities, and any discounts, concessions or commissions allowed by underwriters to participating dealers, will be set forth in the applicable Prospectus Supplement. Dealers and agents participating in the distribution of Securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the Securities may be deemed to be underwriting discounts and commissions. Underwriters, dealers and agents may be entitled, under agreements entered into with the Company, to indemnification against and contribution toward certain civil liabilities including liabilities under the Securities Act of 1933.

Securities may also be offered and sold, if so indicated in the Prospectus Supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more firms ("remarketing firms"), acting as principals for their own accounts or as agents for the Company. Any remarketing firm will be identified and the terms of its agreement, if any, with the Company and its compensation will be described in the Prospectus Supplement. Remarketing firms may be entitled under agreements which may be entered into with the Company to indemnification against and contribution toward certain liabilities under the Securities Act of 1933, and may be customers of, engage in transactions with or perform services for the Company in the ordinary course of business.

If so indicated in the Prospectus Supplement, the Company will authorize dealers acting as the Company's agents to solicit offers by certain institutions to purchase the Securities from the Company at the public offering price set forth in the applicable Prospectus Supplement pursuant to delayed delivery contracts ("Contracts") providing for payment and delivery on the date or dates stated in such Prospectus Supplement. Each Contract

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will be for an amount not less than, and the aggregate principal amount of the Securities sold pursuant to Contracts shall not be less nor more than, the respective amounts stated in the applicable Prospectus Supplement. Institutions with whom Contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions but will in all cases not be subject to the approval of the Company. Contracts will not be subject to any conditions except (i) the purchase by an institution of the Securities covered by its Contract shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which such institution is subject, and (ii) if the Securities are being sold to underwriters, the Company shall have sold to such underwriters the total principal amount of such Securities less the principal amount thereof covered by Contracts.

#### LEGAL MATTERS

Certain legal matters with respect to the Offered Securities will be passed upon by Bronson, Bronson & McKinnon LLP, San Francisco, California, counsel for the Company, and for any agents or underwriters by Latham & Watkins, San Francisco, California.

#### EXPERTS

The consolidated financial statements of the Company incorporated by reference in the Company's Annual Report (Form 10-K) for the year ended December 31, 1995, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon incorporated by reference therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The supplemental consolidated financial statements of the Company appearing in the Company's Current Report on Form 8-K dated June 19, 1996, have been audited by Ernst & Young LLP, independent auditors, as set forth in their

report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

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ADVANCED MICRO DEVICES, INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Advanced Micro Devices, Inc.

We have audited the supplemental consolidated balance sheets of Advanced Micro Devices, Inc. (formed as a result of the consolidation of Advanced Micro Devices, Inc. and NexGen, Inc.) as of December 31, 1995 and December 25, 1994 and the related supplemental consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. The supplemental consolidated financial statements give retroactive effect to the merger of Advanced Micro Devices, Inc. and NexGen, Inc. on January 17, 1996, which has been accounted for using the pooling-of-interests method as described in the notes to the supplemental consolidated financial statements. These supplemental financial statements are the responsibility of the management of Advanced Micro Devices, Inc. Our responsibility is to express an opinion on these supplemental financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the supplemental financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advanced Micro Devices, Inc. at December 31, 1995 and December 25, 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, after giving retroactive effect to the merger of NexGen, Inc., as described in the notes to the supplemental consolidated financial statements, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Jose, California  
April 30, 1996

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SUPPLEMENTAL CONSOLIDATED STATEMENTS OF INCOME

THREE YEARS ENDED DECEMBER 31, 1995  
(THOUSANDS EXCEPT PER SHARE AMOUNTS)



<TABLE>  
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	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales.....	\$2,468,379	\$2,155,453	\$1,648,280
Expenses:			
Cost of sales.....	1,417,007	1,013,589	789,564
Research and development.....	416,521	295,326	279,412
Marketing, general, and administrative..	412,651	377,503	296,912
	-----	-----	-----
	2,246,179	1,686,418	1,365,888
	-----	-----	-----
Operating income.....	222,200	469,035	282,392
Litigation settlement.....	--	(58,000)	--
Interest income and other, net.....	32,465	17,134	16,931
Interest expense.....	(3,059)	(4,410)	(4,398)
	-----	-----	-----
Income before income taxes and equity in joint venture.....	251,606	423,759	294,925
Provision for income taxes.....	70,206	142,232	85,935
	-----	-----	-----
Income before equity in joint venture.....	181,400	281,527	208,990
Equity in net income (loss) of joint venture.....	34,926	(10,585)	(634)
	-----	-----	-----
Net income.....	216,326	270,942	208,356
Preferred stock dividends.....	10	10,350	10,350
	-----	-----	-----
Net income applicable to common stockholders.....	\$ 216,316	\$ 260,592	\$ 198,006
	=====	=====	=====
Net income per common share:			
Primary.....	\$ 1.59	\$ 2.06	\$ 1.65
	-----	-----	-----
Fully diluted.....	\$ 1.57	\$ 2.02	\$ 1.64
	=====	=====	=====
Shares used in per share calculation:			
Primary.....	136,208	126,674	119,925
Fully diluted.....	137,815	134,142	127,167

</TABLE>

See accompanying notes

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SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1995, AND DECEMBER 25, 1994  
(THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 126,316	\$ 117,997
Short-term investments.....	383,349	312,924
	-----	-----
Total cash, cash equivalents, and short-term investments.....	509,665	430,921
Accounts receivable, net of allowance for doubtful accounts of \$15,618 in 1995, and \$10,469 in 1994..	284,238	345,546
Inventories:		
Raw materials.....	29,494	23,097
Work-in-process.....	68,827	74,892
Finished goods.....	57,665	35,514
	-----	-----
Total inventories.....	155,986	133,503
Deferred income taxes.....	147,489	105,238
Prepaid expenses and other current assets.....	40,564	46,370
	-----	-----
Total current assets.....	1,137,942	1,061,578
Property, plant, and equipment:		
Land.....	28,851	28,820
Buildings and leasehold improvements.....	893,646	500,530
Equipment.....	1,843,662	1,456,512
Construction in progress.....	180,742	492,792
	-----	-----
Total property, plant, and equipment.....	2,946,901	2,478,654
Accumulated depreciation and amortization.....	(1,305,267)	(1,209,813)
	-----	-----



under employee stock plans.....	--	--	--	--	--	1,971	--	1,971
Conversion of preferred stock to common stock..	(16,078)	(74,810)	19,973	3	--	106,199	--	31,392
Income tax benefits realized from employee stock option exercises.....	--	--	--	--	--	37,433	--	37,433
Preferred stock dividends.....	--	--	--	--	--	--	(10,350)	(10,350)
Reincorporation into a Delaware Corporation...	--	--	--	(625)	--	625	--	--
Net income.....	--	--	--	--	--	--	270,942	270,942
Unrealized gain from available-for-sale investments.....	--	--	--	--	--	--	9,109	9,109
December 25, 1994.....	344	34	121,919	959	533	870,667	925,161	1,797,354
Changes in NexGen's stockholders' equity in the six months ended June 30, 1995.....	18,161	93,548	(24,530)	352	--	(171,994)	23,803	(54,291)
Issuance of preferred stock.....	1,376	12,653	--	--	--	--	--	12,653
Issuance of common stock.....	--	--	4,542	271	--	65,340	--	65,611
Issuance of shares: Employee stock plans...	--	--	2,283	22	--	23,518	--	23,540
Compensation recognized under employee stock plans.....	--	--	--	--	--	2,483	--	2,483
Conversion of preferred stock to common stock..	(19,881)	(106,235)	26,823	71	--	103,663	--	(2,501)
Reincorporation into a Delaware Corporation...	--	--	(33)	(625)	--	625	--	--
Warrants exercised.....	--	--	1,178	--	(533)	533	--	--
Income tax benefits realized from employee stock option exercises.....	--	--	--	--	--	15,189	--	15,189
Preferred stock dividends.....	--	--	--	--	--	--	(10)	(10)
Redemption of stockholder rights plan.....	--	--	--	--	--	(1,035)	--	(1,035)
Net income.....	--	--	--	--	--	--	216,326	216,326
Unrealized gain from available-for-sale investments and translation adjustment for joint venture.....	--	--	--	--	--	--	27,143	27,143
December 31, 1995.....	--	\$ --	132,182	\$1,050	\$--	\$ 908,989	\$1,192,423	\$2,102,462

</TABLE>

See accompanying notes

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SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE YEARS ENDED DECEMBER 31, 1995  
(THOUSANDS)

