

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 26, 1999

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

<TABLE>
<CAPTION>

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

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

One AMD Place Sunnyvale, California ----- (Address of principal executive offices)	94086 ----- (Zip Code)
---	------------------------------

</TABLE>

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

The number of shares of \$0.01 par value common stock outstanding as of October 6, 1999: 147,769,723

ADVANCED MICRO DEVICES, INC.

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PART I. FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS

ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
 (Thousands except per share amounts)

<TABLE>
 <CAPTION>

	Quarter Ended		Nine Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
Net sales	\$ 662,192	\$ 685,927	\$ 1,888,894	\$ 1,753,321
Expenses:				
Cost of sales	474,119	422,985	1,382,889	1,236,716
Research and development	157,626	143,665	484,850	410,943
Marketing, general and administrative	129,437	109,768	381,267	299,180
Restructuring and other special charges	-	-	32,530	-
	761,182	676,418	2,281,536	1,946,839
Operating income (loss)	(98,990)	9,509	(392,642)	(193,518)
Gain on sale of Vantis	-	-	432,059	-
Litigation settlement	-	-	-	(11,500)
Interest income and other, net	6,757	10,071	24,777	24,170
Interest expense	(18,033)	(21,182)	(56,883)	(51,317)
Income (loss) before income taxes and equity in joint venture	(110,266)	(1,602)	7,311	(232,165)
Provision (benefit) for income taxes	-	(635)	167,350	(91,742)

Loss before equity in joint venture (140,423)	(110,266)	(967)	(160,039)	
Equity in net income of joint venture 14,142	4,721	1,973	6,023	
-----	-----	-----	-----	-----
Net income (loss) \$(126,281)	\$ (105,545)	\$ 1,006	\$ (154,016)	
=====	=====	=====	=====	
Net income (loss) per common share:				
Basic (0.88)	\$ (0.72)	\$ 0.01	\$ (1.05)	\$
=====	=====	=====	=====	
Diluted (0.88)	\$ (0.72)	\$ 0.01	\$ (1.05)	\$
=====	=====	=====	=====	
Shares used in per share calculation:				
Basic 143,249	147,388	143,915	146,748	
=====	=====	=====	=====	
Diluted 143,249	147,388	146,642	146,748	
=====	=====	=====	=====	

</TABLE>

See accompanying notes

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ADVANCED MICRO DEVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS*
(Thousands)

<TABLE>			
<CAPTION>			
		September 26,	December
27,			
Assets		1999	1998
----		-----	-----
<S>		<C>	<C>
Current assets:			
Cash and cash equivalents		\$ 93,267	\$
361,908			
Short-term investments		283,768	
335,117		-----	-----

Total cash, cash equivalents and short-term investments		377,035	
697,025			
Accounts receivable, net		382,478	
415,557			
Inventories:			
Raw materials		13,318	
21,185			
Work-in-process		121,792	
129,036			
Finished goods		99,000	
24,854		-----	-----

Total inventories		234,110	
175,075			
Deferred income taxes		49,827	
205,959			
Prepaid expenses and other current assets		117,331	
68,411		-----	-----

Total current assets		1,160,781	
1,562,027			
Property, plant and equipment, at cost		4,882,825	
4,380,362			
Accumulated depreciation and amortization		(2,313,710)	

(2,111,894)		
----	-----	-----
Property, plant and equipment, net	2,569,115	
2,268,468		
Investment in joint venture	271,896	
236,820		
Other assets	177,015	
185,653		
----	-----	-----
4,252,968	\$ 4,178,807	\$
	=====	
=====		
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 4,778	\$
6,017		
Accounts payable	318,126	
333,975		
Accrued compensation and benefits	90,386	
80,334		
Accrued liabilities	208,248	
168,280		
Income tax payable	9,526	
22,026		
Deferred income on shipments to distributors	77,698	
84,523		
Current portion of long-term debt, capital lease obligations and other	44,691	
145,564		
----	-----	-----
Total current liabilities	753,453	
840,719		
Deferred income taxes	58,037	
34,784		
Long-term debt, capital lease obligations and other, less current portion	1,448,552	
1,372,416		
Commitments and contingencies		
Stockholders' equity:		
Capital stock:		
Common stock, par value	1,490	
1,465		
Capital in excess of par value	1,109,072	
1,071,591		
Retained earnings	808,155	
962,171		
Accumulated other comprehensive income (loss)	48	
(30,178)		
----	-----	-----
Total stockholders' equity	1,918,765	
2,005,049		
----	-----	-----
4,252,968	\$ 4,178,807	\$
	=====	

</TABLE>

* Amounts as of September 26, 1999, are unaudited. Amounts as of December 27, 1998, are derived from the December 27, 1998, audited financial statements.

See accompanying notes

- -----

ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Thousands)

<TABLE>
<CAPTION>

Nine Months Ended

	September 26, 1999	September 27, 1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	\$ (154,016)	\$ (126,281)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on sale of Vantis	(432,059)	-
Depreciation and amortization	385,590	342,420
Net decrease (increase) in deferred income tax assets	164,343	(101,901)
Restructuring and other special charges	25,038	-
Foreign grant and subsidy income	(37,852)	-
Net loss on disposal of property, plant and equipment	8,305	5,231
Net gain realized on sale of available-for-sale securities	(4,250)	-
Undistributed income of joint venture	(6,023)	(14,142)
Recognition of deferred gain on sale of building	(1,260)	-
Net compensation recognized on employee stock options	399	6,102
Changes in operating assets and liabilities:		
Net increase in receivables, inventories, prepaid expenses and other assets	(104,551)	(87,414)
Net increase (decrease) in payables and accrued liabilities	89,749	(1,034)
Increase (Decrease) in income tax payable	(12,793)	7,710
Net cash provided by (used in) operating activities	(79,380)	30,691
Cash flows from investing activities:		
Proceeds from sale of Vantis	454,269	-
Purchase of property, plant and equipment	(495,044)	(798,664)
Proceeds from sale of property, plant and equipment	3,342	13,825
Purchase of available-for-sale securities	(1,274,591)	(1,211,845)
Proceeds from sale of available-for-sale securities	1,315,617	993,434
Net cash provided by (used in) investing activities	3,593	(1,003,250)
Cash flows from financing activities:		
Proceeds from borrowings	22,864	799,570
Payments on debt and capital lease obligations	(239,392)	(41,597)
Deferred financing costs	-	(12,783)
Proceeds from foreign grants	-	91,355
Proceeds from issuance of stock	33,143	26,658
Net cash provided by (used in) financing activities	(183,385)	863,203
Effect of exchange rate changes on cash and cash equivalents	(9,469)	4,391
Net decrease in cash and cash equivalents	(268,641)	(104,965)
Cash and cash equivalents at beginning of period	361,908	240,658
Cash and cash equivalents at end of period	\$ 93,267	\$ 135,693
Supplemental disclosures of cash flow information:		
Cash paid (refunded) during the first nine months for:		
Interest	\$ 68,159	\$ 32,416
Income taxes	\$ 10,220	\$ (1,719)

</TABLE>

See accompanying notes

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Advanced Micro Devices, Inc. (the Company or AMD) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the full fiscal year ending December 26, 1999. In the opinion of the Company's management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature. The interim financial statements should be read in conjunction with the financial statements in the Company's Annual Report on Form 10-K for the year ended December 27, 1998.

The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December. The quarters ended September 26, 1999 and September 27, 1998 each

included 13 weeks. The nine months ended September 26, 1999 and September 27, 1998 each included 39 weeks.

Certain prior year amounts on the condensed consolidated financial statements have been reclassified to conform to the 1999 presentation.

2. Restructuring and Other Special Charges

Restructuring and other special charges were \$17.5 million in the second quarter of 1999 and \$15.0 million in the first quarter of 1999. These charges were the result of the Company's efforts to better align its cost structure with expected revenue growth rates. The restructuring efforts resulted in non-cash charges for the:

- . closure of a submicron development laboratory facility;
- . write-off of equipment in the Submicron Development Center (SDC);
- . write-off of equipment taken out of service in Fab 25, the Company's integrated circuit (IC) manufacturing facility located in Austin, Texas, related to the 0.35-micron wafer fabrication process; and
- . write-off of capitalized costs related to discontinued system projects.

Cash charges consisted of:

- . severance and benefits to terminated employees including 50 employees in the Information Technology department and 128 employees in the SDC and sales offices;
- . costs for leases of vacated and unused sales offices; and
- . costs for the disposal of equipment taken out of service in Fab 25 and the SDC.

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The restructuring and other special charges for the first nine months of 1999 are as follows:

(Thousands) (Unaudited) Total	Severance and Employee Benefits	Facilities	Equipment	Equipment Disposal Costs	Discontinued System Projects	-
-----	-----	-----	-----	-----	-----	---
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Q1 99 charges 15,016	\$ 779	\$ -	\$ 8,148	\$ -	\$ 6,089	\$
Non-cash charges (14,237)	-	-	(8,148)	-	(6,089)	-
-----	-----	-----	-----	-----	-----	---
Accruals at March 28, 1999 779	779	-	-	-	-	-
Q2 99 charges 17,514	2,245	968	10,801	3,500	-	-
Cash charges (1,360)	(1,360)	-	-	-	-	-
Non-cash charges (10,801)	-	-	(10,801)	-	-	-
-----	-----	-----	-----	-----	-----	---
Accruals at June 27, 1999 6,132	1,664	968	-	3,500	-	-
Cash charges (2,766)	(1,664)	(35)	-	(1,067)	-	-
-----	-----	-----	-----	-----	-----	---
Accruals at September 26, 1999 3,366	\$ -	\$ 933	\$ -	\$ 2,433	\$ -	\$
=====	=====	=====	=====	=====	=====	---

</TABLE>

The Company anticipates that the remaining accruals for sales office facilities will be utilized over the period through lease termination in the second quarter of 2002. The remaining accruals for the disposal costs for equipment that has been taken out of service will be fully discharged by the first quarter of 2000.

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3. Available-For-Sale Securities

The following is a summary of available-for-sale securities:

<TABLE>
<CAPTION>

(Thousands) (Unaudited)	September 26, 1999

<S>	<C>
Cash equivalents:	
Money market funds	\$18,800
Commercial paper	18,265

Total cash equivalents	\$37,065
	=====
Short-term investments:	
Bank notes	\$ 5,131
Federal agency notes	55,938
Money market auction rate preferred stocks	66,000
Certificates of deposit	52,301
Corporate notes	30,784
Commercial paper	73,614

Total short-term investments	\$283,768
	=====
Long-term investments:	
Equity investments	\$23,961
Commercial paper	9,999
Treasury notes	1,907

Total long-term investments (included in other assets)	\$35,867
	=====

</TABLE>

4. Debt

The 1996 syndicated bank loan agreement (the Credit Agreement) provided for a \$150 million three-year secured revolving line of credit and a \$250 million four-year secured term loan. On June 25, 1999, the Company terminated the secured revolving line of credit. On July 13, 1999, the Company replaced the Credit Agreement with a new Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by Bank of America. On July 30, 1999, the Company repaid the outstanding balance of \$86,250,000 on the secured term loan and terminated the Credit Agreement. Under the Loan Agreement, which provides for a four-year secured revolving line of credit of up to \$200 million, the Company can borrow, subject to discretionary reserves which may be set aside by the lenders, up to 85 percent of its eligible accounts receivable from Original Equipment Manufacturers (OEMs) and 50 percent of its eligible accounts receivable from distributors. The Company will be subject to compliance with certain financial covenants if the levels of domestic cash it holds declines to certain levels, or the amount of borrowings under the Loan Agreement rises to certain levels. The Company obligations under the Loan Agreement are secured by a pledge of most of its accounts receivable, inventory, general intangibles and the related proceeds. As of September 26, 1999, no funds were drawn under the Loan Agreement.

