

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

(X) AMENDMENT NO. 1 TO QUARTERLY REPORT PURSUANT TO
SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 27, 1994

OR

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

For the transition period from _____ to _____

Commission File Number 1-7882

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

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

One AMD Place
P. O. Box 3453
Sunnyvale, California 94088-3453

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (408) 732-2400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of March 27, 1994:

Common Stock, \$0.01 par value 92,770,327

Class Number of Shares

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

ADVANCED MICRO DEVICES, INC.

Date: April 8, 1994

/s/Larry R. Carter
By: _____
Larry R. Carter
Vice President and
Corporate Controller

Signing on behalf of the
registrant and as chief
accounting officer

The following discussion should be read in conjunction with the attached condensed consolidated financial statements and notes thereto, and with the company's audited financial statements and notes thereto for the fiscal year ended December 26, 1993.

RESULTS OF OPERATIONS

AMD reported record sales and operating income for the first quarter of 1994. Net sales of \$513.1 million for the first quarter of 1994, rose by 26 percent from sales of \$407.4 million for the first quarter of 1993. This increase was primarily attributable to substantial growth in Am486(Trademark) microprocessor sales, partially offset by significantly lower sales of Am386(Registered Trademark) products.

Sales to international customers for the first quarter of 1994 and 1993 were 53 percent and 56 percent, respectively. First quarter sales grew in North America and Europe while sales in Asia declined as compared to the same quarter a year ago.

Due to their maturing life cycle, sales of Am386 microprocessors decreased substantially as compared to the first quarter of 1993, resulting from both unit shipment and average-selling-price declines. Management anticipates Am386 microprocessor revenue will continue on its downward trend for the remainder of 1994 since the market has transitioned to 486 technology.

The company's Am386 and Am486 products have been the subject of litigation with Intel Corporation (see Footnote 2 of the consolidated financial statements, Part II, Item 1, Legal Proceedings). On March 10, 1994, a federal court jury in San Jose, California returned verdicts in the 287 microcode litigation finding that a 1976 patent and copyright agreement between AMD and Intel (the "1976 Agreement") granted AMD rights to sell microchips containing Intel microcodes. The Court entered a judgment on the verdicts in AMD's favor on March 11, 1994. Prior to the jury's determination, AMD and Intel agreed that the jury's verdicts would be determinative of the question whether the 1976 Agreement grants AMD the right to copy microcodes contained in Intel microprocessors and peripheral microchips, including not only the 287 math co-processor, but generally as to all microprocessors and peripheral microchips, specifically including the 386 and 486 microprocessors.

Intel has indicated that it intends to appeal the verdicts in the 287 case and it is expected that the appeal process will take at least one year. It is AMD's expectation that Intel, notwithstanding the March 10, 1994 verdicts or any other ruling adverse to Intel in the pending legal proceedings with AMD, will continue to pursue the remaining intellectual property claims in the pending litigations against the company.

An unfavorable ultimate decision in the 287, 386 or 486 microcode litigation could result in a material monetary damages award to Intel and/or preclude the company from continuing to produce those Am386 and Am486 products adjudicated to contain any copyrighted Intel microcode. Therefore, such litigations could have a materially adverse impact on the financial condition and results of operations of the company.

During 1993, the company's X86 business transitioned from Am386 to Am486 products. The company began shipments of its Am486DX microprocessors during the second quarter of 1993.

Am386 is a registered trademark of Advanced Micro Devices, Inc.
Am486 is a trademark of Advanced Micro Devices, Inc.

Since that time, Am486DX unit shipments have grown significantly. In the first quarter of 1994, unit shipments of Am486DX devices exceeded 900,000 units while average selling prices declined moderately as compared to the immediate prior quarter. It is expected that selling prices will continue to decline due to competitive pressures.

The company has initiated an aggressive manufacturing plan in its Submicron Development Center (SDC); nevertheless, Am486 product demand is expected to exceed production capacity in the second quarter of 1994. In February 1994, the company and Digital Equipment Corporation (Digital) entered into a foundry agreement for AMD's Am486 microprocessors. The agreement is for two years with an option for extension at the end of that period. However, both parties have certain rights to terminate this agreement earlier in the event of adverse developments in the company's microprocessor-related litigations. Initial shipments of Am486 products from wafers manufactured by Digital are expected to begin in the fourth quarter of 1994. The company may enter into additional foundry arrangements in order to supplement internal capacity based on business

conditions. Regardless of these foundry arrangements, the company's production capacity is expected to increase in late 1995 due to the completion of its 700,000 square-foot submicron semiconductor manufacturing complex in Austin, Texas (Feb 25).