<TABLE>  
<CAPTION>

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income.....	\$ 216,326	\$ 270,942	\$ 208,356
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	264,675	217,665	176,827
Accrual for litigation settlement.....	--	58,000	--
Net (gain) loss on sale of property, plant, and equipment.....	2,152	276	(2,943)
Write-down of property, plant, and equipment.....	611	2,230	366
Net gain realized on sale of available-for-sale securities.....	(2,707)	--	--
Compensation recognized under employee stock plans.....	2,483	1,971	1,313
Undistributed (income) loss of joint			

venture.....	(34,926)	10,585	634
Changes in operating assets and liabilities:			
Net (increase) decrease in receivables, inventories, prepaid expenses, and other assets.....	19,548	(128,914)	(57,628)
Payment of litigation settlement.....	(58,000)	--	--
Net increase in deferred income taxes.....	(925)	(32,543)	(30,304)
Increase in income tax payable.....	11,772	61,910	70,502
Net increase in payables and accrued liabilities.....	124,058	63,737	72,131
Net cash provided by operating activities...	545,067	525,859	439,254
Cash flows from investing activities:			
Purchase of property, plant, and equipment.....	(625,900)	(552,271)	(325,981)
Proceeds from sale of property, plant, and equipment.....	4,834	2,058	4,648
Purchase of available-for-sale securities.....	(817,888)	(56,328)	(4,934)
Proceeds from sale of available-for-sale securities.....	756,373	4,849	--
Purchase of held-to-maturity debt securities.....	(648,012)	(1,245,167)	(715,487)
Proceeds from maturities of held-to-maturity debt securities.....	642,229	1,416,431	566,773
Investment in joint venture.....	(18,019)	(139,175)	(3,160)
Net cash used in investing activities.....	(706,383)	(569,603)	(478,141)
Cash flows from financing activities:			
Proceeds from borrowings.....	246,345	42,025	17,528
Payments on capital lease obligations and other debt.....	(142,937)	(70,288)	(22,616)
Proceeds from issuance of stock.....	101,804	136,443	64,692
Expenses for conversion of preferred stock and redemption of stockholder rights....	(3,536)	--	--
Payments of preferred stock dividends....	(10)	(10,350)	(10,350)
Net cash provided by financing activities...	201,666	97,830	49,254
Net increase in cash and cash equivalents...	40,350	54,086	10,367
Cash and cash equivalents at beginning of year.....	85,966	63,911	53,544
Cash and cash equivalents at end of year....	\$ 126,316	\$ 117,997	\$ 63,911
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest (net of amounts capitalized)...	\$ 2,541	\$ 4,125	\$ 2,462
Income taxes.....	\$ 60,329	\$ 111,704	\$ 44,433
Non-cash financing activities:			
Equipment capital leases.....	\$ 24,422	\$ 34,202	\$ 64,512
Conversion of preferred stock to common stock.....	\$ 270,328	\$ 106,201	\$ --

</TABLE>

See accompanying notes

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

1. NATURE OF OPERATIONS

AMD is a semiconductor manufacturer with manufacturing facilities in the U.S. and Asia, and sales offices throughout the world. Focusing on the personal and networked computing and communications markets, AMD is a global company that derives more than half of its revenues from international sales, mainly in Europe and Asia. The Company provides programmable products in concert with applications solutions to the manufacturers of equipment for personal and networked computation and communications.

2. BUSINESS COMBINATION

On January 17, 1996, the Company acquired NexGen, Inc. ("NexGen") in a tax-

free reorganization in which NexGen was merged directly into the Company. The Company has exchanged approximately 29.3 million shares of AMD common stock and has reserved 4.3 million shares to be exchanged for NexGen options and warrants assumed by the Company. The 33.6 million total shares to be exchanged represent eight-tenths (0.8) of a share of the common stock of AMD for each share of the common stock of NexGen outstanding or subject to an assumed warrant or option. The merger has been accounted for under the pooling-of-interests method.

The supplemental consolidated financial statements have been prepared to give retroactive effect to the merger of NexGen with and into AMD on January 17, 1996. Generally accepted accounting principles prescribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements that do not include the date of consummation. The accompanying supplemental consolidated financial statements do not extend through the date of the consummation, however, they will become the historical consolidated financial statements of the Company after financial statements covering the date of consummation of the business combination are issued.

Prior to its merger with AMD, NexGen reported on a fiscal year ending June 30. In the accompanying supplemental consolidated financial statements and the notes thereto, NexGen's financial position and operating results as of and for the years ended June 30, 1994 and 1995 were combined with AMD's financial position and operating results as of and for the years ended December 26, 1993 and December 25, 1994, respectively. NexGen's financial position and operating results for 1995, which were restated to a December 31, 1995 year end, were combined with AMD's financial position and operating results as of and for the year ended December 31, 1995. Accordingly, NexGen's operating results for the six months ended June 30, 1995 were duplicated in each of the years ended December 25, 1994 and December 31, 1995. NexGen's revenues and net loss for that six month period were \$19.9 million and \$34.4 million, respectively. Consolidated stockholders' equity has been reduced by \$54.3 million, which represents NexGen's net stockholders' equity activity for the six months ended June 30, 1995 in order to eliminate the duplication of stockholders' equity activity during that period. As a result of the combination of NexGen's financial position as of June 30, 1995 with the financial position of AMD as of December 25, 1994, the beginning cash and cash equivalents balance in the accompanying 1995 supplemental consolidated statements of cash flows does not equal the December 25, 1994 cash and cash equivalents balance.

A reconciliation of net sales, net income (loss), and net income per common share of the Company, as previously reported, NexGen and combined, including the NexGen income tax benefit, is as follows (in thousands, except per share amounts):

<TABLE>  
<CAPTION>

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Sales:			
AMD, as previously reported.....	\$2,429,724	\$2,134,659	\$1,648,280
NexGen.....	38,655	20,794	--
	-----	-----	-----
Combined.....	\$2,468,379	\$2,155,453	\$1,648,280
	=====	=====	=====

</TABLE>

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

<TABLE>  
<CAPTION>

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Income (Loss):			
AMD, as previously reported.....	\$300,521	\$305,266	\$228,781
NexGen.....	(126,727)	(45,795)	(23,708)
NexGen income tax benefit.....	42,532	11,471	3,283
	-----	-----	-----
Combined.....	\$216,326	\$270,942	\$208,356
	=====	=====	=====
Net Income Per Common Share (Primary):			
AMD, as previously reported.....	\$ 2.85	\$ 3.02	\$ 2.30
	=====	=====	=====
Combined.....	\$ 1.59	\$ 2.06	\$ 1.65
	=====	=====	=====
Net Income Per Common Share (Fully Diluted):			
AMD, as previously reported.....	\$ 2.81	\$ 2.92	\$ 2.24
	=====	=====	=====
Combined.....	\$ 1.57	\$ 2.02	\$ 1.64

</TABLE>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year. The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December, which resulted in a 53-week year ended December 31, 1995. This compares with a 52-week fiscal year for 1994 and 1993, which ended on December 25 and 26, respectively.

Principles of Consolidation. The supplemental consolidated financial statements include the accounts of the Company and its subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Also included in the financial statements of the Company, under the equity method of accounting, is the Company's 49.95 percent investment in Fujitsu AMD Semiconductor Limited (FASL).

Foreign Currency Translation. The U.S. dollar is the functional currency for the Company's wholly-owned foreign subsidiaries. Translation adjustments, resulting from the process of translating foreign currency financial statements into U.S. dollars, are included in operations. The functional currency of the Company's unconsolidated joint venture is the Japanese yen. Translation adjustments relating to the translation of these statements have not been material, and therefore, are not disclosed as a separate component of stockholders' equity.

Cash Equivalents. Cash equivalents consist of financial instruments which are readily convertible to cash and have original maturities of three months or less at the time of acquisition.

Investments. The Company classifies its marketable debt and equity securities into held-to-maturity and available-for-sale categories in accordance with the provisions of the Statement of Financial Accounting Standards No. 115 (SFAS No. 115), "Accounting for Certain Instruments in Debt and Equity Securities." In accordance with the FASB staff Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities," the Company chose to reclassify, as of December 31, 1995, all cash equivalents and short-term investments that were classified as held-to-maturity at that time from held-to-maturity to available-for-sale. Securities classified as available-for-sale are reported at fair market value with the related unrealized gains and losses included in retained earnings. Realized gains and losses and declines in value of securities judged to be other than temporary are included in interest income and other, net. Interest and dividends on all securities are included in interest income and other, net.

Investments with maturities between three and twelve months are considered short-term investments. Short-term investments consist of money market auction preferred stocks and debt securities such as commercial paper, time deposits, certificates of deposit, bankers' acceptances, and marketable direct obligations of the United States Treasury.