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5. Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed using the weighted-average common shares outstanding. Diluted net income per common share is computed using the weighted average common shares outstanding plus any potential dilutive securities. Dilutive securities include stock options, restricted stock, warrants and convertible debt. The following table sets forth the computation of basic and diluted net income (loss) per common share:

<TABLE>
<CAPTION>

	Quarter Ended		Nine Months Ended	
	-----		-----	
	September 26,	September 27,	September 26,	September
27,				
(Thousands except per share data) (Unaudited)	1999	1998	1999	1998
	-----		-----	
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net income (loss)				
per common share	(105,545)	1,006	(154,016)	
(126,281)	=====	=====	=====	

=====				
Denominator:				
Denominator for basic net income (loss)				
per common share - weighted-average shares				
143,249	147,388	143,915	146,748	
Effect of dilutive securities:				
Employee stock options				
-	-	2,472	-	
Restricted stock				
-	-	253	-	
Warrants				
-	-	2	-	

Dilutive potential common shares				
-	-	2,727	-	

Denominator for diluted net income (loss) per				
common share - adjusted weighted-average shares				
143,249	147,388	146,642	146,748	
=====				
Basic net income (loss) per common share				
(0.88)	\$ (0.72)	\$ 0.01	\$ (1.05)	\$
=====				
Diluted net income (loss) per common share				
(0.88)	\$ (0.72)	\$ 0.01	\$ (1.05)	\$
=====				

</TABLE>

Options, restricted stock and convertible debt were outstanding during the quarter ended September 26, 1999 and both of the nine month periods ended September 26, 1999 and September 27, 1998, but were not included in the computation of diluted net loss per common share because the effect in periods with a net loss would be antidilutive. Options to purchase 7,474,446 shares of common stock at a weighted-average price of \$28.23 per share were outstanding during the quarter ended September 27, 1998, but were not included in the computation of diluted net income per common share because the options' exercise price was greater than the average market price of the common shares during the period.

6. Investment in Joint Venture

In 1993, AMD and Fujitsu Limited formed a joint venture, Fujitsu AMD Semiconductor Limited (FASL), for the development and manufacture of non-volatile memory devices. FASL operates advanced IC manufacturing facilities in Aizu-Wakamatsu, Japan, to produce Flash memory devices. The Company's share of FASL is 49.992 percent and the investment is being accounted for under the equity method. As of September 26, 1999, the cumulative adjustment related to the translation of the FASL financial statements into U.S. dollars resulted in an increase in the investment in FASL of \$4 million. The following are the significant FASL related-party transactions and balances:

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<TABLE>

<CAPTION>

(Thousands) (Unaudited)	Quarter Ended		Nine Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Royalty income	\$ 5,731	\$ 4,893	\$ 16,468	\$ 15,566
Purchases	73,159	43,377	191,935	153,741

</TABLE>

<TABLE>

<CAPTION>

(Thousands) (Unaudited)	September 26,	September 27,
	1999	1998
	-----	-----
<S>	<C>	<C>
Royalty receivable	\$ 12,141	\$ 9,060
Accounts payable	56,771	10,808

</TABLE>

The following is condensed unaudited financial data of FASL:

<TABLE>

<CAPTION>

(Thousands) (Unaudited)	Quarter Ended		Nine Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 139,868	\$ 98,295	\$ 355,538	\$ 315,204
Gross profit	12,335	5,575	31,005	39,026
Operating income	11,430	5,114	28,873	35,087
Net income	6,589	2,616	16,469	20,980

The Company's share of the above FASL net income differs from the equity in net income of joint venture reported on the condensed consolidated statements of operations due to the elimination of intercompany unrealized profits which are reflected on the Company's condensed consolidated statements of operations.

7. Segment Reporting

Through June 1999, AMD had two principal businesses and had two reportable segments: (1) the AMD segment, which consists of three product groups - Computation Products Group, Memory Group and Communications Group, and (2) the Vantis segment, which consisted of the Company's programmable logic subsidiary, Vantis Corporation (Vantis). The reportable segments were organized as discrete and separate functional units with separate management teams and separate performance assessment and resource allocation processes. The AMD segment produces microprocessors, core logic products, Flash memory devices, Erasable Programmable Read-Only Memory (EPROM) devices, telecommunication products, networking and input/output (I/O) products and embedded processors. The Vantis segment produced complex and simple, high-performance complementary metal oxide semiconductor (CMOS) programmable logic devices (PLDs).

On June 15, 1999, AMD completed the sale of Vantis to Lattice Semiconductor Corporation. Therefore, operating results of the Vantis segment are not included in the results of the third quarter of 1999.

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The accounting policies of the segments were the same as those described in the summary of significant accounting policies contained in the Company's financial statements in its annual report on Form 10-K for the year ended December 27, 1998. The Company evaluates performance and allocates resources based on segment operating income (loss).

<TABLE>
<CAPTION>

(Thousands) (Unaudited)	Quarter Ended		Nine Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>
AMD segment				
External customers	\$ 662,192	\$ 474,599	\$ 1,802,202	\$
Intersegment	-	19,504	32,626	
Net sales	662,192	494,103	1,834,828	
Vantis segment external customers	-	51,939	86,692	
Elimination of intersegment sales	-	(19,504)	(32,626)	
Net sales	\$ 662,192	\$ 526,538	\$ 1,888,894	\$
Segment income (loss):				
AMD segment	\$ (98,990)	\$ 8,028	\$ (398,281)	\$
Vantis segment	-	1,481	5,639	

-----	Total operating income (loss)	(98,990)	9,509	(392,642)	
(193,518)	Gain on sale of Vantis	-	-	432,059	
-	Litigation settlement	-	-	-	
(11,500)	Interest income and other, net	6,757	10,071	24,777	
24,170	Interest expense	(18,033)	(21,182)	(56,883)	
(51,317)	(Provision) Benefit for income taxes	-	635	(167,350)	
91,742	Equity in net income of FASL (AMD segment)	4,721	1,973	6,023	
14,142		-----	-----	-----	-----
-----	Net income (loss)	\$ (105,545)	\$ 1,006	\$ (154,016)	\$
(126,281)		=====	=====	=====	

</TABLE>
8. Sale of Vantis Corporation

On June 15, 1999, AMD sold Vantis to Lattice Semiconductor Corporation for approximately \$500 million in cash. AMD received, net of cash and cash equivalents of approximately \$46 million held by Vantis, approximately \$454 million. AMD's pre-tax gain on the sale of Vantis was \$432 million, subject to adjustment, if any, based on the final determination of the net asset value of Vantis as of June 15, 1999. The gain is computed based on Vantis' preliminary net assets as of June 15, 1999 and other direct expenses related to the sale. The applicable tax rate on the gain was 40 percent.

Prior to the Vantis sale, the Company negotiated various service contracts with Vantis to continue to provide services to Vantis. According to the service contracts, the Company will continue to provide, among other things, wafer fabrication and assembly, test, mark and pack services to Vantis. The wafer fabrication and assembly, test, mark and pack service agreements will continue until September 2003. In the third quarter of 1999, approximately \$18 million of revenue was generated from the above service contracts.

9. Comprehensive Income (Loss)

Under Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments are included in other comprehensive income (loss).

The following are the components of comprehensive income (loss):

<TABLE>					
<CAPTION>					
		Quarter Ended		Nine Months Ended	
-----		-----		-----	
		September 26,	September 27,	September 26,	
September 27,					
(Thousands) (Unaudited)		1999	1998	1999	1998
		-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Net income (loss)	\$ (105,545)	\$ 1,006	\$ (154,016)	\$	
(126,281)					
Foreign currency translation adjustments	49,423	4,401	19,433		
(11,280)					
Unrealized gains on securities, net of tax:					
Unrealized gains on investments arising during the period	6,377	(1,715)	14,246		
4,954					
Less: Reclassification adjustment for gains included in earnings	-	-	(3,453)		
-					
-----		-----	-----	-----	-----
Other comprehensive income (loss)	55,800	2,686	30,226		
(6,326)					
-----		-----	-----	-----	-----
Comprehensive income (loss)	\$ (49,745)	\$ 3,692	\$ (123,790)	\$	
(132,607)		=====	=====	=====	

=====
</TABLE>

The components of accumulated other comprehensive income (loss), net of related tax, are as follows:

<TABLE>
<CAPTION>

(Thousands) (Unaudited)	September 26, 1999	December 27, 1998
	-----	-----
<S>	<C>	<C>
Unrealized gain on investments, net of tax	\$ 17,553	\$ 6,760
Cumulative translation adjustments	(17,505)	(36,938)
	-----	-----
	\$ 48	\$ (30,178)
	=====	=====

</TABLE>

10. Contingencies

SECURITIES CLASS ACTION LITIGATION. Between March 10, 1999 and April 22, 1999, AMD and certain individual officers of AMD were named as defendants in the following lawsuits: Arthur S. Feldman v. Advanced Micro Devices, Inc., et al.; Pamela Lee v. Advanced Micro Devices, Inc., et al.; Izidor Klein v. Advanced Micro Devices, Inc., et al.; Nancy P. Steinman v. Advanced Micro Devices, Inc., et al.; Robert L. Dworkin v. Advanced Micro Devices, Inc., et al.; Howard M. Lasker v. Advanced Micro Devices, Inc., et al.; John K. Thompson v. Advanced Micro Devices, Inc., et al.; Dan Schwartz v. Advanced Micro Devices, Inc., et al.; Serena Salamon and Norman Silverberg v. Advanced Micro Devices, Inc., et al.; David Wu and Hossein Mizraie v. Advanced Micro Devices, Inc., et al.; Eidman v. Advanced Micro Devices, Inc., et al.; Nold v. Advanced Micro Devices, Inc., et al.; Freeland v. Advanced Micro Devices, Inc., et al.; Fradkin v. Advanced Micro Devices, Inc. et al.; Ellis Investment Co. v. Advanced Micro Devices, Inc., et al.; Dezwareh v. Advanced Micro Devices, Inc., et al.; and Tordjman v. Advanced Micro Devices, Inc., et al. These class action complaints allege various violations of federal securities law, including violations of Section 10(b)

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of the Securities Exchange Act and Rule 10b-5 promulgated thereunder. Most of the complaints purportedly were filed on behalf of all persons, other than the defendants, who purchased or otherwise acquired common stock of AMD during the period from October 6, 1998 to March 8, 1999. Two of the complaints allege a class period from July 13, 1998 to March 9, 1999. All of the complaints allege that materially misleading statements and/or material omissions were made by AMD and certain individual officers of AMD concerning design and production problems relating to high-speed versions of the AMD-K6(R)-2 and AMD-K6(R)-III microprocessors. The complaints seek unspecified damages, equitable relief, interest, fees and other litigation costs.