An unfavorable ultimate decision in the 287 or the 486 Microcode Litigations could affect the company's ability to continue to ship and produce its Am486DX products or, in the case of the 486 Microcode Litigation, could result in a material monetary damages award to Intel, either of which could have an immediate, material adverse impact on the company's results of operations and financial condition. The AMD/Intel legal proceedings involve multiple interrelated and complex issues of fact and law. The ultimate outcome of such proceedings cannot presently be determined. Accordingly, no provision for any liability that may result upon the adjudication of the AMD/Intel legal proceedings has been made in the company's financial statements.

The company is also developing its next generation of microprocessors, referred to as the K-series, based on superscalar RISC-type architecture. Development of the initial K-series products is expected to be completed in the fourth quarter of 1994 or early 1995.

In addition to the above-mentioned litigations, the future outlook for AMD's microprocessor business is highly dependent upon microprocessor market conditions, which are subject to both demand and price elasticity. Future growth will depend on the market demand for Am486 products and AMD's future generation microprocessors, and the company's ability to meet this demand.

For the first quarter of 1994, revenues of network, data and telecommunication products increased slightly as compared to the first quarter of 1993. This increase was mainly attributable to strong growth in Ethernet products partially offset by decreased sales of data communication products. Sales of embedded processors and microcontrollers in the first quarter of 1994 decreased slightly from the first quarter of 1993.

First quarter sales of flash memory devices grew slightly as compared to the corresponding quarter a year ago due to an increase in unit shipments. However, flash sales decreased substantially as compared to the immediate prior quarter due to pricing pressures from increased competition. It is expected that these pricing pressures will continue through 1994. The company plans to meet projected long-term demand for flash memory devices through a manufacturing joint venture with Fujitsu Limited of Japan, which is expected to begin volume production in the first half of 1995.

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Revenues of erasable programmable read-only memories (EPROMs) in the first quarter of 1994 grew from the similar prior period due to increased capacity resulting from foundry arrangements and higher average prices due to greater demand.

Sales of CMOS programmable logic devices (PLDs) increased in the first quarter of 1994 as compared to the same quarter last year, primarily driven by MACH(Trademark) family products (mid-density PLDs). However, this increase was offset by a decrease in bipolar PLD sales. Management expects flat PLD sales in the second quarter of 1994 as sales growth, if any, in MACH family products may be offset by bipolar PLD sales decline.

Cost of sales of \$230.4 million for the first quarter of 1994 contributed to a gross margin of 55 percent as compared to a gross margin of 52 percent in the first quarter of 1993. This increase in gross margin was primarily related to higher margins from Am486 products. Gross margins for the remainder of 1994 are dependent upon the strength of market demand for Am486 devices and the company's ability to meet that demand.

Research and development expenses increased to \$68.2 million in the first quarter of 1994 from \$61.8 million in the same quarter last year due to higher research and development spending in Feb 25 and most product lines. The company expects research and development expenses to remain relatively stable for the remainder of 1994.

Marketing, general and administrative expenses grew by \$24.4 million to \$92.9 million for the first quarter of 1994 from \$68.5 million for the first quarter of 1993. This increase was mainly due to increased legal fees relating to litigations with Intel, microprocessor advertising rebates and profit sharing.

In summary, total operating expenses for the first quarter of 1994 were \$391.6 million, a \$67.2 million increase over the \$324.4 million operating expenses for the first quarter of 1993. However, operating expenses as a percentage of sales decreased in the first quarter of 1994 as compared to the same quarter a year ago. Consequently, operating income as a percentage of sales increased to 24 percent in the first quarter of 1994 as compared to 20 percent in the same quarter last year. Although the company is continuing to focus on cost containment, operating expenses may rise through 1994 in both absolute dollars

and as a percentage of sales due to start-up manufacturing costs for Feb 25, further increases in depreciation, and higher foundry expenses which are dependent on product demand.

Interest and other income rose slightly to \$3.6 million in the first quarter of 1994 as compared to \$3.4 million in the first quarter of 1993, due to higher cash available for investment. Interest expense was \$.7 million for the first quarter of 1994, down from \$1.1 million in the first quarter of 1993 due to lower average borrowing rates.

Provision for income taxes was \$39.8 million, or 32 percent, for the first quarter of 1994 compared to \$23.9 million, or 28 percent, for the first quarter of 1993. The higher provision in 1994 was primarily due to reduced benefits from low taxed foreign income and from available tax credit carryforwards. Management expects that the provision for taxes on income will remain at approximately 32 percent through 1994.

The company recorded net income before preferred stock dividends of \$84.6 million in the first quarter of 1994, up from \$61.5 million in the first quarter of 1993. After preferred stock

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dividends of \$2.6 million for both quarters, the primary net income per common share was \$.85 for the first quarter of 1994 and \$.63 for the same quarter a year ago.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The semiconductor industry is generally characterized by a highly competitive and rapidly changing environment in which operating results are often subject to the effects of new product introductions, manufacturing technology innovations, rapid fluctuations in product demand, and the ability to secure intellectual property rights. While the company attempts to identify and respond to these changes as soon as possible, the rapidity of their onset makes prediction of and reaction to such events an ongoing challenge.