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

Foreign Exchange Forward Contracts. Foreign exchange forward contracts are used to hedge the Company's net monetary asset positions in its foreign subsidiaries and the Company's liabilities for products purchased from FASL. Realized gains and losses from these hedges are included in operations. Premiums and discounts, if any, are amortized over the life of the contract and included in operations.

Foreign Currency Options. Foreign currency options are used to hedge firm commitments with respect to the Company's joint venture (FASL) investment. Realized gains and losses from these hedges are deferred and included in other assets or accrued liabilities, respectively. They are recognized in operations in the same period as the hedged transactions. Premiums and discounts, if any, are amortized over the life of the contract and included in operations.

Interest Rate Swaps. The Company enters into interest rate swaps primarily to reduce its interest rate exposure by changing a portion of the Company's interest rate exposure from a floating rate to a fixed rate basis. The differential between fixed and floating rates to be paid or received is accrued and recognized as an adjustment to interest expense. Accordingly, the related amount payable to or receivable from counterparties is included in other current assets or accrued liabilities.

Inventories. Inventories are stated principally at standard cost adjusted to approximate the lower of cost (first-in, first-out method) or market (net realizable value).

Property, Plant, and Equipment. Property, plant, and equipment is stated at cost. Depreciation and amortization are provided principally on the straight-line basis over the estimated useful lives of the assets for financial reporting purposes and on accelerated methods for tax purposes. Estimated useful lives for financial reporting purposes are as follows: machinery and equipment 3 to 5 years; buildings up to 26 years; and leasehold improvements are the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

In 1995, the Financial Accounting Standards Board released the Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. SFAS 121 is effective for fiscal years beginning after December 15, 1995. Adoption of SFAS 121 is not expected to have a material impact on the Company's financial position or results of operations.

Deferred Income on Shipments to Distributors. A portion of sales is made to distributors under terms allowing certain rights of return and price protection on unsold merchandise held by the distributors. These agreements can be canceled by either party upon written notice, at which time the Company generally repurchases unsold inventory. Accordingly, recognition of sales to distributors and related gross profits are deferred until the merchandise is resold by the distributors.

Advertising Expenses. The Company accounts for advertising costs as expense in the period in which they are incurred. Advertising expense for 1995, 1994, and 1993 was approximately \$44 million, \$32 million, and \$22 million, respectively.

Net Income Per Common Share. Primary net income per common share is based upon weighted average common and dilutive common equivalent shares outstanding using the treasury stock method. Dilutive common equivalent shares include stock options, warrants, and restricted stock. Fully diluted net income per common share is computed using the weighted average common and dilutive common equivalent shares outstanding, plus other dilutive shares outstanding which are not common equivalent shares. Other dilutive shares which are not common equivalent shares include convertible preferred stock and convertible notes.

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#### NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

All share information has been adjusted on a retroactive basis herein to give effect to the merger with NexGen and the conversion of NexGen shares on a 0.8 to one share of AMD common stock.

Employee Stock Plans. The Company accounts for its stock option plans and its employee stock purchase plan in accordance with provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting For Stock Issued to Employees." In 1995, the Financial Accounting Standards Board released the Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock Based Compensation." SFAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company expects to continue to account for its employee stock plans in accordance with the provisions of APB 25. Accordingly, SFAS 123 is not expected to have any material impact on the Company's financial position or results of operations.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

Year-End Adjustments (Unaudited). The Company made certain year-end adjustments in 1995, resulting from changes in estimates related to the Nx586 product which was developed by NexGen. These adjustments were material to the results of the fourth quarter. These adjustments, related to accounts receivable and inventory, were charged primarily to net sales and cost of sales and reduced operating income by approximately \$51.7 million.

#### 4. FINANCIAL INSTRUMENTS

##### FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

As part of the Company's asset and liability management, the Company enters into various types of transactions that involve financial instruments with off-balance-sheet risk. These instruments are entered into in order to manage

financial market risk, including interest rate and foreign exchange risk. The notional values, carrying amounts, and fair values are tabled below.

Foreign exchange forward contracts

The Company enters into foreign exchange forward contracts to buy and sell currencies as economic hedges of its net monetary asset positions in its foreign subsidiaries and liabilities for products purchased from FASL. The hedging transactions in 1995 were denominated in lira, yen, French franc, deutsche mark, and pound sterling. The maturities of these contracts are generally less than six months.

Foreign currency options

The joint venture (FASL) investments are denominated in yen, and therefore, are subject to exposure due to fluctuations in yen exchange rates. Thus, the Company hedges its exposures on certain firm commitments relating to the FASL investment with foreign currency options denominated in yen. The maturities of these options are generally less than six months. No foreign currency options were outstanding as of December 31, 1995.

Interest rate swaps

The Company engaged in interest rate swaps primarily to reduce its interest rate exposure on its term loan and on a building lease obligation by changing a portion of the Company's interest rate obligation from a floating

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

rate to a fixed rate basis without exchanges of the underlying notional amounts. The fixed interest rates are based on one to five year swap rates, and the floating interest rates are based on three or six months LIBOR. These interest rate swaps will mature in 1996 and 1997.

FAIR VALUE OF FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The estimates of fair value were obtained using prevailing financial market information as of December 31, 1995. In certain instances where judgment is required in estimating fair value, price quotes were obtained from certain of the Company's counterparty financial institutions.

<TABLE>  
<CAPTION>

	1995			1994		
	NOTIONAL AMOUNT	CARRYING AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest rate instruments:						
Swaps.....	\$190,000	\$(518)	\$(1,694)	\$ 40,000	\$(518)	\$228
Foreign exchange instruments:						
Foreign exchange forward contracts.....	36,670	(102)	(102)	32,651	536	536
Foreign currency options..	--	--	--	12,662	--	(200)

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The carrying value of short-term debt approximates fair value due to its short-term maturity. The fair value of long-term debt was estimated using discounted cash flow analysis based on estimated interest rates for similar types of borrowing arrangements.

The carrying amounts and estimated fair values of the Company's other financial instruments are as follows:

<TABLE>  
<CAPTION>

	1995		1994	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Short-term debt:				
Notes payable.....	\$ 26,770	\$ 26,770	\$32,459	\$32,459
Long-term debt (excluding capital leases)...	179,301	180,920	33,433	32,755



## NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

## SECURITIES HELD-TO-MATURITY AND AVAILABLE-FOR-SALE

The following is a summary of held-to-maturity and available-for-sale securities included in cash and cash equivalents and short-term investments as of December 31, 1995 and December 25, 1994.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	AVAILABLE-FOR-SALE 1995	HELD-TO-MATURITY 1994	AVAILABLE-FOR-SALE 1994
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Certificates of deposit.....	\$ 15,002	\$ 4,997	\$ --
Treasury notes.....	10,437	--	14,348
Federal agency notes....	14,065	--	--
Security repurchase agreements.....	53,370	50,800	17,998
Commercial paper.....	14,914	24,760	--
Other debt securities...	434	1,672	--
	-----	-----	-----
Total cash equivalents.....	\$108,222	\$ 82,229	\$32,346
	=====	=====	=====
Certificates of deposit.....	\$ 70,551	\$ 95,342	\$ 3,716
Municipal notes and bonds.....	52,256	--	--
Corporate notes.....	37,898	101,850	--
Treasury notes.....	60,989	44,877	15,997
Commercial paper.....	46,656	14,442	--
Money market auction preferred stocks.....	114,999	36,700	--
	-----	-----	-----
Total short-term investments.....	\$383,349	\$293,211	\$19,713
	=====	=====	=====

&lt;/TABLE&gt;

On November 15, 1995, the FASB staff issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." In accordance with provisions in that Special Report, the Company chose to reclassify cash equivalents and short-term investments from held-to-maturity to available-for-sale. At the date of the transfer, the amortized cost of those securities was approximately \$480.7 million. Since the securities transferred on December 31, 1995 are short-term in nature, changes in market interest rates did not have a significant impact on the fair value of these securities. The net unrealized gain on these securities was immaterial.

The available-for-sale equity securities that the Company held, included in other assets, had a cost and fair value of \$14.5 million and \$75.1 million, respectively, as of December 31, 1995, and a cost and fair value of \$9.4 million and \$18.5 million, respectively, as of December 25, 1994. At December 31, 1995, the total net unrealized holding gain on these equity securities, net of tax, was approximately \$42.5 million, of which \$33.4 million was recorded in 1995. The entire, net of tax, unrealized holding gain is included in retained earnings.

As of December 31, 1995, the Company did not own any securities classified as trading.

## 5. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments, trade receivables, and financial instruments used in hedging activities.

The Company places its cash equivalents and short-term investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure with any one financial institution. Investments in time deposits and certificates of deposit are acquired from banks having combined capital, surplus, and undistributed profits of not less than \$200 million. Investments in commercial paper and money market auction

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

preferred stocks of industrial firms and financial institutions are rated A1, P1 or better, investments in tax-exempt securities including municipal notes and bonds are rated AA, Aa or better, and investments in repurchase agreements must have securities of the type and quality listed above as collateral.

Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company performs in-depth credit evaluations of all new customers and requires letters of credit, bank guarantees and advance payments, if deemed necessary. Bad debt expenses have not been material.

The counterparties to the agreements relating to the Company's foreign exchange and interest rate instruments consist of a number of major, high credit quality, international financial institutions. The Company does not believe that there is significant risk of nonperformance by these counterparties because the Company monitors the credit ratings of such counterparties, and limits the financial exposure and the amount of agreements entered into with any one financial institution. While the notional amounts of financial instruments are often used to express the volume of these transactions, the potential accounting loss on these transactions if all counterparties failed to perform is limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties.

#### 6. CONCENTRATIONS OF OTHER RISKS

**Products.** Microprocessor products and Flash memory devices contributed a significant portion of the Company's revenues and profits in 1995. The Company expects that its ability to maintain or expand its current levels of revenues and profits in the future will depend upon, among other things, its success in developing and marketing, in a timely manner, its next generation of microprocessor products, the K86 RISC SUPERSCALAR(TM) products, and future generations of Flash memory devices.

**Markets.** The markets for the Company's products are characterized by rapid technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, and short product life cycles. The market for microprocessors and Flash memory devices is primarily dependent upon the market for personal computers (PC). From time to time, the PC industry has experienced significant downturns, often in connection with, or in anticipation of, declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, and resultant accelerated erosion of average selling prices. The Company's business could be materially and adversely affected by industry-wide fluctuations in the PC marketplace in the future.

**Inventories.** Given the volatility of the market, the Company makes inventory provisions for potentially excess and obsolete inventory based on backlog and forecasted demand. However, such backlog demand is subject to revisions, cancellations, and rescheduling. Actual demand will inevitably differ from such anticipated demand, and such differences may have a material effect on the financial statements.

**Customers.** The Company markets and sells its products primarily to a broad base of customers comprised of Distributors and Original Equipment Manufacturers (OEM's) of computation and communication equipment. One of the Company's distributors, Arrow Electronics, Inc., accounted for approximately 12 percent of 1995 net sales. No other Distributor or OEM customer constituted 10 percent or more of net sales in 1995.

**International Operations.** The Company derives more than half of its revenues from international sales. However, only a portion of the Company's international sales were denominated in foreign currencies. Further, the Company does not have any sales denominated in the local currencies of those countries which have highly inflationary economies.

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

Nearly all product assembly and final testing of the Company's products are performed at its manufacturing facilities in Penang, Malaysia; Singapore; and Bangkok, Thailand; or by subcontractors in Asia. Wafer fabrication of certain products is performed at foundries in Asia. FASL wafer fabrication facilities are located in Aizu-Wakamatsu, Japan. Foreign manufacturing entails political and economic risks, including political instability, expropriation, currency

controls and fluctuations, changes in freight and interest rates, and exemptions for taxes and tariffs. For example, if the Company were unable to assemble and test its products abroad, or if air transportation between the United States, the Company's overseas facilities and customers worldwide were disrupted, there could be a material adverse effect on the Company's operations.

Materials. Certain of the raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. For example, several types of integrated circuit packages purchased by the Company, as well as by the majority of other companies in the semiconductor industry, are principally supplied by Japanese companies. Shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. If the Company were unable to procure certain of such materials, it would be required to reduce its manufacturing operations, which could have a material adverse effect upon its results of operations.

#### 7. SERIAL PREFERRED STOCK

In March 1987, the Company sold 345,000 shares of Convertible Exchangeable Preferred Stock, \$.10 par value. Dividends were payable quarterly in arrears at an annual rate of \$30 per share (6 percent) cumulative from the date of original issue. The preferred stock was redeemable for cash at any time at the option of the Company, in whole or in part, at prices declining to \$500 per share at March 15, 1997, plus unpaid dividends. The preferred stock was convertible at any time at the option of the holder into common stock at the initial conversion rate of 19.873 common shares for each preferred share.

On February 10, 1995, the Company called all outstanding shares of its preferred stock for redemption on March 13, 1995, at a redemption price of \$509.00 per share, plus \$7.30 of accrued and unpaid dividends. Prior to the redemption date, 343,427 shares of preferred stock were surrendered for conversion which resulted in the issuance of 6,824,694 shares of the Company's common stock. Pursuant to previous arrangements, on March 14, 1995, the Company sold 28,518 shares of its common stock to certain institutions and used the proceeds to fund the redemption of 1,435 shares of preferred stock which were not converted.

NexGen's 19,536,328 shares of Convertible Preferred Stock issued and outstanding as of May 24, 1995 were converted into 19,970,328 shares of its Common Stock in conjunction with its initial public offering on May 24, 1995. As of June 30, 1994, 13,583,459 shares of Convertible Preferred Stock were issued and outstanding.

#### 8. STOCKHOLDER RIGHTS PLAN

In February 1990, the Company adopted a stockholder rights plan and declared a dividend distribution of preferred stock purchase rights at the rate of one right for each share of common stock held as of the close of business on February 20, 1990. The rights were not exercisable, or transferable apart from the common stock, until certain events occurred. The rights were redeemable at any time at the option of the Company.

On May 3, 1995, the Company redeemed all its preferred stock purchase rights for a redemption price of \$.01 per right (approximately \$1 million) paid on May 24, 1995, to the holders of the Company's common stock as of the redemption date.

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#### NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

#### 9. WARRANTS

On May 24, 1995, the effective date of NexGen's initial public offering, all previously issued preferred series warrants were converted into warrants to purchase common stock. All outstanding warrants are held by related parties. The following summarizes the warrants outstanding as of December 31, 1995:

WARRANT HOLDER	WARRANTS	WARRANT PRICE
-----	-----	-----
<S>	<C>	<C>
Warrants issued in connection with Promissory Notes and Preferred Stock Offering.....	493,280	\$0.63-\$9.38
Warrants issued in connection with consulting services.....	280,000	\$5.00
Warrants issued to sales agent.....	682,392	\$5.00-\$9.38
Total warrants issued and outstanding as of December		

31, 1995..... 1,455,672 \$0.63-\$9.38  
 </TABLE>

For the year ended December 31, 1995 warrants previously issued to purchase 1,364,000 shares of common stock were exercised on a cashless basis for 1,178,010 shares of common stock. Warrants for an additional 540 shares of common stock are claimed to be outstanding by certain warrant holders. All warrants are currently exercisable at December 31, 1995.

10. INCOME TAXES

Provision for income taxes consists of:

<TABLE>  
 <CAPTION>

	1995	1994	1993
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Current:			
U.S. Federal.....	\$58,683	\$154,448	\$83,574
U.S. State and Local.....	1,855	13,001	3,640
Foreign National and Local.....	10,594	7,350	2,332
Deferred:			
U.S. Federal.....	1,295	(29,733)	(5,206)
U.S. State and Local.....	(3,167)	(2,820)	1,798
Foreign National and Local.....	946	(14)	(203)
Provision for income taxes.....	\$70,206	\$142,232	\$85,935
	=====	=====	=====

</TABLE>

Tax benefits resulting from the exercise of nonqualified stock options and the disqualifying disposition of shares acquired under the Company's incentive stock option and stock purchase plans reduced taxes currently payable as shown above by \$15.2 million, \$37.4 million, and \$43.4 million in 1995, 1994, and 1993, respectively. Such benefits were credited to capital in excess of par value when realized.

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

Under SFAS No. 109, deferred income taxes reflect the net tax effects of tax carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1995, December 25, 1994, and December 26, 1993 are as follows:

<TABLE>  
 <CAPTION>

	1995	1994	1993
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Deferred tax assets:			
Net operating loss carryovers.....	\$ 62,796	\$ 30,840	\$ 21,820
Deferred distributor income.....	40,583	31,396	31,349
Inventory reserves.....	29,665	18,809	14,935
Accrued expenses not currently deductible.....	35,639	39,467	21,799
Federal and state tax credit carryovers.....	6,249	2,873	30,888
Other.....	49,850	39,081	27,569
Total deferred tax assets.....	224,782	162,466	148,360
Less: valuation allowance.....	(33,386)	(14,445)	(43,335)
Net deferred tax assets.....	191,396	148,021	105,025
Deferred tax liabilities:			
Depreciation.....	(109,141)	(59,614)	(44,886)
Other.....	(19,373)	(15,855)	(20,154)
Total deferred tax liabilities.....	(128,514)	(75,469)	(65,040)

Net deferred tax assets.....	\$ 62,882	\$ 72,552	\$ 39,985
------------------------------	-----------	-----------	-----------

</TABLE>

Approximately \$26.4 million of the 1993 valuation allowance for deferred tax assets, attributable to stock option deductions, was credited to equity upon realization in 1994.