The Company has entered into a stipulation whereby plaintiffs will file a consolidated amended complaint following a ruling by the Ninth Circuit Court of Appeals on the In re Silicon Graphics Securities Litigation, 97-16204, case now pending before it. The stipulation also sets forth the period of time the Company will have to respond to the new complaint once it is filed and served. The Company intends to contest the litigation vigorously. 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 on our financial condition or results of operations.

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

Cautionary Statement Regarding Forward-Looking Statements

The statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations 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 relate to, among other things, operating results; anticipated cash flows; capital expenditures; adequacy of resources to fund operations and capital investments; our ability to access external sources of capital; our ability to transition to new process technologies; our ability to produce the AMD Athlon microprocessor in the volume required by customers on a timely basis; our ability, and the ability of third parties, to provide timely infrastructure solutions (motherboards and chipsets) to support the AMD Athlon microprocessor; customer and market acceptance of the AMD Athlon microprocessor; our ability to maintain average selling prices for the AMD Athlon microprocessor; strengthening demand for Flash memory devices; Year 2000 costs; the impact on our business as

a result of Year 2000 issues; the impact on customers and suppliers as they prepare for the Year 2000; our new submicron integrated circuit manufacturing and design facility located in Dresden, Germany (Dresden Fab 30); and the Fujitsu AMD Semiconductor Limited (FASL) manufacturing facilities. See "Financial Condition" and "Risk Factors" below, as well as such other risks and uncertainties as are detailed in our other Securities and Exchange Commission reports and filings for a discussion of the factors that could cause actual results to differ materially from the forward-looking statements.

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes as of December 27, 1998, and December 28, 1997, and for each of the three years in the period ended December 27, 1998.

AMD, the AMD logo, and combinations thereof, Advanced Micro Devices, K86, AMD-K6, AMD-K6-2, AMD-K6-III, AMD Athlon and 3DNow! are either trademarks or registered trademarks of Advanced Micro Devices, Inc. Vantis is a trademark of Vantis Corporation. Microsoft and Windows are either registered trademarks or trademarks of Microsoft Corporation. Pentium is a registered trademark and Celeron is a trademark of Intel Corporation. Other terms used to identify companies and products may be trademarks of their respective owners.

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RESULTS OF OPERATIONS

During the nine months ended September 26, 1999, we participated in all three technology areas within the digital integrated circuit (IC) market - memory circuits, logic circuits and microprocessors - through (1) our AMD segment, which consists of our three product groups - Computation Products Group (CPG), Memory Group and Communications Group and (2) our Vantis segment, which consisted of our former programmable logic subsidiary, Vantis Corporation (Vantis). CPG products include microprocessors, core logic products and embedded processors. Memory Group products include Flash memory devices and Erasable Programmable Read-Only Memory (EPROM) devices. Communications Group products include telecommunication products, networking, and input/output (I/O) products. Vantis products are complex and simple high-performance complementary metal oxide semiconductor (CMOS) programmable logic devices (PLDs).

On June 15, 1999, we completed the sale of our Vantis segment to Lattice Semiconductor Corporation for approximately \$500 million in cash. The actual cash received was approximately \$454 million, which was net of Vantis' cash and cash equivalents balance of approximately \$46 million as of the closing.

The following is a summary of the net sales of the AMD and Vantis segments for the periods presented below:

<TABLE>
<CAPTION>

(Millions)	Quarter Ended			Nine Months Ended	
	September 26, 1999	June 27, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>	<C>
AMD Segment:					
CPG	\$ 368	\$ 317	\$ 437	\$ 1,080	\$ 939
Memory Group	206	166	129	499	428
Communications Group	70	70	70	203	228
Lattice service fees	18	2	-	20	-
	-----	-----	-----	-----	-----
	662	555	636	1,802	1,595
Vantis Segment	-	40	50	87	158
	-----	-----	-----	-----	-----
Total	\$ 662	\$ 595	\$ 686	\$ 1,889	\$ 1,753
	=====	=====	=====	=====	=====

</TABLE>

Net Sales Comparison of Quarters Ended September 26, 1999 and June 27, 1999

Net sales for the third quarter of 1999 increased by 11 percent compared to the second quarter of 1999. Excluding sales from the Vantis Segment and Lattice service fees, net sales for the third quarter of 1999 increased 16 percent compared to the second quarter of 1999.

CPG net sales of \$368 million increased 16 percent in the third quarter of 1999 compared to the second quarter of 1999. Increased volumes of approximately 22 percent in aggregate sales of AMD Athlon(TM) and AMD-K6(R) microprocessors were partially offset by a decrease of approximately five percent in average selling prices which was caused by aggressive Intel marketing, pricing and product bundling. Sales of AMD Athlon microprocessors are highly dependent upon the availability of chipsets and motherboards from Taiwanese and other

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suppliers. Taiwan is currently recovering from a major earthquake that occurred on September 21, 1999. The earthquake resulted in an interruption of power to our suppliers' manufacturing facilities that contributed to a severe shortage of motherboards in the last week of the third quarter of 1999 which adversely affected our sales of AMD Athlon microprocessors. Overall CPG sales growth in the fourth quarter of 1999 and in the first quarter of 2000 is dependent upon a successful production ramp on 0.25-micron and 0.18-micron technology, market acceptance of our AMD Athlon microprocessor and availability of chipsets and motherboards from Taiwanese and other suppliers, as to which we cannot give any assurance.

Memory Group net sales of \$206 million increased 24 percent in the third quarter of 1999 compared to the second quarter of 1999 as a result of higher average selling prices and strong growth in demand for higher density Flash memory devices. Demand for Flash memory devices has remained strong through October, 1999; however, our ability to achieve further gains will depend upon gaining additional manufacturing capacity and/or increasing average selling prices, as to which we cannot give any assurance.

Communications Group net sales of \$70 million were flat in the third quarter of 1999 compared to the second quarter of 1999. The increase in sales of telecommunication products, which includes digital cordless circuits, ISDN and subscriber linecard circuits (SLICs and SLACs(TM)), was completely offset by a decrease in sales of networking products. In October 1999, we announced our intention to sell the Communications Group. We expect to complete the sale in the first half of 2000.

On June 15, 1999, we sold Vantis to Lattice Semiconductor Corporation for approximately \$500 million in cash. As a result, there were no sales from Vantis in the third quarter of 1999. Prior to the sale of Vantis, we negotiated various service contracts with Vantis to continue to provide, among other things, wafer fabrication and assembly, test, mark and pack services to Vantis. We received service fees of \$18 million from Lattice in the third quarter of 1999 compared to \$2 million in the second quarter of 1999. The wafer fabrication and assembly, test, mark and pack service contracts will continue until September 2003.

Net Sales Comparison of Quarters Ended September 26, 1999 and September 27, 1998

Net sales for the third quarter of 1999 decreased by three percent compared to the third quarter of 1998. Excluding net sales from the Vantis Segment and Lattice service fees, net sales for the third quarter of 1999 increased one percent compared to the third quarter of 1998.

CPG net sales of \$368 million decreased 16 percent in the third quarter of 1999 compared to the same quarter of 1998. Declines in average selling prices of AMD-K6 microprocessors, caused by aggressive Intel marketing, pricing and product bundling, offset a more than 20 percent growth in combined microprocessor unit volume. Sales of AMD Athlon microprocessors are highly dependent upon the availability of chipsets and motherboards from Taiwanese and other suppliers. Taiwan is currently recovering from a major earthquake that occurred on September 21, 1999. The earthquake resulted in an interruption of power to our suppliers' manufacturing facilities that contributed to a severe shortage of motherboards in the last week of the third quarter of 1999 which adversely affected our sales of AMD Athlon microprocessors. Overall CPG sales growth in the fourth quarter of 1999 and in the first quarter of 2000 is dependent upon a successful production ramp on 0.25-micron and 0.18-micron technology, market acceptance of our AMD Athlon microprocessor and availability of chipsets

and motherboards from Taiwanese and other suppliers, as to which we cannot give any assurance.

Memory Group net sales of \$206 million increased by 60 percent in the third quarter of 1999 compared to the third quarter of 1998 as a result of higher average selling prices and strong growth in demand for higher density Flash memory devices. Demand for Flash memory devices has remained strong through October, 1999; however, our ability to achieve further gains will depend upon gaining additional manufacturing capacity and/or increasing average selling prices, as to which we cannot give any assurance.

Communications Group net sales of \$70 million were flat in the third quarter of 1999 compared to the third quarter of 1998. The increase in sales of telecommunication products, which includes digital cordless circuits, ISDN and SLICs and SLACs, was completely offset by a decrease in sales of networking products. In October 1999, we announced our intention to sell the Communications Group. We expect to complete the sale in the first half of 2000.

On June 15, 1999, we sold Vantis to Lattice Semiconductor Corporation for approximately \$500 million in cash. As a result, there were no sales from Vantis in the third quarter of 1999. Prior to the sale of Vantis, we negotiated various service contracts with Vantis to continue to provide, among other things, wafer fabrication and assembly, test, mark and pack services to Vantis.

We received service fees of \$18 million from Lattice in the third quarter of 1999. The wafer fabrication and assembly, test, mark and pack service contracts will continue until September 2003.

Net Sales Comparison of Nine Months Ended September 26, 1999 and September 27, 1998

Net sales for the first nine months of 1999 increased by eight percent compared to the first nine months of 1998. Excluding sales from the Vantis Segment and Lattice service fees, net sales for the first nine months of 1999 increased 12 percent compared to the same period of 1998.

CPG net sales of \$1 billion increased by 15 percent in the first nine months of 1999 compared to the same period of 1998. Unit shipments increased more than 55% over this period as growth in sales of the AMD-K6 microprocessors was driven by a stronger customer base. This increase in unit shipments offset declines in AMD-K6 microprocessor average selling prices caused by aggressive Intel marketing, pricing and product bundling in the first nine months of 1999. Sales of AMD Athlon microprocessors are highly dependent upon the availability of chipsets and motherboards from Taiwanese and other suppliers. Taiwan is currently recovering from a major earthquake that occurred on September 21, 1999. The earthquake resulted in an interruption of power to our suppliers' manufacturing facilities that contributed to a severe shortage of motherboards in the last week of the third quarter of 1999 which adversely affected our sales of AMD Athlon microprocessors. Overall CPG sales growth in the fourth quarter of 1999 and in the first quarter of 2000 is dependent upon a successful production ramp on 0.25-micron and 0.18-micron technology, market acceptance of our AMD Athlon microprocessor and availability of chipsets and motherboards from Taiwanese and other suppliers, as to which we cannot give any assurance.

Memory Group net sales of \$499 million increased 17 percent in the first nine months of 1999 compared to the first nine months of 1998 as a result of higher average selling prices and strong growth in demand for higher density Flash memory devices. Demand for Flash memory devices

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has remained strong through October, 1999; however, our ability to achieve further gains will depend upon gaining additional manufacturing capacity and/or increasing average selling prices, as to which we cannot give any assurance.