The company believes that its future results of operations and financial condition could be impacted by the following factors: market acceptance and timing of new products, trends in the personal computer marketplace, capacity constraints, intense price competition, interruption of manufacturing materials supply, negative changes in international economic conditions and decisions in legal disputes relating to intellectual property rights.

Due to the factors noted above, the company's future operations, financial condition and stock price may be subject to volatility. In addition, a shortfall in revenue or earnings from securities analysts' expectations could have an immediate adverse effect on the trading price of the company's common stock in any given period.

FINANCIAL CONDITION

The company's financial condition improved during the first quarter of 1994. Cash and cash equivalents, and temporary cash investments increased by \$54.5 million to \$542.7 million from December 26, 1993 to March 27, 1994. Net cash provided by operating activities was offset by the purchase of property, plant and equipment to expand manufacturing capacity, and the purchase of held-to-maturity debt securities in the first quarter of 1994. Positive cash flow decreased slightly in the first quarter of 1994 as higher net income was offset by an increase in accounts receivable.

Working capital grew by \$71.3 million from \$509.6 million at the end of 1993 to \$580.9 million in the first quarter of 1994. This growth was primarily due to an increase in cash and cash equivalents, temporary cash investments and accounts receivable resulting from higher sales.

The company is currently involved in litigations with Intel. While it is impossible to predict the resolutions of the AMD/Intel litigations, there could be a material adverse effect on the financial condition, or trends in results of operations of the company, or the ability to raise necessary capital, or some combination of the foregoing if the outcome of the Intel litigations either results in an award to Intel of material monetary damages, or the company's intellectual property rights are not sustained with regard to certain microprocessor products currently the subject of litigation with Intel (see footnote 2 of the consolidated financial statements, Part II, Item 1, Legal Proceedings).

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In July 1993, the company commenced construction of its 700,000 square-foot submicron semiconductor manufacturing complex in Austin, Texas. Known as Fab 25, the new facility is expected to cost approximately \$1 billion when fully equipped. The first phase of construction and initial equipment installation is expected to cost approximately \$400 million through 1994. Volume production is scheduled to begin in late 1995.

The company and Fujitsu Limited are cooperating in building and operating an approximately \$800 million wafer fabrication facility in Aizu-Wakamatsu, Japan through their joint venture "Fujitsu AMD Semiconductor Limited (FASL)". The forecasted joint venture costs are denominated in yen and therefore are subject to change due to fluctuations of foreign exchange rates. Each company will contribute equally toward funding and supporting FASL. AMD is expected to contribute approximately half of its share of funding in cash and guarantee third-party loans made to FASL for the remaining half. However, to the extent debt cannot be secured by FASL, AMD is required to contribute its portion in cash. Through the first quarter of 1994, the company's investment in FASL was immaterial; however, management anticipates this investment will increase substantially, to approximately \$135 million by the end of 1994. The company is also required under the terms of the joint venture to contribute approximately one-half of such additional amounts as may be necessary to sustain FASL's operations. The facility is expected to begin operations in the fourth quarter of 1994 utilizing CMOS process technology. Volume production is expected to commence in the first half of 1995.

As of the end of the first quarter of 1994, the company had the following financing arrangements: unsecured committed bank lines of credit of \$105 million, unutilized; long-term secured equipment lease lines of \$110 million, of which \$75 million were utilized; and short-term, unsecured uncommitted bank credit in the amount of \$84 million, of which \$33 million was outstanding.

The company's current capital plan and requirements are based on various product-mix, selling-price and unit-demand assumptions and are, therefore, subject to revision due to future market changes and litigation outcomes.

In April 1994, AMD filed with the Securities and Exchange Commission a shelf registration statement covering the offer and sale of up to \$400 million of its securities, which may be debt securities, preferred stock, depositary 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. Such registration statement is not yet effective. Any sale of securities by the company will occur through the use of a prospectus contained in the registration statement. The precise nature and terms of the securities to be offered and sold by the company will be established at the time of their sale (see Part II, Item 5).

The company, given the current business prospects, also intends to call all of its outstanding preferred shares for redemption when market conditions permit. In such event, all of AMD's outstanding depositary shares would also be redeemed. Each depositary share represents one-tenth of a preferred share, and each ten depositary shares are convertible into 19.873 shares of AMD's common stock (see Part II, Item 5).

Management believes that, absent unfavorable litigation outcomes, cash flows from operations and current cash balances, together with current and anticipated available long-term financing, will be sufficient to fund operations, capital investments, and research and development projects currently planned for the remainder of 1994.