Pretax income from foreign operations was approximately \$60.6 million in 1995, \$45.7 million in 1994, and \$40.0 million in 1993.

As of December 31, 1995, the Company has net operating loss carryovers of approximately \$179.4 million for federal income tax purposes. The federal carryovers expire on various dates through 2009. No significant state carryforwards exist due to the capitalization of research and development expenditures for state purposes and state statutory limitations on the amount of net operating losses which may be carried forward to subsequent years.

Under the Tax Reform Act of 1986, the amounts of and the benefit from net operating losses that can be carried forward may be limited in certain circumstances. Because of changes in ownership greater than 50 percent, realization of the Company's net operating loss carryforwards incurred prior to July 1992 and January 1996 may be subject to annual limitations of approximately \$3.9 million and \$27.3 million, respectively. These annual limitations should result in the availability of all carryforwards by the year 2004.

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

The following is a reconciliation between statutory federal income taxes and the total provision for income taxes:

<TABLE>

<CAPTION>

	1995		1994		1993	
	TAX	RATE	TAX	RATE	TAX	RATE
	(THOUSANDS EXCEPT PERCENT)		(THOUSANDS EXCEPT PERCENT)		(THOUSANDS EXCEPT PERCENT)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Statutory federal income tax provision.....	\$ 88,062	35.0%	\$148,316	35.0%	\$ 103,224	35.0%
State taxes net of federal benefit.....	216	0.1	6,601	1.6	3,535	1.2
Tax exempt Foreign Sales Corporation income.....	(6,848)	(2.7)	(8,955)	(2.1)	(7,236)	(2.5)
Tax credits utilized.....	--	--	--	--	(5,004)	(1.7)
Foreign income at other than U.S. rates.....	(11,503)	(4.6)	(9,633)	(2.3)	(10,398)	(3.5)
Other.....	279	0.1	5,903	1.4	1,814	0.6
	\$ 70,206	27.9%	\$142,232	33.6%	\$ 85,935	29.1%

</TABLE>

No provision has been made for income taxes on approximately \$264.6 million of cumulative undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently invest such earnings. If such earnings were distributed, additional taxes of \$92.6 million would accrue.

The Company's Far East assembly and test plants in Singapore and Thailand are operated under various tax holidays which expire in whole or in part during 1996 and 1998. Possible extensions of the holiday period, as well as other tax incentives, are anticipated to result in minimal tax liabilities in these countries through 1998. The net impact of these tax holidays was an increase in net income of approximately \$6.2 million (\$0.04 per share) in 1995.

11. DEBT

The Company has certain debt agreements that contain provisions regarding restrictions on cash dividends, maintenance of specified working capital and net worth levels, and specific financial ratio requirements. At December 31, 1995, the Company was in compliance with all restrictive covenants of such debt agreements and all retained earnings was restricted as to payments of cash dividends on common stock.

Significant elements of uncommitted, unsecured revolving lines of credit are:

<TABLE>  
<CAPTION>

	1995	1994
	(THOUSANDS EXCEPT PERCENT)	
<S>	<C>	<C>
Total lines of credit.....	\$ 345,801	\$ 378,182
Portion of lines of credit available to foreign subsidiaries.....	95,801	128,182
Amounts outstanding at year-end:		
Short-term.....	26,770	32,459
Short-term borrowings:		
Average daily borrowings.....	29,666	33,449
Maximum amount outstanding at any month- end.....	36,105	35,384
Weighted monthly average interest rate.....	4.19%	4.32%
Average interest rate on amounts outstanding at year-end.....	4.41%	4.42%

</TABLE>

Interest on foreign and short-term domestic borrowings is negotiated at the time of the borrowing.

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

Information with respect to the Company's long-term debt and capital lease obligations at year-end is:

<TABLE>  
<CAPTION>

	1995	1994
	(THOUSANDS)	
<S>	<C>	<C>
Term loan with variable interest at 7.06% at December 31, 1995 payable quarterly through 1998.....	\$150,000	\$ --
10%-11% Convertible notes payable due on March 1, 1996....	1,774	2,500
Promissory notes with principal and 6.88% interest payable annually through January 2000, secured by a partnership interest.....	10,276	11,946
12% Note payable due on June 1, 1996.....	10,000	10,000
Mortgage with principal and 9.88% interest payable in monthly installments through April 2007.....	2,167	2,382
Obligations under capital leases.....	77,306	82,739
Obligations secured by equipment.....	4,990	6,482
Other.....	94	123
	-----	-----
	256,607	116,172
Less: current portion.....	(41,642)	(40,420)
	-----	-----
Long-term debt and capital lease obligations, less current portion.....	\$214,965	\$ 75,752
	=====	=====

</TABLE>

On January 5, 1995, the Company obtained a \$150 million single term four-year loan with a consortium of eight commercial banks. The loan has a floating interest rate based on the three months LIBOR and requires quarterly interest payments with the principal to be paid at the end of the term in 1998. The interest rate on the loan at December 31, 1995 was 7.06 percent.

For each of the next five years and beyond, long-term debt and capital lease obligations are:

<TABLE>  
<CAPTION>

	LONG-TERM DEBT (PRINCIPAL ONLY)	CAPITAL LEASES
	(THOUSANDS)	
<S>	<C>	<C>
1996.....	\$ 15,420	\$27,304
1997.....	3,802	26,255
1998.....	154,033	21,532
1999.....	2,326	6,949
2000.....	2,493	1,182
Beyond 2000.....	1,227	--
	-----	-----

Total.....	179,301	83,222
Less: Amount representing interest.....	--	5,916
	-----	-----
Total at present value.....	\$179,301	\$77,306
	=====	=====

</TABLE>

Obligations under the lease agreements are collateralized by the assets leased. Total assets leased were approximately \$141.9 million and \$131.7 million at December 31, 1995 and December 25, 1994, respectively. Accumulated amortization of these leased assets was approximately \$95.6 million and \$60.5 million at December 31, 1995 and December 25, 1994, respectively.

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

12. INTEREST EXPENSE & INTEREST INCOME AND OTHER, NET

INTEREST EXPENSE

<TABLE>

<CAPTION>

	1995	1994	1993
	-----	-----	-----
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Interest expense.....	\$ 21,102	\$12,704	\$11,482
Interest capitalized.....	(18,043)	(8,294)	(7,084)
	-----	-----	-----
	\$ 3,059	\$ 4,410	\$ 4,398
	=====	=====	=====

</TABLE>

In 1995, interest expense primarily consisted of interest payments on the \$150 million four-year term loan the Company entered into on January 5, 1995; and interest capitalized primarily related to the construction of Fab 25.

INTEREST INCOME AND OTHER, NET

<TABLE>

<CAPTION>

	1995	1994	1993
	-----	-----	-----
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Interest income.....	\$29,518	\$23,331	\$16,431
Other income (loss).....	2,947	(6,197)	500
	-----	-----	-----
	\$32,465	\$17,134	\$16,931
	=====	=====	=====

</TABLE>

In 1995, other income (loss) primarily consisted of the \$2.7 million realized gain on an equity investment in Seeq Corporation. In 1994, other income (loss) primarily consisted of the \$33 million settlement cost related to the class action lawsuits and stockholders' derivative action offset by an \$18 million gain resulting from an award of damages in the arbitration proceedings with Intel. Also included in other income (loss) for all years presented is the net gain (loss) on the sale of assets.

13. FOREIGN AND DOMESTIC OPERATIONS

The Company is currently engaged in a single line of business: The design, development, manufacture, and sale of programmable products in concert with applications solutions to the manufacturers of equipment for personal and networked computation and communications.

Operations outside the United States include both manufacturing and sales. Manufacturing subsidiaries are located in Malaysia, Singapore, and Thailand. Sales subsidiaries are in Europe and Asia.