Communications Group net sales of \$203 million decreased 11 percent in the first nine months of 1999 compared to the first nine months of 1998. The increase in sales volume of telecommunication products, which includes digital cordless circuits, ISDN, SLICs and SLACs, was completely offset by weak sales of networking products. In addition, average selling prices deteriorated for telecommunication products primarily due to the economic downturn in Asia earlier in the year. In October 1999, we announced our intention to sell the Communications Group. We expect to complete the sale in the first half of 2000.

On June 15, 1999, we sold Vantis to Lattice Semiconductor Corporation for approximately \$500 million in cash. As a result, there were no sales from Vantis for the last 15 weeks of the first nine months of 1999. Vantis net sales in the first nine months of 1999 were \$87 million compared to \$158 million in the same period of 1998. Prior to the sale of Vantis, we negotiated various service contracts with Vantis to continue to provide, among other things, wafer fabrication and assembly, test, mark and pack services to Vantis. We received service fees of \$20 million from Lattice in the first nine months of 1999. The wafer fabrication and assembly, test, mark and pack service contracts will continue until September 2003.

Comparison of Expenses, Gross Margin Percentage and Interest

The following is a summary of expenses, gross margin percentage and interest income and other, net for the periods presented below:

	Quarter Ended			Nine Months Ended	
	September 26, 1999	June 27, 1999	September 27, 1998	September 26, 1999	September 1998
Cost of sales	\$ 474	\$ 458	\$ 423	\$ 1,383	\$
Gross margin percentage	28 %	23 %	38 %	27 %	
Research and development	158	167	144	485	
Marketing, general and administrative	129	125	110	381	

Restructuring and other special charges	-	18	-	33
-				
Gain on sale of Vantis	-	432	-	432
-				
Litigation settlement	-	-	-	-
12				
Interest income and other, net	7	7	10	25
24				
Interest expense	18	18	21	57
51				

</TABLE>

We operate in an industry characterized by high fixed costs due to the capital-intensive manufacturing process, particularly the state-of-the-art production facilities required for microprocessors. As a result, our gross margin percentage is significantly affected by fluctuations in product sales. Gross margin percentage growth depends on increased sales from microprocessors and other products as fixed costs continue to rise due to additional capital investments made as we continue to expand production capacity.

Gross margin percentage of 28 percent in the third quarter of 1999 increased from 23 percent in the second quarter of 1999 and decreased from 38 percent in the third quarter of 1998. For the first nine months of 1999, gross margin percentage of 27 percent decreased from 29 percent in

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the same period of 1998. The increase in gross margin percentage in the third quarter of 1999 compared to the second quarter of 1999 was due to higher net sales of microprocessors and Flash memory devices. Higher net sales were partially offset by an increase in fixed costs. The decrease in gross margin percentage in the third quarter of 1999 compared to the third quarter of 1998 was due to lower net sales of microprocessors combined with higher fixed costs. The decrease in gross margin percentage in the first nine months of 1999 compared to the same period of 1998 was due primarily to higher fixed costs. Fixed costs will continue to increase as we introduce equipment for 0.18-micron process technology capacity and facilitate Fab 25, our IC manufacturing facility in Austin, Texas. Dresden Fab 30 will also contribute to an increase in cost of sales when it begins producing units for sale, which we anticipate to be no earlier than the second quarter of 2000. Accordingly, absent significant increases in sales, particularly with respect to microprocessors, we will continue to experience pressure on our gross margin percentage.

Research and development expenses of \$158 million in the third quarter of 1999 decreased five percent compared to the second quarter of 1999 and increased 10 percent compared to the third quarter of 1998. Research and development expenses of \$485 million for the first nine months of 1999 increased 18 percent from the same period in the previous year. In the third quarter of 1999, we experienced savings in our Submicron Development Center (SDC) as a result of restructuring activities and savings related to the absence of Vantis expenses when compared to the second quarter of 1999. The first nine months of 1999 included additional costs related to the facilitization of Dresden Fab 30, research and development activities for the AMD Athlon microprocessor and the technology alliance we entered into with Motorola in 1998 (1998 Alliance) for the development of Flash memory and logic process technologies. These additional costs were partially offset in 1999 by the recognition of deferred credits on foreign capital grants and interest subsidies that were received for Dresden Fab 30. These credits of approximately \$13 million per quarter will continue to be offset against Dresden Fab 30 expenses in future quarters until June 2007. Beginning no earlier than the second quarter of 2000, we expect Dresden Fab 30 to begin producing units for sale. At that time, a significant portion of Dresden Fab 30 expenses, including the deferred credits referred to above, will shift from research and development expense to cost of sales.

Marketing, general and administrative expenses of \$129 million in the third quarter of 1999 increased three percent compared to the second quarter of 1999 and increased 17 percent compared to the third quarter of 1998. Marketing, general and administrative expenses of \$381 million in the first nine months of 1999 increased 27 percent compared to the same period of 1998. Marketing and promotional activities for our launch of the AMD Athlon microprocessor increased in the third quarter of 1999 compared to the second quarter of 1999 and the same quarter of 1998. These increases were partially offset by savings related to the absence of Vantis expenses in the third quarter of 1999. In addition to greater marketing and promotional activities, the first nine months of 1999 also included increased costs and related depreciation expense associated with the installation of new order management and accounts receivable systems.

In the first quarter of 1999 we initiated a review of our cost structure. Based upon this review, we recorded restructuring and other special charges of \$15 million in the first quarter of 1999 and \$18 million in the second quarter of 1999 as a result of certain of our actions to better align our cost structure with expected revenue growth rates. Although we have achieved the expected cost savings as a result of this realignment, we have not achieved the expected revenue growth rates.

As a result, we will continue to evaluate our cost structure and may incur additional restructuring and other special charges during the fourth quarter of 1999.

The restructuring activities and other special charges primarily relate to: 1) the closure of a submicron development laboratory facility; 2) write-offs of certain equipment, including estimated equipment disposal costs, in the SDC; 3) write-offs of equipment utilized in the discontinued 0.35-micron wafer fabrication process; 4) the elimination of job responsibilities for 50 employees in the first quarter and 128 employees in the second quarter in the SDC, sales offices and Information Technology department; 5) the write-off of discontinued system projects; and 6) costs for vacated and unused sales office leases. During the third quarter of 1999, we discharged our accrual balance of \$1.7 million which was incurred in the second quarter of 1999 relating to the severance costs for the termination of 128 employees. We expect to discharge our third quarter accrual balances as follows: 1) the \$2.4 million accrual for the disposal costs for equipment that has been taken out of service will be fully discharged by the first quarter of 2000; and 2) the \$933,000 accrual for costs related to vacated and unused leases is expected to be discharged through the second quarter of 2002.

On June 15, 1999, we completed the sale of our Vantis segment to Lattice Semiconductor Corporation for approximately \$500 million in cash. The actual cash received was net of Vantis' cash and cash equivalent balance of approximately \$46 million at the closing. Our pre-tax gain on the sale of Vantis was \$432 million, subject to adjustment, if any, based on the final determination of the net asset value of Vantis at June 15, 1999. The gain is computed based on Vantis' net assets as of June 15, 1999 and other direct expenses related to the sale. The applicable tax rate on the gain was 40 percent.

A litigation settlement of approximately \$12 million was recorded during the nine months ended September 26, 1998 for the settlement of a class action securities lawsuit against AMD and certain current and former officers and directors. We paid the settlement during the third quarter of 1998.

Interest income and other, net of \$7 million in the third quarter of 1999 was flat compared to the second quarter of 1999 and decreased \$3 million compared to the third quarter of 1998. Interest income and other, net of \$25 million in the first nine months of 1999 increased \$1 million compared to the first nine months of 1998. The decrease in the third quarter of 1999 compared to the same quarter of 1998 was primarily due to lower average cash balances.

Interest expense of \$18 million in the third quarter of 1999 was flat compared to the second quarter of 1999 and decreased \$3 million compared to the third quarter of 1998. Interest expense of \$57 million in the first nine months of 1999 increased \$6 million compared to the first nine months of 1998. The remaining balance on our \$250 million four-year secured term loan was repaid during the third quarter of 1999 resulting in a decrease in interest expense. This decrease was fully offset by bank charges incurred for refinancing our 1996 syndicated bank loan agreement, which provided for a \$150 million three-year secured revolving line of credit and a \$250 million four-year secured term loan (the Credit Agreement), and which is discussed in greater detail below in Financial Condition. The first nine months of 1999 included higher interest expense as a result of higher average debt balances from the \$517.5 million of Convertible Subordinated Notes sold in May 1998.

Income Tax

No tax benefits were recorded for the operating losses in the current quarter and the nine months ended September 26, 1999 because the deferred tax assets arising from such losses are fully offset by a valuation allowance. The first nine months of 1999 includes a tax provision of \$172.8 million for the gain on the sale of Vantis. The effective tax rate is expected to be zero for the fourth quarter of 1999.

We had net deferred tax liabilities of \$8.2 million as of September 26, 1999 representing certain foreign deferred taxes.

Other Items

International sales as a percent of net sales were 63 percent in the third quarter of 1999 compared to 58 percent in the second quarter of 1999 and 52 percent in the third quarter of 1998. International sales were 59 percent of net sales in the first nine months of 1999 compared to 52 percent in the same period of 1998. During the first nine months of 1999, approximately eight percent of our net sales were denominated in foreign currencies. We do not have sales denominated in local currencies in countries that have highly inflationary economies (as defined by generally accepted accounting principles). The impact on our operating results from changes in foreign currency rates individually and

in the aggregate has not been material.

Comparison of Segment Income (Loss)

For a comparison of segment net sales, refer to the previous discussions on net sales by product group.

On June 15, 1999, we completed the sale of our Vantis Segment to Lattice Semiconductor Corporation for approximately \$500 million in cash. The actual cash received of approximately \$454 million was net of Vantis' cash and cash equivalent balance of approximately \$46 million as of the closing.

The following is a summary of operating income (loss) by segment for the periods presented below:

<TABLE>
<CAPTION>

(Millions)	Quarter Ended			Nine Months Ended	
	September 26, 1999	June 27, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>	<C>
AMD Segment	\$ (99)	\$ (172)	\$ 8	\$ (398)	\$ (209)
Vantis Segment	-	(1)	1	6	16
Total	\$ (99)	\$ (173)	\$ 9	\$ (392)	\$ (193)

</TABLE>

The AMD Segment incurred a smaller operating loss in the third quarter of 1999 compared to the second quarter of 1999 due to an increase in net sales of AMD Athlon microprocessors and Flash memory devices. The AMD Segment's operating loss increased in the third quarter of 1999 compared to the same quarter in 1998 mainly due to lower net sales and higher fixed costs. In

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the first nine months of 1999 compared to the first nine months of 1998, the AMD Segment's operating loss increased despite higher sales. These operating loss increases were caused by higher costs associated with the facilitization of Fab 25 and Dresden Fab 30, the 1998 Alliance with Motorola, research and development on the AMD Athlon microprocessor, restructuring and other special charges and depreciation on new order management and accounts receivable systems.

In June 1999, we completed the sale of our Vantis Segment to Lattice Semiconductor Corporation. Net sales for the Vantis Segment decreased for all periods presented due to the sale of the Vantis Segment on June 15, 1999, which created a fewer number of weeks included in the third quarter and nine months ended September 26, 1999 than in comparable prior periods.

FINANCIAL CONDITION

Cash and cash equivalents in the first nine months of 1999 decreased by \$269 million compared to a decrease of \$105 million in the first nine months of 1998.

Operating activities consumed \$79 million in the first nine months of 1999 compared to positive operating cash flows of \$31 million in the same period of 1998. The cash used in net operating cash flows for the first nine months of 1999 primarily contributed to the \$52 million cumulative year to date operating losses net of noncash adjustments and a \$27 million decrease in our net operating assets.

Net investing activities generated a net \$4 million during the first nine months of 1999 compared to \$1 billion consumed during the first nine months of 1998. During the current year, we incurred nearly \$495 million in capital expenditures for the continued facilitization of Dresden Fab 30 and Fab 25. This is compared to capital expenditures of nearly \$800 million in the same period of 1998. During the same period, the sale of our Vantis segment generated proceeds of \$454 million in the current year.

Financing activities consumed \$183 million during the first nine months of 1999 primarily as a result of paying down \$239 million in debt. Current year debt payments were offset by proceeds of \$23 million from debt borrowings and \$33 million from the issuance of stock. Financing activities generated \$863 million in the same period of 1998 led by proceeds of \$800 million from debt borrowings and \$91 million from foreign grants.

Our 1996 syndicated bank loan agreement (the Credit Agreement) provided for a \$150 million three-year secured revolving line of credit and a \$250 million four-year secured term loan. On June 25, 1999, we terminated the secured revolving line of credit. On July 13, 1999, we replaced the Credit Agreement with a new Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by Bank of America. On July 30, 1999, we repaid the outstanding

balance of \$86,250,000 on the secured term loan and terminated the Credit Agreement. Under the Loan Agreement, which provides for a four-year secured revolving line of credit of up to \$200 million, we can borrow, subject to reserves which may be set aside by the lenders, up to 85 percent of our eligible accounts receivable from Original Equipment Manufacturers (OEMs) and 50 percent of our eligible accounts receivable from distributors. We will be subject to compliance with certain financial covenants if the levels of domestic cash it holds declines to certain levels, or the amount of borrowings under the Loan Agreement rises to certain levels.

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Our obligations under the Loan Agreement are secured by a pledge of most of our accounts receivable, inventory, general intangibles and the related proceeds. As of September 26, 1999, no funds were drawn under the Loan Agreement, and we had available unsecured, uncommitted bank lines of credit in the amount of \$71 million, of which \$5 million was outstanding.

We plan to continue to make significant capital investments in the fourth quarter of 1999 and in the first quarter of 2000. These investments include those relating to the continued facilitization of Dresden Fab 30 and Fab 25.

AMD Saxony Manufacturing GmbH (AMD Saxony), an indirect wholly owned German subsidiary of AMD, has constructed and is installing equipment in Dresden Fab 30. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are supporting the project. We currently estimate construction and facilitization costs of Dresden Fab 30 to be \$1.9 billion. In March 1997, AMD Saxony entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG. The Dresden Loan Agreements provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

- . equity, subordinated loans and loan guarantees from AMD;
- . loans from a consortium of banks; and
- . grants, subsidies and loan guarantees from the Federal Republic of Germany and the State of Saxony.

The Dresden Loan Agreements, which were amended in February 1998 to reflect planned upgrades in wafer production technology as well as the decline in the deutsche mark relative to the U.S. dollar, require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, we have invested \$288 million to date (most of which is denominated in deutsche marks) in the form of subordinated loans and equity in AMD Saxony. We amended the Dresden Loan Agreements in June 1999 to remove a requirement that we sell at least \$200 million of our stock by June 30, 1999 in order to fund a \$70 million loan to AMD Saxony. In lieu of the stock offering, we funded the \$70 million loan to AMD Saxony with proceeds from the sale of Vantis. We are required to make additional subordinated loans to, or equity investments in, AMD Saxony of \$100 million before December 31, 1999.

Additionally, the consortium of banks referred to above has made available \$883 million in loans (denominated in deutsche marks) to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had \$281 million of such loans outstanding as of September 26, 1999.

Finally, the Federal Republic of Germany and the State of Saxony are supporting the Dresden Fab 30 project, in accordance with the Dresden Loan Agreements, in the form of:

- . guarantees of 65 percent of AMD Saxony bank debt up to a maximum amount of \$883 million;
- . capital investment grants and allowances totaling \$287 million; and
- . interest subsidies totaling \$161 million.

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Of these amounts (which are all denominated in deutsche marks), AMD Saxony had received \$275 million in capital investment grants and \$19 million in interest subsidies as of September 26, 1999. The grants and subsidies are subject to conditions, including meeting specified levels of employment in December 2001 and maintaining those levels until June 2007. Noncompliance with the conditions of the grants and subsidies could result in the forfeiture of all or a portion of the future amounts to be received as well as the repayment of all or a portion of amounts received to date. As of September 26, 1999, we were in compliance with all of the conditions of the grants and subsidies.

The Dresden Loan Agreements also require that we:

- . provide interim funding to AMD Saxony if either the remaining capital investment allowances or the remaining interest subsidies are delayed,

such funding to be repaid to AMD as AMD Saxony receives the grants or subsidies from the State of Saxony;

- . fund shortfalls in government subsidies resulting from any default under the subsidy agreements caused by AMD Saxony or its affiliates;
- . guarantee a portion of AMD Saxony's obligations under the Dresden Loan Agreements up to a maximum of \$116 million (denominated in deutsche marks) until Dresden Fab 30 has been completed;
- . fund certain contingent obligations including obligations to fund project cost overruns, if any; and
- . make funds available to AMD Saxony, after completion of Dresden Fab 30, up to approximately \$78 million (denominated in deutsche marks) if AMD Saxony does not meet its fixed charge coverage ratio covenant.

Because our obligations under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth above are subject to change based on applicable conversion rates. We used the exchange rate at the end of the third quarter of 1999, which was approximately 1.87 deutsche marks to 1 U.S. dollar, to value our obligations denominated in deutsche marks.

The definition of defaults under the Dresden Loan Agreements includes the failure of AMD, AMD Saxony or AMD Saxony Holding GmbH (AMD Holding), the parent company of AMD Saxony and a wholly owned subsidiary of AMD, to comply with obligations in connection with the Dresden Loan Agreements, including:

- . material variances from the approved schedule and budget;
- . our failure to fund equity contributions or shareholder loans or otherwise comply with our obligations relating to the Dresden Loan Agreements;
- . the sale of shares in AMD Saxony or AMD Holding;
- . the failure to pay material obligations;
- . the occurrence of a material adverse change or filings or proceedings in bankruptcy or insolvency with respect to us, AMD Saxony or AMD Holding; and
- . the occurrence of default under the indenture dated August 1, 1996 between AMD and the United States Trust Company of New York (the Indenture) pursuant to which our \$400 million aggregate principal amount of 11% Senior Secured Notes due 2003 (the Senior Secured Notes) were issued or the Loan Agreement.

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Generally, any such default which either (1) results from our non-compliance with AMD obligations under the Dresden Loan Agreements and is not cured by AMD or (2) results in recourse to AMD of more than \$2.5 million and is not cured by AMD, would result in a cross-default under the Dresden Loan Agreements, the Indenture and the Loan Agreement. Under certain circumstances, cross-defaults result under the Convertible Subordinated Notes, the Indenture, and the Dresden Loan Agreements.

In the event we are unable to meet our obligation to make loans to, or equity investments in, AMD Saxony as required under the Dresden Loan Agreements, AMD Saxony will be unable to complete Dresden Fab 30 and we will be in default under the Dresden Loan Agreements, the Indenture and the Loan Agreement, which would permit acceleration of certain indebtedness, which would have a material adverse effect on our business. There can be no assurance that we will be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on our business.

FASL, a joint venture formed by AMD and Fujitsu Limited in 1993, is continuing the facilitization of its second Flash memory device wafer fabrication facility, FASL II, in Aizu-Wakamatsu, Japan. The facility, including equipment, is expected to cost approximately \$1 billion when fully equipped. As of September 26, 1999, approximately \$425 million of this cost had been funded. Capital expenditures for FASL II construction to date have been funded by cash generated from FASL operations and local borrowings by FASL.

FASL capital expenditures in the fourth quarter of 1999 and into 2000 will continue to be funded by cash generated from FASL operations and local borrowings by FASL. However, to the extent that FASL is unable to secure the necessary funds for FASL II, we may be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL. As of September 26, 1999, we had loan guarantees of \$21 million outstanding with respect to these loans. These planned costs are denominated in yen and are, therefore, subject to change due to foreign exchange rate fluctuations.

We believe that cash flows from operations and current cash balances, together

with external financing activities, will be sufficient to fund operations and capital investments through the next twelve months.

RISK FACTORS

Our business, results of operations and financial condition are subject to a number of risk factors, including the following:

Microprocessor Products

Future Dependence on the AMD Athlon Microprocessor. We will need to successfully market our seventh-generation microprocessor, the AMD Athlon microprocessor, in order to increase our microprocessor product revenues in 1999 and beyond, and to benefit fully from the substantial financial investments and commitments we have made and continue to make related to microprocessors. We commenced initial shipments of the AMD Athlon microprocessor in June 1999. Our production and sales plans for the AMD Athlon microprocessor are subject to numerous risks and uncertainties, including:

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- . our ability to produce the AMD Athlon microprocessor in the volume and performance mix required by customers on a timely basis;
- . the availability and acceptance of motherboards and chipsets designed for the AMD Athlon microprocessor;
- . market acceptance of the AMD Athlon microprocessor;
- . our ability to maintain average selling prices of the AMD Athlon microprocessor despite aggressive Intel marketing, pricing and product bundling or customer relationships which affect market demand;
- . the successful development and installation of 0.18-micron process technology and copper interconnect technology;
- . the pace at which we are able to transition production in Fab 25 from 0.25 to 0.18-micron process technology and to ramp production in Dresden Fab 30 on 0.18-micron copper interconnect process technology;
- . the use and market acceptance of a non-Intel processor bus (adapted by us from Digital Equipment Corporation's EV6 bus) in the design of the AMD Athlon microprocessor, and the availability of chipset vendors who will develop, manufacture and sell chipsets with the EV6 interface in volumes required by us;
- . our ability to expand our chipset and system design capabilities;
- . the availability to our customers of cost and performance competitive Static Random Access Memories (SRAMs) (including Tag chips) if Intel corners the market for SRAM production capacity through its relationship with SRAM manufacturers; and
- . our ability to design and manufacture processor modules through subcontractors.

If we fail to achieve market acceptance of the AMD Athlon microprocessor, or if chipsets and motherboards which are compatible with the AMD Athlon microprocessor are not made available, our business will be materially and adversely affected. For example, on September 21, 1999, a major earthquake struck Taiwan and caused power outages in certain of our suppliers' manufacturing facilities. As a result, we experienced a severe shortage of motherboards for the AMD Athlon microprocessor and, consequently, our sales of AMD Athlon microprocessors in the quarterly period ended September 26, 1999 were adversely affected. The effects of the earthquake in Taiwan may continue to have an adverse impact on our business.