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

The following is a summary of operations by entities within geographic areas for the three years ended December 31, 1995:

<TABLE>  
<CAPTION>

	1995	1994	1993
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Sales to unaffiliated customers:			
North America.....	\$1,780,240	\$1,544,844	\$1,174,410
Europe.....	491,293	483,632	343,600
Asia.....	196,846	126,977	130,270
	-----	-----	-----
	\$2,468,379	\$2,155,453	\$1,648,280
	=====	=====	=====
Transfers between geographic areas (eliminated in consolidation):			
North America.....	\$ 743,117	\$ 563,303	\$ 444,378
Asia.....	396,158	323,050	277,496
	-----	-----	-----
	\$1,139,275	\$ 886,353	\$ 721,874
	=====	=====	=====
Operating income:			
North America.....	\$ 164,549	\$ 423,027	\$ 243,015
Europe.....	18,922	15,860	8,376
Asia.....	38,729	30,148	31,001
	-----	-----	-----
	\$222,200	\$ 469,035	\$ 282,392
	=====	=====	=====
Identifiable assets:			
North America.....	\$2,636,675	\$2,170,099	\$1,663,199
Europe.....	85,664	120,070	88,003
Asia.....	463,530	361,144	312,529
Eliminations.....	(107,402)	(125,592)	(118,778)
	-----	-----	-----
	\$3,078,467	\$2,525,721	\$1,944,953
	=====	=====	=====
U.S. export sales:			
Asia.....	\$ 485,625	\$ 436,120	\$ 314,268
Europe.....	206,328	126,752	109,226
	-----	-----	-----
	\$ 691,953	\$ 562,872	\$ 423,494
	=====	=====	=====

</TABLE>

Sales to unaffiliated customers are based on the location of the Company's subsidiary. Transfers between geographic areas consist of products and services that are sold at amounts generally above cost and are consistent with governing tax regulations. Operating income is total sales less operating expenses. Identifiable assets are those assets used in each geographic area. Export sales are United States foreign direct sales to unaffiliated customers primarily in Europe and Asia.

#### 14. EMPLOYEE BENEFIT PLANS

Stock Option Plans. The Company has several stock option plans under which key employees have been granted incentive (ISOs) and nonqualified (NSOs) stock options to purchase the Company's common stock. Generally, options are exercisable within four years from the date of grant and expire five to ten years after the date of grant. ISOs granted under the plans have exercise prices of not less than 100 percent of the fair market value of the common stock at the date of grant. Exercise prices of NSOs may not be less than 50 percent of the fair market value of the common stock at the date of grant. At December 31, 1995, 3,101 employees, including 161 employees originally from NexGen, were eligible and participating in the plans.

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#### NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

The following is a summary of stock option exercises:

<TABLE>  
<CAPTION>

	1995	1994	1993
	(THOUSANDS)		
<S>	<C>	<C>	<C>
Aggregate exercise price.....	\$15,195	\$10,355	\$14,066
Options exercised.....	2,313	2,218	2,855

</TABLE>

A summary of the stock option plans at December 31, 1995 and December 25, 1994 is shown below.



<TABLE>  
<CAPTION>

	1995	1994
	(THOUSANDS EXCEPT PER SHARE AMOUNTS)	
<S>	<C>	<C>
Options:		
Outstanding at beginning of year.....	14,825	13,957
Granted.....	4,327	4,389
Canceled.....	(510)	(376)
Exercised.....	(2,313)	(2,218)
	-----	-----
Outstanding at end of year.....	16,329	15,752
	=====	=====
Exercisable at beginning of year.....	8,784	7,848
Exercisable at end of year.....	10,374	9,711
Available for grant at beginning of year.....	3,386	1,419
Available for grant at end of year.....	751	3,150
Aggregate exercise price of options outstanding at end of year.....	\$ 269,953	\$ 211,437
Average exercise price of options outstanding at end of year.....	\$ 16.53	\$ 13.42

</TABLE>

Stock Appreciation Rights Plans. The Company maintains three stock appreciation rights plans under which stock appreciation rights (SARs) either have been or may be granted to key employees. The number of SARs exercised plus common stock issued under the stock option plans may not exceed the number of shares authorized under the stock option plans. SARs may be granted in tandem with outstanding stock options, in tandem with future stock option grants, or independently of any stock options. Generally, the terms of SARs granted under the plans are similar to those of options granted under the stock option plans, including exercise prices, exercise dates, and expiration dates. To date, the Company has granted only limited SARs, which become exercisable only in the event of certain changes in control of the Company.

Stock Purchase Plan. The Company has a stock purchase plan that allows participating employees to purchase, through payroll deductions, shares of the Company's common stock at 85 percent of the fair market value at specified dates. At December 31, 1995, 6,723 employees were eligible to participate in the plan and 482,182 common shares remained available for issuance under the plan. Beginning in 1995, NexGen had a stock purchase plan that allowed participating employees to purchase shares of NexGen's common stock at 85 percent of the fair market value at specified dates. At December 31, 1995, 161 employees were eligible to participate in the plan and 365,504 common shares remained available for issuance under the plan. A summary of stock purchased under these plans is shown below.

<TABLE>  
<CAPTION>

	1995	1994	1993
	(THOUSANDS EXCEPT EMPLOYEE PARTICIPANTS)		
<S>	<C>	<C>	<C>
Aggregate purchase price.....	\$ 11,457	\$ 8,115	\$ 6,413
Shares purchased.....	501	412	387
Employee participants.....	2,825	1,941	1,684

</TABLE>

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

Profit Sharing Program. The Company has a profit sharing program to which the Board of Directors has authorized semiannual contributions. Profit sharing contributions were \$44.7 million in 1995, \$57.0 million in 1994, and \$33.9 million in 1993.

Retirement Savings Plan. The Company has a retirement savings plan, commonly known as a 401(k) plan, that allows participating United States employees to contribute from 1 percent to 15 percent of their pre-tax salary subject to I.R.S. limits. The Company makes a matching contribution calculated at 50 cents on each dollar of the first 3 percent of participant contributions, to a maximum of 1.5 percent of eligible compensation. The Company's contributions to the 401(k) plan were \$4.3 million, \$3.7 million, and \$3.2 million for 1995, 1994, and 1993, respectively. There are four investment funds in which each employee may invest contributions in whole percentage increments. NexGen had a 401(k) plan which allowed employees to contribute from one percent to ten percent of their pre-tax salary subject to I.R.S. limits. NexGen did not match

employee contributions.

Restricted Stock Award Plan. The Company established the 1987 restricted stock award plan under which up to two million shares of common stock may be issued to employees, subject to terms and conditions determined at the discretion of the Board of Directors. The Company entered into agreements to issue 226,427, 180,000, and 19,000 shares in 1995, 1994, and 1992, respectively. To date, agreements covering 212,212 shares have been canceled without issuance and 1,252,964 shares have been issued pursuant to prior agreements. At December 31, 1995, agreements covering 436,427 shares were outstanding under the plan and 310,609 shares remained available for future awards. Outstanding awards vest under varying terms within five years.

#### 15. COMMITMENTS

The Company leases certain of its facilities under agreements which expire at various dates through 2011. The Company also leases certain of its manufacturing and office equipment for terms ranging from one to six years. Rent expense was \$37.2 million, \$32.4 million, and \$32.3 million in 1995, 1994, and 1993, respectively.

For each of the next five years and beyond, noncancelable long-term operating lease obligations and commitments to purchase manufacturing supplies and services are as follows:

<TABLE>

<CAPTION>

	OPERATING LEASES	PURCHASE COMMITMENTS
	-----	-----
	(THOUSANDS)	
<S>	<C>	<C>
1996.....	\$29,955	\$23,492
1997.....	23,150	4,868
1998.....	17,781	4,868
1999.....	11,717	4,868
2000.....	11,144	3,797
Beyond 2000.....	11,503	27,900

</TABLE>

Included in 1996 purchase commitments is \$18.4 million for Nx586 inventory. The Company has fully reserved for these commitments. See footnote 3, year end adjustments.

The operating lease of the Company's corporate sales and marketing facility expires in December 1998. The Company has the option of extending the lease agreement or purchasing the building for \$40 million. The Company may also consider alternative financing arrangements.

At December 31, 1995, the Company had commitments of approximately \$93 million for the construction or acquisition of additional property, plant, and equipment.

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#### NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

The Company is currently planning to build a submicron wafer fabrication and design facility in Dresden, Germany at an estimated cost of approximately \$1.5 billion over 5 years. The German federal and state governments will provide financing assistance to the facility through grants and allowances, loan guarantees, and loan interest subsidies. As of December 31, 1995, the Company had commitments to make cash investments and loans, in aggregate, in this facility amounting to approximately \$350 million over the next 4 years.

In December 1995, the Company signed a five-year, comprehensive patent cross-license agreement with Intel. The cross-license is royalty-bearing for the Company's products that use certain Intel technologies. The Company is required to pay Intel minimum non-refundable royalties during the years from 1997 to 2000.

#### 16. INVESTMENT IN JOINT VENTURE

In 1993, the Company and Fujitsu Limited established a joint venture, Fujitsu AMD Semiconductor Limited (FASL), to manufacture Flash memory devices. The Company's share of FASL is 49.95 percent and the investment is being accounted for under the equity method. In 1995, the Company invested an additional \$18.0 million in FASL, and the Company's share of FASL net income during 1995 was \$34.9 million, net of income taxes of approximately \$18.8 million. At December 31, 1995, the adjustment related to the translation of the FASL financial statements into U.S. dollars resulted in a decrease of approximately \$6.2 million to the investment in FASL.