Investment in and Dependence on K86(TM) AMD Microprocessor Products. Our microprocessor product revenues have significantly impacted, and will continue in 1999 and 2000 to significantly impact, our revenues, profit margins and operating results. We plan to continue to make significant capital expenditures to support our microprocessor products both in the near and long term. These capital expenditures will be a substantial drain on our cash flow and cash balances.

Our ability to increase microprocessor product revenues, and benefit fully from the substantial financial investments and commitments we have made and continue to make related to microprocessors, depends upon the success of the AMD Athlon microprocessor, which is our seventh-generation Microsoft Windows compatible microprocessor, the AMD-K6-2 and AMD-K6-III microprocessors with 3DNow!(TM) technology (the AMD-K6 family of microprocessors or the AMD-K6 microprocessors), and the future generations of K86 microprocessors. The microprocessor market is characterized by short product life cycles and migration to ever-higher performance microprocessors. To compete successfully against Intel in this market, we must

transition to new process technologies at a faster pace than before and offer higher performance microprocessors in significantly greater volumes. We must achieve acceptable yields while producing microprocessors at higher speeds. In the past, we have experienced significant difficulty in achieving microprocessor yield and volume plans. Such difficulties have in the past, and may in the future, adversely affect our results of operations and liquidity. If we fail to offer higher performance microprocessors in significant volume on a timely basis in the future, our business could be materially and adversely affected. We may not achieve the production ramp necessary to meet our customers' volume requirements for higher performance AMD Athlon and AMD-K6 microprocessors. It is also possible that we may not increase our microprocessor revenues enough to achieve sustained profitability.

To sell the volume of AMD Athlon and AMD-K6 microprocessors we currently plan to make in 1999 and 2000, we must increase sales to existing customers and develop new customers. If we lose any current top tier OEM customer, or if we fail to attract additional customers through direct sales and through our distributors, we may not be able to sell the volume of units planned. This result could have a material adverse effect on our business.

Our production and sales plans for the AMD Athlon and AMD-K6 microprocessors are subject to other risks and uncertainties, including:

- . market acceptance of the AMD Athlon microprocessor, including the timely availability of motherboards and chipsets designed for this processor;
- . whether we can successfully fabricate higher performance AMD Athlon and AMD-K6 microprocessors in planned volume mixes;
- . the effects of Intel's new product introductions, marketing strategies and pricing;
- . the continued development of worldwide market acceptance for the AMD-K6 microprocessors and systems based on them;
- . whether we will have the financial and other resources necessary to continue to invest in the microprocessor products, including leading-edge wafer fabrication equipment and advanced process technologies;
- . the possibility that our newly introduced products may be defective;
- . adverse market conditions in the personal computer (PC) market and consequent diminished demand for our microprocessors; and
- . unexpected interruptions in our manufacturing operations.

Because Intel dominates the industry and has brand strength, we have in the past priced the AMD-K6 microprocessors below the published price of Intel processors offering comparable performance. Thus, Intel's decisions on processor prices can impact and have impacted the average selling prices of the AMD-K6 microprocessors, and consequently can impact and have impacted our margins. Our business could be materially and adversely affected if we fail to:

- . achieve the product performance improvements necessary to meet customer needs;
- . continue to achieve market acceptance of our AMD-K6 and AMD Athlon microprocessors and increase market share;
- . maintain revenues of the AMD-K6 family of microprocessors; and
- . successfully ramp production and sales of the AMD Athlon microprocessor.

See also discussions below regarding Intel Dominance and Process Technology.

Intel Dominance. Intel has dominated the market for microprocessors used in PCs for a long time. Because of its dominant market position, Intel sets and controls x86 microprocessor and PC system standards and, thus, dictates the type of product the market requires of Intel's competitors. In addition, Intel can vary prices on its microprocessors and other products at will and thereby affect the margins and profitability of its competitors due to its financial strength and dominant position. Intel exerts substantial influence over PC manufacturers and their channels of distribution through the Intel Inside advertising rebate program and other marketing programs. Intel invests hundreds of millions of dollars in, and as a result exerts influence over, many other technology companies. We expect Intel to continue to invest heavily in research and development, new manufacturing facilities and other technology companies, and to remain dominant:

- . through the Intel Inside and other marketing programs;

- . through other contractual constraints on customers, retailers, industry suppliers and other third parties;
- . by controlling industry standards; and
- . by controlling supply and demand of motherboards, chipsets and other system components.

As an extension of its dominant microprocessor market share, Intel also now dominates the PC platform. As a result, it is difficult for PC manufacturers to innovate and differentiate their product offerings. We do not have the financial resources to compete with Intel on such a large scale. As long as Intel remains in this dominant position, we may be materially and adversely affected by its:

- . product mix and introduction schedules;
- . product bundling and pricing strategies;
- . control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and BIOS suppliers; and
- . customer brand loyalty.

As Intel has expanded its dominance over the PC system platform, many PC manufacturers have reduced their system development expenditures and have purchased microprocessors in conjunction with chipsets or in assembled motherboards. PC OEMs have become increasingly dependent on Intel, less innovative on their own and more of a distribution channel for Intel technology. In marketing our microprocessors to these OEMs and dealers, we depend on companies other than Intel for the design and manufacture of core-logic chipsets, motherboards, basic input/output system (BIOS) software and other components. In recent years, these third-party designers and manufacturers have lost significant market share to Intel. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors only if Intel makes information about its products available to them in time to address market opportunities. Delay in the availability of such information makes, and will continue to make, it increasingly difficult for these third parties to retain or regain market share.

To compete with Intel in the microprocessor market in the future, we intend to continue to form closer relationships with third-party designers and manufacturers of core-logic chipsets,

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motherboards, BIOS software and other components. Similarly, we intend to expand our chipset and system design capabilities, and to offer OEMs licensed system designs incorporating our microprocessors and companion products. We cannot be certain, however, that our efforts will be successful. We expect that, as Intel introduces future generations of microprocessors, chipsets and motherboards, the design of chipsets, memory and other semiconductor devices, 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 processor-based PC systems.

Intel's Pentium(R) III and Celeron(TM) microprocessors are sold only in form factors that are not physically or interface protocol compatible with "Socket 7" motherboards currently used with AMD-K6 microprocessors. Thus, Intel no longer supports the Socket 7 infrastructure as it did when it was selling has transitioned away from its fifth-generation Pentium processors. Because the AMD-K6 microprocessors are designed to be Socket 7 compatible, and will not work with motherboards designed for Pentium II, III and Celeron processors, we intend to continue to work with third-party designers and manufacturers of motherboards, chipsets and other products to ensure the continued availability of Socket 7 infrastructure support for the AMD-K6 microprocessors, including support for enhancements and features we add to our microprocessors. Socket 7 infrastructure support for the AMD-K6 microprocessors may not endure over time as Intel moves the market to its infrastructure choices. We do not currently plan to develop microprocessors that are bus interface protocol compatible with the Pentium III and Celeron processors because our patent cross-license agreement with Intel does not extend to microprocessors that are bus interface protocol compatible with Intel's sixth and subsequent generation processors. Thus, the AMD Athlon microprocessor card is not designed to function with motherboards and chipsets designed to work with Intel microprocessors. Our ability to compete with Intel in the market for AMD Athlon seventh-generation and future generation microprocessors will depend on our:

- . success in designing and developing the microprocessors; and
- . ability to ensure that the microprocessors can be used in PC platforms designed to support Intel's microprocessors and our microprocessors, or that alternative platforms are available which are competitive with those used with Intel processors.

A failure for any reason of the designers and producers of motherboards, chipsets and other system components to support our K86 microprocessor offerings would have a material adverse effect on our business.

Dependence on Microsoft and Logo License. Our ability to innovate beyond the x86 instruction set controlled by Intel depends on support from Microsoft in its operating systems. If Microsoft does not provide support in its operating systems for the x86 instructions that we innovate and design into our processors, independent software providers may forego designing their software applications to take advantage of our innovations. This would adversely affect our ability to market our processors. In addition, we have entered into logo license agreements with Microsoft that allow us to label our products as "Designed for Microsoft Windows." We have also obtained appropriate certifications from recognized testing organizations for our K86 microprocessors. If we fail to maintain the logo license agreements with Microsoft, we may lose our ability to label our K86 microprocessors with the Microsoft Windows logo. This could

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impair our ability to market the products and could have a material adverse effect on our business.

Fluctuations in PC Market. Since most of our microprocessor products are used in PCs and related peripherals, our future growth is closely tied to the performance of the PC industry. Industry-wide fluctuations in the PC marketplace have in the past and may in the future materially and adversely affect our business.

Financing Requirements

We plan to continue to make significant capital investments in 1999. These investments include those relating to the continued facilitization of Dresden Fab 30 and Fab 25.

In 1998, equipment was installed and production was initiated in FASL II. We expect the facility, including equipment, to cost approximately \$1 billion when fully equipped. Capital expenditures for FASL II construction to date have been funded by cash generated from FASL operations and borrowings by FASL. If FASL is unable to secure the necessary funds for FASL II, we may be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL.

In 1996, we entered into the Credit Agreement, which provided for a \$150 million three-year secured revolving line of credit and a \$250 million four-year secured term loan. On June 25, 1999, we terminated the secured revolving line of credit. On July 13, 1999, we replaced the Credit Agreement with a new Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by Bank of America. On July 30, 1999, we repaid the outstanding balance on the secured term loan and terminated the Credit Agreement. Under the Loan Agreement, which provides for a four-year secured revolving line of credit of up to \$200 million, we can borrow, subject to discretionary reserves which may be set aside by the lenders, up to 85 percent of our eligible accounts receivable from OEMs and 50 percent of our eligible accounts receivable from distributors. We will be subject to compliance with certain financial covenants if the levels of domestic cash it holds declines to certain levels, or the amount of borrowings under the Loan Agreement rises to certain levels. Our obligations under the Loan Agreement are secured by a pledge of most of our accounts receivable, inventory, general intangibles and the related proceeds.

In March 1997, our indirect wholly owned subsidiary, AMD Saxony, entered the Dresden Loan Agreements with a consortium of banks led by Dresdner Bank AG. The terms of the Dresden Loan Agreements required us to make subordinated loans to AMD Saxony totaling \$100 million in 1998. The Dresden Loan Agreements, which were amended in February 1998 to reflect planned upgrades in wafer production technology as well as the decline in the deutsche mark relative to the U.S. dollar, require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, we have invested \$286 million to date in the form of subordinated loans and equity in AMD Saxony. We amended the Dresden Loan Agreements in June 1999 to remove a requirement that we sell at least \$200 million of our stock by June 30, 1999 in order to fund a \$70 million loan to AMD Saxony. In lieu of the stock offering, we funded the \$70 million loan to AMD Saxony with proceeds from the sale of Vantis. We are required to make additional subordinated loans to, or equity investments in, AMD Saxony of \$100 million before December 31, 1999.

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Because our obligations under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth herein are subject to change based on applicable conversion rates. As of the end of the third quarter of 1999, the exchange rate was approximately 1.87 deutsche marks to 1 U.S. dollar (which we used to calculate our obligations denominated in deutsche marks).

If we are unable to meet our obligation to make loans to, or equity investments in, AMD Saxony as required under the Dresden Loan Agreements, AMD Saxony will be unable to complete Dresden Fab 30 and we will be in default under the Dresden Loan Agreement, the Loan Agreement and the Indenture, which would permit acceleration of indebtedness, which would have a material adverse effect on our business. If we are unable to obtain the funds necessary to fulfill these obligations, our business will be materially and adversely affected.

Manufacturing

Capacity. We underutilize our manufacturing facilities from time to time as a result of reduced demand for certain of our products. Our operations related to microprocessors have been particularly affected by this situation. If we underutilize our manufacturing facilities in the future, our revenues may suffer. We are substantially increasing our manufacturing capacity by making significant capital investments in Fab 25 and Dresden Fab 30. In addition, the building construction of FASL II, a second Flash memory device manufacturing facility, is complete and equipment installation is in progress. We have also built a new test and assembly facility in Suzhou, China. We are basing our strategy of increasing our manufacturing capacity on industry projections for future growth. If these industry projections are inaccurate, or if demand for our products does not increase consistent with our plans and expectations, we will likely underutilize our manufacturing facilities and our business could be materially and adversely affected.

In contrast to the above, there also have been situations in the past in which our manufacturing facilities were inadequate to meet the demand for certain of our products. Our inability to generate sufficient manufacturing capacities to meet demand, either in our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on our business. At this time, the risk is that we will have insufficient capacity to meet demand for Flash memory products and significant underutilized capacity relative to demand for our microprocessor offerings.

Process Technology. In order to remain competitive, we must make continuing substantial investments in improving our process technologies. In particular, we have made and continue to make significant research and development investments in the technologies and equipment used to fabricate our microprocessor products and our Flash memory devices. Portions of these investments might not be fully recovered if we fail to continue to gain market acceptance or if the market for our Flash memory products should significantly deteriorate. Likewise, we are making a substantial investment in Dresden Fab 30. The business plan for Dresden Fab 30 calls for the successful development and installation of 0.18-micron process technology and copper interconnect technology in order to manufacture the AMD Athlon microprocessor in Dresden Fab 30. We have entered into a strategic alliance with Motorola to co-develop the copper interconnect technology required for the AMD Athlon microprocessor and subsequent generations of microprocessors. We cannot be certain that the strategic alliance will be successful or that we will be able to develop or obtain the leading-edge process technologies that

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will be required in Fab 25 or Dresden Fab 30 to fabricate the AMD Athlon microprocessor successfully.

Manufacturing Interruptions and Yields. Any substantial interruption of our manufacturing operations, either as a result of a labor dispute, equipment failure or other cause, could materially and adversely affect our business operations. We also have been and may in the future be materially and adversely affected by fluctuations in manufacturing yields. For example, our results in the past have been negatively affected by disappointing AMD-K6 microprocessor yields. The design and manufacture of ICs is a complex process. Normal manufacturing risks include errors and interruptions in the fabrication process and defects in raw materials, as well as other risks, all of which can affect yields. Additional manufacturing risks incurred in ramping up new fabrication areas and/or new manufacturing processes include equipment performance and process controls as well as other risks, all of which can affect yields.

Product Incompatibility. Our products may possibly be incompatible with some or all industry-standard software and hardware. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. It is also possible that we may be unsuccessful in correcting any such compatibility problems that are discovered or that corrections will be unacceptable to customers or made in an untimely manner. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on our business.

Product Defects. One or more of our products may possibly be found to be defective after we have already shipped such products in volume, requiring a product replacement, recall, or a software fix which would cure such defect but impede performance. We may also be subject to product returns which could impose substantial costs on us and have a material and adverse effect on our business.

Essential Manufacturing Materials. Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. For example, a few foreign companies principally supply several types of the IC packages purchased by us, as well as by the majority of other companies in the semiconductor industry. Interruption of supply or increased demand in the industry could cause shortages in various essential materials. We would have to reduce our manufacturing operations if we were unable to procure certain of these materials. This reduction in our manufacturing operations could have a material adverse effect on our business.

International Manufacturing and Foundries. Nearly all product assembly and final testing of our products are performed at our manufacturing facilities in Penang, Malaysia; Bangkok, Thailand; and Singapore; or by subcontractors in Asia. We have also constructed an additional assembly and test facility in Suzhou, China. We also depend on foreign foundry suppliers and joint ventures for the manufacture of a portion of our finished silicon wafers. Foreign manufacturing and construction of foreign facilities entail 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 we were unable to assemble and test our products abroad, or if air transportation between the United States and our overseas facilities were disrupted, there could be a material adverse effect on our business.

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Impact of Year 2000

General. The Year 2000 issue is the result of computer software and firmware being written using two digits rather than four to define the applicable year. If our computer software and firmware with date-sensitive functions are not Year 2000 capable, they may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, interruptions in manufacturing operations or in the ability to process transactions, send invoices or engage in other normal business activities.

Our multi-step Year 2000 readiness plan includes development of corporate awareness, assessment of internal systems, project planning, project implementation (including remediation, upgrading and replacement), validation testing and contingency planning for both information technology (IT) and non-IT internal systems.

The Plan. Our plan covers four areas that are critical to our business operations:

- . Information Technology, which includes application software, infrastructure and network engineering and telecommunications;
- . Manufacturing, which includes wafer fabrication facilities, assembly and test facilities and third-party foundries;
- . Products and product design, which includes our commercial products and the hardware and software tools used specifically for product design; and
- . Organizational support, which includes non-fabrication facilities, security, corporate supply management, shipping, quality and environmental health and safety (EHS) departments.

. Information Technology. We have modified or replaced significant portions of our application software so that our systems will function properly with respect to dates in the year 2000 and thereafter. Application software consists of business software required for our corporate business systems, including our accounts payable and receivable, payroll, order management, general ledger and shipping applications. In December 1998, we installed new Year 2000 capable order management and accounts receivable systems. As of September 26, 1999, we completed remediation of all core business software that did not require an upgrade or a replacement and testing of all our application software. We also put all but one of our application systems into production as of September 26, 1999. We expect to put this remaining application into production early in the fourth quarter of this year. If required modifications to existing software are not made, or are not completed in a timely manner, the Year 2000 issue could have a material impact on our business.

IT infrastructure consists of hardware and software other than application software that supports our mainframe and distributed computer systems, including PCs, operating systems and system utilities. We have tested Year 2000 capable versions of all our infrastructure software and are in the process of transitioning such software into productive use. All of our Year 2000 capable infrastructure hardware and software was installed and in production as of September 26, 1999.

Network engineering and telecommunications consists of components in our data and voice communication networks. All of the data components and the voice

communication networks were Year 2000 capable as of June 27, 1999. However, we do not currently have all of the information necessary to determine if certain of our international network service providers will be Year 2000 capable in a timely manner. If they are not Year 2000 capable, our business could be materially and adversely affected.

. Manufacturing. We are dedicating substantial resources to Year 2000 issues with respect to our wafer fabrication facilities worldwide to ensure continued operation of all critical wafer fabrication systems in the year 2000 and thereafter. We retained an outside firm to provide Year 2000 program management and implementation assistance in connection with problem assessment, remediation and compliance testing. Approximately 99 percent of the critical wafer fabrication equipment was made Year 2000 capable as of September 26, 1999. Our goal is for the remaining one percent of the equipment to be Year 2000 capable by year-end 1999. Fabrication equipment software testing and installation is ongoing and will continue through the fourth quarter of 1999. Some vendors have indicated that Year 2000 capable upgrades will not be available until later this year. If these vendors do not provide Year 2000 capable upgrades in time for us to install the products and to do adequate testing, or if the products do not adequately address the Year 2000 problem, our business could be materially and adversely affected.

Our assembly and test facilities are located in Malaysia, Thailand, China and Singapore. We completed the remediation and replacement process for noncompliant systems and equipment in these facilities as of September 26, 1999.

We believe that all critical Year 2000-related manufacturing areas, including our wafer fabrication facilities and assembly and test facilities, will be Year 2000 capable by year-end 1999. We have begun contingency planning for critical areas of our wafer manufacturing facilities and will continue developing and refining these plans throughout 1999.

However, we cannot give any assurance that we will be successful in our efforts to resolve any Year 2000 issues and to continue operations in our wafer fabrication facilities in the year 2000. Our failure to successfully resolve such issues could result in a shutdown of some or all of our operations, which would have a material adverse effect on our business.

. Products and Product Design. We have reviewed the status of our current products and have not identified any critical products with Year 2000 problems. We believe that all of the critical hardware and software we use for product design will be made Year 2000 capable by October 31, 1999. Testing of these systems is ongoing and will continue through the end of the year. If we fail to make the hardware and software we use for product design Year 2000 capable by year-end 1999, our business could be materially and adversely affected.

. Organizational Support. Since organizational support consists of several functional divisions that provide administrative support to us as a whole, and this support overlaps in many areas, we are unable to quantify the overall progress of this group. However, some divisions have commenced significant projects aimed at Year 2000 readiness. For example, the facilities department is in the process of upgrading the building management system at our corporate marketing, general and administrative facility located in Sunnyvale, California. As of June 27, 1999, we had installed all software upgrades required by facilities for Year 2000 readiness. EHS provides another example. Upgrades are being scheduled and performed on gas detection systems, acid neutralization systems and groundwater cleanup controls. EHS' critical Year 2000

readiness activities were complete as of June 27, 1999. Similarly, our security department has completed our plan to ensure Year 2000 compliance of the fire, intrusion and industrial process alarms in our China, Thailand and Germany sites. Our goal is to have all of our domestic alarm systems upgraded and tested for Year 2000 compliance by October 31, 1999. In addition to upgrades, these organizational support divisions have replaced and will continue to replace equipment and systems to the extent it is required for our Year 2000 readiness. However, if we are unable to make our organizational support systems Year 2000 capable before year-end 1999, our business could be materially and adversely affected.

Third-Party Suppliers and Customers. We have initiated communication with our significant suppliers and customers to determine the extent to which our operations are vulnerable to those third parties' failure to remediate their own Year 2000 issues. Suppliers of hardware, software or products that might contain embedded processors were asked to provide information regarding the Year 2000 compliance status of their products. We have also contacted critical materials and services suppliers in the first, second and third quarters of 1999. We have received responses from all of these suppliers and have put contingency plans in place to manage potential risks. In addition, in order to protect against the acquisition of additional non-compliant products, we now

require suppliers to warrant that products sold or licensed to us are Year 2000 capable. We are currently assessing our significant customers' Year 2000 readiness plans. In the event that any of our significant customers and suppliers do not successfully and timely achieve Year 2000 compliance, our business or operations could be adversely affected. We cannot give any assurance that the systems of other companies on which our systems rely will be converted in a timely manner and will not have an adverse effect on our operations. We are currently assessing the extent to which our significant customers' exposure to contingencies related to the Year 2000 will affect the products we sell; however, we do not expect these to have a material impact on our operations.

We expect some testing and verification activities, as well as some upgrading of the wafer fabrication equipment, to continue through the end of the year. We also expect some aspects of the Year 2000 plan to continue beyond January 1, 2000 with respect to resolution of non-critical issues. However, these dates are contingent upon the timeliness and accuracy of software and hardware upgrades from vendors, adequacy and quality of resources available to work on completion of the project and any other unforeseen factors.