Pursuant to a cross-equity provision between AMD and Fujitsu Limited, the Company purchased \$12.7 million of Fujitsu Limited shares, with certain resale restrictions. Under the same provision, Fujitsu Limited has purchased 2 million shares of AMD common stock, and is required to purchase an additional 2.5 million shares over the next several years, for a total investment not to exceed \$100 million. No purchases were made in 1995.

The following is condensed unaudited financial data of FASL:

<TABLE>  
<CAPTION>

THREE YEARS ENDED DECEMBER 31, 1995 (UNAUDITED)			
	1995	1994	1993
----- (THOUSANDS) -----			
<S>	<C>	<C>	<C>
Net sales.....	\$ 252,069	\$ --	\$ --
Operating income (loss).....	117,411	(32,203)	(1,772)
Net income (loss).....	107,563	(32,293)	(1,772)

<CAPTION>

DECEMBER 31, 1995, AND DECEMBER 25, 1994 (UNAUDITED)		
	1995	1994
----- (THOUSANDS) -----		
<S>	<C>	<C>
Current assets.....	\$ 161,810	\$ 10,907
Non-current assets.....	326,252	263,380
Current liabilities.....	107,524	29,362
Non-current liabilities.....	284	60

</TABLE>

## 17. CONTINGENCIES

### I. LITIGATIONS

A. Class Action Lawsuits. On November 3 and 15, 1995, two class action lawsuits were filed, purportedly on behalf of purchasers of the Company's stock from April 11, 1995, to September 25, 1995, alleging

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### NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

that the Company and various of its officers and directors violated sections of the Securities Exchange Act of 1934 Rule 10b-5 promulgated thereunder by issuing allegedly false and misleading statements concerning the development and production of the AMD-K5(TM). The complaints seek damages in an unspecified amount. Based upon information presently known to management, the Company does not believe that the ultimate resolution of these lawsuits will have a material adverse effect upon the financial condition or results of operations of the Company.

B. AMD v. Altera Corporation. This litigation, which began in 1994, involves multiple claims and counterclaims for patent infringement relating to the Company's and Altera Corporation's programmable logic devices. Based upon information presently known to management, the Company does not believe that the ultimate resolution of this lawsuit will have a material adverse effect upon the financial condition or results of operations of the Company.

C. Thorn EMI North America, Inc. v. AMD. This litigation was filed in 1995 and alleged that AMD infringed a patent owned by Thorn EMI North America, Inc. relating to the processes used by AMD to manufacture microprocessors. The litigation was settled and has been dismissed. The settlement will not have a material adverse effect upon the financial condition or results of operations of the Company.

### II. SEC INVESTIGATION

The Securities and Exchange Commission (SEC) began an informal investigation of the Company in 1993 concerning the Company's disclosures relating to the development of microcode for one of its Am486 products. The Company has been cooperating fully with the SEC. Based upon information presently known to management, the Company does not believe that the ultimate resolution of the investigation will have a material adverse effect upon the financial condition or results of operations of the Company.

III. ENVIRONMENTAL MATTERS

Clean-Up Orders. Since 1981, the Company has discovered, investigated, and begun remediation of three sites where releases from underground chemical tanks at its facilities in Santa Clara County, California adversely affected the groundwater. The chemicals released into the groundwater were commonly in use in the semiconductor industry in the wafer fabrication process prior to 1979. At least one of the released chemicals (which is no longer used by the Company) has been identified as a probable carcinogen.

In 1991, the Company received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board, San Francisco Bay Region ("RWQCB") relating to the three sites. One of the orders named the Company as well as TRW Microwave, Inc. and Philips Semiconductors Corporation. Another of the orders named the Company as well as National Semiconductor Corporation.

The three sites in Santa Clara County are on the National Priorities List (Superfund). If the Company fails to satisfy federal compliance requirements or inadequately performs the compliance measures, the government (a) can bring an action to enforce compliance, or (b) can undertake the desired response actions itself and later bring an action to recover its costs, and penalties, which is up to three times the costs of clean-up activities, if appropriate. With regard to certain claims related to this matter the statute of limitations has been tolled.

The Company has computed and recorded the estimated environmental liability in accordance with applicable accounting rules and has not recorded any potential insurance recoveries in determining the estimated costs of the clean-up. The amount of environmental charges to earnings has not been material during the last three fiscal years. The Company believes that the potential liability, if any, in excess of amounts already accrued

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NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS--(CONCLUDED)

DECEMBER 31, 1995, DECEMBER 25, 1994, AND DECEMBER 26, 1993

with respect to the foregoing environmental matters will not have a material adverse effect on the financial condition or results of operations of the Company.

IV. OTHER MATTERS

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

18. SHELF REGISTRATION STATEMENT

On May 25, 1994, the Securities and Exchange Commission declared effective the Company's shelf registration statement covering up to \$400 million of its securities, which may be either debt securities, preferred stock, depository shares representing fractions of shares of preferred stock, common stock, warrants to purchase common stock, or any combination of the foregoing which the Company may offer from time to time in the future. The nature and terms of the securities will be established at the time of their sale. The Company may offer the securities through underwriters to be named in the future, through agents or otherwise. The net proceeds of any offering will be used for general corporate purposes, which may include the reduction of outstanding indebtedness, working capital increases, and capital expenditures. To date, the Company has not offered or sold any securities registered under the \$400 million registration statement.

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ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

QUARTER ENDED		SIX MONTHS ENDED	
JUNE 30, 1996	JULY 2, 1995 (RESTATED)*	JUNE 30, 1996	JULY 2, 1995 (RESTATED)*
<C>	<C>	<C>	<C>

<S>

Net sales.....	\$ 455,077	\$ 638,867	\$ 999,289	\$ 1,266,248
Expenses:				
Cost of sales.....	379,779	315,905	748,514	621,590
Research and development.....	92,768	105,695	187,548	202,569
Marketing, general, and administrative.....	83,063	106,602	186,074	209,336
	-----	-----	-----	-----
	555,610	528,202	1,122,136	1,033,495
	-----	-----	-----	-----
Operating income (loss).....	(100,533)	110,665	(122,847)	232,753
Interest income and other, net.....	23,039	6,975	51,098	14,033
Interest expense.....	(1,812)	(501)	(3,793)	(1,079)
	-----	-----	-----	-----
Income (loss) before income taxes and equity in joint venture.....	(79,306)	117,139	(75,542)	245,707
Provision (benefit) for income taxes.....	(31,723)	39,016	(31,723)	81,840
	-----	-----	-----	-----
Income (loss) before equity in joint venture.....	(47,583)	78,123	(43,819)	163,867
Equity in net income of joint venture.....	12,911	2,529	34,474	1,115
	-----	-----	-----	-----
Net income (loss).....	(34,672)	80,652	(9,345)	164,982
Preferred stock dividends.....	--	--	--	10
	-----	-----	-----	-----
Net income (loss) applicable to common stockholders.....	\$ (34,672)	\$ 80,652	\$ (9,345)	\$ 164,972
	=====	=====	=====	=====
Net income (loss) per common share.....	\$ (.26)	\$ .59	\$ (.07)	\$ 1.24
	=====	=====	=====	=====
Shares used in per share calculation.....	135,266	136,950	134,487	132,722
	=====	=====	=====	=====

</TABLE>

- - - - -

\* Restated from previously released financial information to reflect the January 1996 merger with NexGen, Inc., which has been accounted for under the pooling-of-interests method.

See accompanying notes

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ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(THOUSANDS)

<TABLE>

<CAPTION>

	JUNE 30, 1996 (UNAUDITED)	DECEMBER 31, 1995 (AUDITED) (RESTATED) *
	-----	-----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 77,806	\$ 126,316
Short-term investments.....	203,852	383,349
	-----	-----
Total cash, cash equivalents, and short-term investments.....	281,658	509,665
Accounts receivable, net.....	209,691	284,238
Inventories:		
Raw materials.....	31,924	29,494
Work-in-process.....	99,683	68,827
Finished goods.....	44,230	57,665
	-----	-----
Total inventories.....	175,837	155,986
Deferred income taxes.....	141,089	147,489
Prepaid expenses and other current assets.....	64,236	40,564
	-----	-----
Total current assets.....	872,511	1,137,942
Property, plant, and equipment, at cost.....	3,117,829	2,946,901
Accumulated depreciation and amortization.....	(1,436,709)	(1,305,267)
	-----	-----
Property, plant, and equipment, net.....	1,681,120	1,641,634
Investment in joint venture.....	187,881	176,821
Other assets.....	103,513	122,070
	-----	-----

	\$2,845,025	\$3,078,467
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to banks.....	\$ 11,878	\$ 26,770
Accounts payable.....	177,240	241,916
Accrued compensation and benefits.....	57,178	106,347
Accrued liabilities.....	96,916	103,404
Income tax payable.....	3,000	56,297
Deferred income on shipments to distributors.....	93,990	100,057
Current portion of long-term debt and capital lease obligations.....	27,739	41,642
	-----	-----
Total current liabilities.....	467,941	676,433
Deferred income taxes.....	103,807	84,607
Long-term debt and capital lease obligations, less current portion.....	201,922	214,965
Stockholders' equity:		
Capital stock:		
Common stock, par value.....	1,404	1,050
Capital in excess of par value.....	936,475	908,989
Retained earnings.....	1,133,476	1,192,423
	-----	-----
Total stockholders' equity.....	2,071,355	2,102,462
	-----	-----
	\$2,845,025	\$3,078,467
	=====	=====

</TABLE>

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\* Restated from previously released financial information to reflect the January 1996 merger with NexGen, Inc., which has been accounted for under the pooling-of-interests method.

See accompanying notes.

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ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(THOUSANDS)

<TABLE>

<CAPTION>

	SIX MONTHS ENDED	
	JUNE 30,	JULY 2,
	1996	1995
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Net income (loss).....	\$ (9,345)	\$ 164,982
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	163,805	114,096
Net (gain) loss on sale of property, plant, and equipment.....	678	(9)
Write-down of property, plant, and equipment.....	986	380
Net gain realized on sale of available-for-sale securities.....	(41,028)	--
Compensation recognized under employee stock plans..	1,403	1,467
Undistributed income of joint venture.....	(34,474)	(1,115)
Changes in operating assets and liabilities:		
Net (increase) decrease in receivables, inventories, prepaid expenses, and other assets..	8,134	(63,677)
Payment of litigation settlement.....	--	(20,000)
Net (increase) decrease in deferred income taxes..	25,600	(10,595)
Increase (decrease) in income tax payable.....	(58,473)	68,078
Net increase (decrease) in payables and accrued liabilities.....	(107,325)	82,452
	-----	-----
Net cash provided by (used in) operating activities.....	(50,039)	336,059
	-----	-----
Cash flows from investing activities:		
Purchase of property, plant, and equipment.....	(205,647)	(325,695)
Proceeds from sale of property, plant, and equipment..	1,248	1,400
Purchase of available-for-sale securities.....	(351,631)	(466,120)
Proceeds from sale of available-for-sale securities...	574,799	384,547
Purchase of held-to-maturity debt securities.....	--	(358,019)
Proceeds from maturities of held-to-maturity debt securities.....	--	326,644
Investment in joint venture.....	--	(18,019)
	-----	-----
Net cash provided by (used in) investing activities.....	18,769	(455,262)

Cash flows from financing activities:		
Proceeds from borrowings.....	26,231	208,855
Payments on capital lease obligations and other debt..	(68,411)	(84,660)
Proceeds from issuance of stock.....	24,940	88,581
Redemption of preferred stock and stockholder rights..	--	(2,501)
Payments of preferred stock dividends.....	--	(10)
	-----	-----
Net cash provided by (used in) financing activities.....	(17,240)	210,265
	-----	-----
Net increase (decrease) in cash and cash equivalents....	(48,510)	91,062
Cash and cash equivalents at beginning of period.....	126,316	85,966
	-----	-----
Cash and cash equivalents at end of period.....	\$ 77,806	\$ 177,028
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the first six months for:		
Interest (net of amounts capitalized).....	\$ --	\$ 2,541
	=====	=====
Income taxes.....	\$ 2,128	\$ 24,010
	=====	=====
Non-cash financing activities:		
Equipment capital leases.....	\$ 342	\$ 16,508
	=====	=====
Conversion of preferred stock to common stock.....	\$ --	\$ 270,328
	=====	=====

</TABLE>

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\* Restated from previously released financial information to reflect the January 1996 merger with NexGen, Inc., which has been accounted for under the pooling-of-interests method.

See accompanying notes

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#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

The Company uses a 52 to 53 week fiscal year ending on the last Sunday in December. The quarters ended June 30, 1996 and July 2, 1995 included 13 weeks. The six months ended June 30, 1996 and July 2, 1995 included 26 and 27 weeks, respectively.

Certain prior year amounts on the Condensed Consolidated Financial Statements have been reclassified to conform to the 1996 presentation.

2. The following is a summary of available-for-sale securities included in cash and cash equivalents and short-term investments as of June 30, 1996 (in thousands):

<TABLE>

<S>		<C>
Cash equivalents		
Treasury notes.....	\$ 2,017	
Federal agency notes.....	28,197	
Security repurchase agreements.....	13,200	
Commercial paper.....	5,000	
Other debt securities.....	368	
	-----	
Total cash equivalents.....	\$ 48,782	
	=====	
Short-term investments		
Certificates of deposit.....	\$ 25,597	
Municipal notes and bonds.....	30,109	
Corporate notes.....	37,915	
Treasury notes.....	62,790	
Commercial paper.....	31,941	
Money market auction preferred stocks.....	15,500	
	-----	
Total short-term investments.....	\$203,852	
	=====	

</TABLE>

As of June 30, 1996, the Company held \$11.8 million of available-for-sale equity securities with a fair value of \$17.8 million which are included in other assets. The net unrealized gain on these equity securities is included in retained earnings. During the second quarter and first six months of 1996, the Company sold a portion of its available-for-sale equity securities and

realized pre-tax gains of \$16.3 million and \$41.0 million, respectively.

3. The primary net income per common share computation is based on the weighted average number of common shares outstanding plus dilutive common share equivalents. The primary net loss per common share computation excludes common share equivalents as their effect on the net loss per share would be anti-dilutive. In the first quarter of 1995, the Company called for redemption of all outstanding shares of its Convertible Preferred Stock. As a result, all of its outstanding preferred stock was either redeemed or converted to the Company's common stock. Shares used in the per share computations are as follows:

<TABLE>  
<CAPTION>

	QUARTER ENDED		SIX MONTHS ENDED	
	JUNE 30, 1996	JULY 2, 1995	JUNE 30, 1996	JULY 2, 1995
	(THOUSANDS)		(THOUSANDS)	
<S>	<C>	<C>	<C>	<C>
Common shares outstanding.....	135,027	128,020	134,259	124,306
Employee stock plans.....	239	6,759	228	6,453
Warrants.....	--	2,171	--	1,963
	=====	=====	=====	=====
	135,266	136,950	134,487	132,722

</TABLE>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

4. On January 17, 1996, the Company acquired NexGen, Inc. (NexGen) in a transaction accounted for as a pooling-of-interests. All financial data and footnote information of the Company, including the Company's previously issued financial statements for the periods presented in this Prospectus Supplement, have been restated to include the historical financial information of NexGen in accordance with generally accepted accounting principles.

Separate results of the combining entities for the quarter and six months ended July 2, 1995 are as follows:

<TABLE>  
<CAPTION>

	QUARTER ENDED	SIX MONTHS ENDED
	JULY 2, 1995	JULY 2, 1995
	(THOUSANDS)	(THOUSANDS)
<S>	<C>	<C>
Net sales:		
AMD.....	\$626,214	\$1,246,310
NexGen.....	12,653	19,938
	=====	=====
	\$638,867	\$1,266,248
Net income (loss):		
AMD.....	\$ 97,029	\$ 199,381
NexGen.....	(16,377)	(34,399)
	=====	=====
	\$ 80,652	\$ 164,982

</TABLE>

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[PHOTOGRAPH OF TWO EXAMPLES OF AMD'S AM29LV800 8-MEGABIT FLASH MEMORY DEVICES.]

[PHOTOGRAPH OF ONE OF AMD'S PCNET(TM) - MOBILE SINGLE-CHIP MEDIA ACCESS CONTROLLERS FOR WIRELESS LAN APPLICATIONS.]

AMD's Am29LV800 is a 3.0 volt-only, 8-megabit Flash memory device.

PCnet(TM)-Mobile is AMD's single-chip media access controller for wireless LAN applications.

[PHOTOGRAPH OF AMD TECHNICIAN WORKING IN CLEAN ROOM SPACE AT AMD'S FAB 25 MANUFACTURING FACILITY]

AMD uses advanced semiconductor manufacturing processes at its Fab 25 manufacturing facility.

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NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS DO NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE SECURITIES OFFERED HEREBY, NOR DO THEY CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION TO SUCH PERSON. NEITHER THE DELIVERY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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ADVANCED MICRO DEVICES, INC.

\$400,000,000

11% SENIOR SECURED NOTES

DUE 2003

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 PROSPECTUS  
 SUPPLEMENT

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 DONALDSON, LUFKIN & JENRETTE  
 SECURITIES CORPORATION

BA SECURITIES, INC.

AUGUST 8, 1996

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