Costs. The total expense of the Year 2000 plan is currently estimated to be approximately \$20 million, although actual expenditures may differ. Actual costs incurred through the end of the third quarter of 1999 were approximately \$15 million, the majority of which was expensed. The expenses of the Year 2000 project are being funded through operating cash flows.

Estimates. The costs of the Year 2000 plan and the dates on which we believe we will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. We cannot give any assurance that these estimates will be achieved. Consequently, actual results could differ materially from those anticipated.

Contingency Planning. We have completed a comprehensive contingency plan to address situations that may result if we are unable to achieve Year 2000 readiness of our critical operations. We will continue to expand and refine our contingency plans during the remainder

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of 1999. We cannot give any assurance that we will be able to develop a contingency plan that will adequately address all issues that may arise in the year 2000. Our failure to develop and implement, if necessary, an appropriate contingency plan could have a material adverse impact on our operations. Finally, we are also vulnerable to external forces that might generally affect industry and commerce, such as utility or transportation company Year 2000 compliance failures and related service interruptions.

Key Personnel

Our future success depends upon the continued service of numerous key engineering, manufacturing, marketing, sales and executive personnel. We may or may not be able to continue to attract, retain and motivate qualified personnel necessary for our business. Loss of the service of, or failure to recruit, key engineering design personnel could be significantly detrimental to our product development programs or otherwise have a material adverse effect on our business.

Demand for Our Products Affected by Asian and Other Domestic and International Economic Conditions

While general industry demand is currently strengthening, the demand for our products during the last few years has been weak due to the general downturn in the worldwide semiconductor market and an economic crisis in Asia. The economic crisis in Asia may continue to adversely affect our business. A renewed decline of the worldwide semiconductor market and economic condition in Asia could decrease the demand for microprocessors and other ICs. A significant decline in economic conditions in any significant geographic area, both domestically and internationally, could decrease the overall demand for our products.

Flash Memory Products

Competition in the market for Flash memory devices continues to increase as existing manufacturers introduce new products and industry-wide production capacity increases, and as Intel continues to aggressively price its Flash memory products. We expect competition in the marketplace for Flash memory devices to continue to increase. It is possible that we will be unable to maintain or increase our market share in Flash memory devices as the market develops and as existing and potential new competitors introduce competitive products. A decline in our Flash memory device business or decline in the gross margin percentage in this product line could have a material adverse effect on this product line.

Other Risk Factors

Debt Restrictions. The Loan Agreement and the Indenture contain significant covenants that limit our ability and our subsidiaries' ability to engage in various transactions and require satisfaction of specified financial performance criteria. In addition, the occurrence of certain events, including, among other things, 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 indebtedness. The limitations imposed by the Loan Agreement and the Indenture are substantial, and failure to comply with such limitations could have a material adverse effect on our business.

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In addition, the Dresden Loan Agreements substantially prohibit AMD Saxony from transferring assets to us, which will prevent us from using current or future assets of AMD Saxony other than to satisfy obligations of AMD Saxony.

Technological Change and Industry Standards. The market for our 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. Currently accepted industry standards may change. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our 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 our products, in market demand for products based on a particular technology or of accepted industry standards could materially and adversely affect our business. We may or may not 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. In addition, new products may or may not achieve market acceptance.

Competition. The IC industry is intensely competitive and, historically, has experienced rapid technological advances in product and system technologies. After a product is introduced, prices normally decrease over time as production efficiency and competition increase, and as successive generations of products are 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 on:

- . 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.

Fluctuations in Operating Results. Our operating results are subject to substantial quarterly and annual fluctuations due to a variety of factors, including:

- . the effects of competition with Intel in microprocessor and Flash memory device markets;
- . competitive pricing pressures;
- . anticipated decreases in unit average selling prices of our products;
- . production capacity levels and fluctuations in manufacturing yields;
- . availability and cost of products from our suppliers;
- . the gain or loss of significant customers;
- . new product introductions by us or our competitors;

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- . changes in the mix of products produced and sold and in the mix of sales by distribution channels;
- . market acceptance of new or enhanced versions of our products;
- . seasonal customer demand due to vacation and holiday schedules (for example, decreased demand in Europe during the summer); and
- . the timing of significant orders and the timing and extent of product development costs.

In addition, operating results have recently been, and may in the future be, adversely affected by general economic and other conditions causing a downturn in the market for semiconductor devices, or otherwise affecting the timing of customer orders or causing order cancellations or rescheduling. Our customers may change delivery schedules or cancel orders without significant penalty. Many of the factors listed above are outside of our control. These factors are difficult to forecast, and these or other factors could materially and adversely affect our quarterly or annual operating results.

Order Revision and Cancellation Policies. We manufacture and market standard lines of products. Sales are made primarily pursuant to purchase orders for current delivery, or agreements covering purchases over a period of time, which may be revised or canceled without penalty. As a result, we must commit resources to the production of products without any advance purchase commitments from customers. Our inability to sell products after we devoted significant resources to them could have a material adverse effect on our business.

Distributors typically maintain an inventory of our products. In most instances our agreements with distributors protect their inventory of our products against price reductions, as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally allow for the return of our products if the agreement with the distributor is terminated. The market for our products is generally characterized by, among other things, severe price competition. The price protection and return rights we offer to our distributors could materially and adversely affect us if there is an unexpected significant decline in the price of our products.

Intellectual Property Rights; Potential Litigation. It is possible that:

- . we will be unable to protect our technology or other intellectual property adequately through patents, copyrights, trade secrets, trademarks and other measures;
- . patent applications that we may file will not be issued;
- . foreign intellectual property laws will not protect our intellectual property rights;
- . any patent licensed by or issued to us will be challenged, invalidated or circumvented or that the rights granted thereunder will not provide competitive advantages to us; and
- . others will independently develop similar products, duplicate our products or design around our patents and other rights.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We 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 and adversely affect our business. We cannot give any

assurance that all necessary licenses can be obtained on satisfactory terms, or whether litigation may always be avoided or successfully concluded.

Environmental Regulations. We could possibly be subject to fines, suspension of production, alteration of our manufacturing processes or cessation of our operations if we fail 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 the manufacturing process. Such regulations could require us to acquire expensive remediation equipment or to incur other expenses to comply with environmental regulations. Our failure to control the use, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities and could have a material adverse effect on our business.

International Sales. Our international sales operations entail political and economic risks, including expropriation, currency controls, exchange rate fluctuations, changes in freight rates and changes in rates and exemptions for taxes and tariffs.

Volatility of Stock Price; Ability to Access Capital. Based on the trading history of our stock, we believe that the following factors have caused and are likely to continue to cause the market price of our common stock to fluctuate substantially:

- . quarterly fluctuations in our operating and financial results;
- . announcements of new products and/or pricing by us or our competitors;
- . the pace of new product manufacturing ramps;
- . production yields of key products; and
- . general conditions in the semiconductor industry.

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 our common stock in any given period. Technology company stocks in general have experienced extreme price and volume fluctuations that are often unrelated to the operating performance of the companies. This market volatility may adversely affect the market price of our common stock and consequently limit our ability to raise capital or to make acquisitions. Our current business plan envisions substantial cash outlays requiring external capital financing. It is possible that capital and/or long-term financing will be unavailable on terms favorable to us or in sufficient amounts to enable us to implement our current plan.

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

Euro Conversion. On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing currencies and the euro. The participating countries adopted the euro as their common legal currency on that date. The transition period will last through January 1, 2002. We are assessing the potential impact to us that may result from the euro conversion. We do not expect the introduction and use of the euro to materially affect our foreign exchange activities, to affect our use of derivatives and other financial instruments, or to result in any material increase in costs to us. We will continue to

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assess the impact of the introduction of the euro currency over the transition period as well as the period subsequent to the transition, as applicable.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In 1998, we entered into a no-cost collar arrangement to hedge Dresden Fab 30 project costs through which we purchased \$300 million of put option contracts and sold \$300 million of call option contracts. In the second quarter of 1999, we entered into a no-cost collar arrangement to offset and neutralize our remaining 1998 no-cost collar positions.

For additional Quantitative and Qualitative Disclosures about Market Risk, including other foreign exchange risks associated with Dresden Fab 30, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 27, 1998.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SECURITIES CLASS ACTION LITIGATION. Between March 10, 1999 and April 22, 1999, AMD and certain individual officers of AMD were named as defendants in the following lawsuits: Arthur S. Feldman v. Advanced Micro Devices, Inc., et al.; Pamela Lee v. Advanced Micro Devices, Inc., et al.; Izidor Klein v. Advanced Micro Devices, Inc., et al.; Nancy P. Steinman v. Advanced Micro Devices, Inc., et al.; Robert L. Dworkin v. Advanced Micro Devices, Inc., et al.; Howard M. Lasker v. Advanced Micro Devices, Inc., et al.; John K. Thompson v. Advanced Micro Devices, Inc., et al.; Dan Schwartz v. Advanced Micro Devices, Inc., et al.; Serena Salamon and Norman Silverberg v. Advanced Micro Devices, Inc., et al.; David Wu and Hossein Mizraie v. Advanced Micro Devices, Inc., et al.; Eidman v. Advanced Micro Devices, Inc., et al.; Nold v. Advanced Micro Devices, Inc., et al.; Freeland v. Advanced Micro Devices, Inc., et al.; Fradkin v. Advanced Micro Devices, Inc., et al.; Ellis Investment Co. v. Advanced Micro Devices, Inc., et al.; Dezwareh v. Advanced Micro Devices, Inc., et al.; and Tordjman v.

Advanced Micro Devices, Inc., et al. These class action complaints allege various violations of federal securities law, including violations of Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder. Most of the complaints purportedly were filed on behalf of all persons, other than the defendants, who purchased or otherwise acquired common stock of AMD during the period from October 6, 1998 to March 8, 1999. Two of the complaints allege a class period from July 13, 1998 to March 9, 1999. All of the complaints allege that materially misleading statements and/or material omissions were made by AMD and certain individual officers of AMD concerning design and production problems relating to high-speed versions of the AMD-K6(R)-2 and AMD-K6-III microprocessors. The complaints seek unspecified damages, equitable relief, interest, fees and other litigation costs.

AMD has entered into a stipulation whereby the plaintiffs will file a consolidated amended complaint following a ruling by the Ninth Circuit Court of Appeals on the In re Silicon Graphics Securities Litigation, 97-16204, case now pending before it. The stipulation also sets forth the period of time AMD will have to respond to the new complaint once it is filed. AMD intends to contest the litigation vigorously. Based upon information presently known to management, we do not believe that the ultimate resolution of these lawsuits will have a material adverse effect on our financial condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

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(b) Reports on Form 8-K

A Current Report on Form 8-K dated July 14, 1999 was filed reporting under Item 5 - Other Events with respect to financial results for the second quarter ended June 27, 1999.

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

ADVANCED MICRO DEVICES, INC.

Date: October 29, 1999

By: /s/ Francis P. Barton

Francis P. Barton
Senior Vice President, Chief Financial Officer

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

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